

BARNSLEY METROPOLITAN BOROUGH COUNCIL

REPORT OF: Executive Director – Core Services & Director – Finance
(Section 151 Officer)

TITLE: CORPORATE FINANCE PERFORMANCE Q3 2022/23

| | |
|---------------------------------|----------------------|
| REPORT TO: | Cabinet |
| Date of Meeting | 8 March 2023 |
| Cabinet Member Portfolio | Core Services |
| Key Decision | No |
| Public or Private | Public |

Purpose of report

To consider the financial performance of the Authority during the third quarter ended 31st December 2022 and assess the implications against the Council's Medium-Term Financial Strategy (MTFS).

Council Plan Priority

All

Recommendations

That Cabinet:

1. Note that the 22/23 financial position for the Council as at Quarter 3 is for a projected operational overspend of £12.1M; this to be funded from reserves previously earmarked for this purpose as a one-off measure in this financial year only.
2. Specifically note the significant pressures which continue to be experienced within Children's Social Care.
3. Authorise the S151 Officer to realign recurrent under and over-spending budgets across the Council as appropriate.
4. Note the current 22/23 forecast of a balanced position on the Housing Revenue Account.

5. Approve the write off of debt which is uneconomical to collect totalling £0.519M.
6. Note the forecast position and ongoing review of the Council's Capital Programme.
7. Note the key messages from the Council's Q3 Treasury Management update.

1. INTRODUCTION

- 1.1 The Council's 22/23 budget was agreed by Full Council on the 24th February 2022. This was predicated on the delivery of several key assumptions, whilst also highlighting significant emerging risks that would also require addressing over the planning period. As such, the updated MTFS set aside one-off resources to temporarily mitigate these anticipated pressures pending the development of a transformation and efficiency plan to address the anticipated budget gaps on a sustainable basis over the medium term.

2. PROPOSAL

Overall General Fund Position for the Quarter Ending December 2022

- 2.1 The table below summarises the Council's financial performance as at Q3 for 22/23.

| Directorate | Approved Net Budget 2022/23 | Projected Net Outturn 2022/23 | Variance |
|---|-----------------------------|-------------------------------|---------------|
| | £'000 | £'000 | £'000 |
| Children's Services | 50,733 | 58,378 | 7,645 |
| Growth & Sustainability | 50,734 | 56,574 | 5,840 |
| Place Health & Adult Social Care | 54,154 | 50,161 | (3,993) |
| Public Health & Communities | 12,045 | 11,512 | (532) |
| Core Services | 21,926 | 21,764 | (162) |
| Service Totals | 182,592 | 198,390 | 8,798 |
| Corporate / General Items | 21,802 | 25,150 | 3,348 |
| TOTAL General Fund | 211,395 | 223,541 | 12,146 |
| HRA | 75,444 | 75,444 | 0 |

- 2.2 The current forecast is for a year-end overspend in the region of £12.1M, comprised of a Directorate/Service overspend of £8.8M together with an overspend on corporate budgets of £3.3M.
- 2.3 In line with the previously agreed financial strategy, the £12.1M will be addressed as a one-off measure from resources previously set aside this purpose. This strategy affording the opportunity to develop a transformation and efficiency plan capable of addressing the anticipated recurrent budget gaps over the medium term. Further

updates on the MTFs and the proposed programme of transformational activity will be submitted to Cabinet later in the financial year.

- 2.4 Further detail on each Directorate's position is highlighted below in paragraph 2.9. However, the overspends in the **Children Services** and **Growth and Sustainability Directorates**, continue to be of particular concern both of which are reporting significant and deteriorating overspend positions.

Corporate Resources

- 2.5 The above position excludes any impact in relation to core taxation (council tax and business rates). Council tax collection is currently forecast to be 95.6%, 0.4% below the stretch target of 96% but a further improvement since Q2 [each 1% equates to around £1M]. Council tax collection will be closely monitored in view of the ongoing 'cost of living' crisis and the impact this is having on household budgets.
- 2.6 Business rates collection is currently forecast to achieve the target of 97.5%, an extremely positive position in the current climate. Similar to Council Tax, business rate collection will be closely monitored in view of the ongoing impact that high inflation, increasing interest rates & the general macro-economic climate might have on business cashflow and profitability.
- 2.7 Overall the current arrears (debt) position as at the end of December 22 stood at £18.5M, a net reduction of £0.9M since Quarter 2, (£0.1M on brought forward debt and £0.8M on new in year debt). The Council's overall bad debt provision has been revised to reflect the current position on arrears with approval sought to write off **£0.519M** of arrears that has become uneconomical to collect.

DIRECTORATE UPDATES

- 2.8 Council services are forecasting **a significant financial pressure of £8.8M for 22/23**. Detailed variances and mitigation plans have been provided by respective Executive Directors as highlighted below.

Children's Services Directorate

Highlights

The latest approved budget for 22/23 for the Children's Directorate is **£50.733M**. The Directorate is forecasting an outturn of **£58.378M** [including earmarking requests] as at the end of Quarter 3, resulting in an operational overspend of **£7.645M**.

| Childrens Directorate | Approved Net Budget 2022/23 | Projected Net Outturn 2022/23 | Variance | Dev't Plan Costs | LAC Placement Costs | Other Operational Costs |
|-------------------------------------|-----------------------------|-------------------------------|--------------|------------------|---------------------|-------------------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Education, Early start & Prevention | 12,079 | 11,456 | -623 | 156 | 0 | -779 |
| Children Social Care & Safeguarding | 33,037 | 41,305 | 8,268 | 3,522 | 4,087 | 659 |
| Sub-Total | 45,116 | 52,761 | 7,645 | 3,678 | 4,087 | -120 |
| Schools | 5,617 | 5,617 | 0 | 0 | 0 | 0 |
| Total – Childrens | 50,733 | 58,378 | 7,645 | 3,678 | 4,087 | -120 |

- 2.9 The Children's Services Directorate is forecasting an overspend of **£7.645M**.
- 2.10 The overspend in Children Services predominately relates to Children in Care placement costs (£4.087M).
- 2.11 Barnsley's LAC numbers at the end of Q3 were 389, an increase of 41 since the end of March 2022. Whilst this exceeds the planned number for the year (360), and profiled for the period to date, movements and changes in placements due to complexity of needs is also a significant factor for the increased forecast cost. The increase in the number of LAC placements in private residential children's homes continue to exert pressure on the budget with an overspend of £3.661M forecast for the year. There are currently 53 young people placed in external care homes (including 24 in semi-independent accommodation) at the end of Q3 an increase of 14 since Q2, and 23 more than the planned 30 at the start of the year (including 2 high-cost secure welfare / remand placements).
- 2.12 The position is further exacerbated by inflationary uplifts to fee amounts; and the increasing number of high tariff placements due to complexity of needs (currently 7 placements have weekly cost in excess of £8,000). The high tariff cost reflects competitive pressures in the care market in relation to the placement of complex young people, with providers charging for vacant beds to enable them to meet needs.

- 2.13 There is also a net cost pressure in fostering (£0.445M) across in-house and external foster care due to more children being in foster care placements (287) than budgeted for at this time in the financial year (263). Independent fostering placements have increased by 8 since April 2022, whilst the number with BMBC foster carers is currently 213, an increase of 29 since the end of March.
- 2.14 An overspend of £2.063M is forecast within Children’s Assessment and Care Management, predominately relating to staffing costs due to the use of agency staff to cover vacancies, sickness & maternity leave (£1.194m). This is aimed at increasing capacity and addressing caseload pressures as outlined in the CSC Development Plan (see para 3.13 below). In addition, the costs of legal / external counsel support continue to rise (£0.584M).
- 2.15 Children’s Disability & Short Breaks has a forecast overspend of £0.481M attributable to higher than anticipated direct payments, family support and S17 payments provided to families with disabled children. The significant cost of supporting a small number of disabled children with complex needs and a reduction in continuing care funding to meet identified health needs are also a contributory factor to the reported overspend.
- 2.16 The forecast outturn position includes costs (£3.678M) in 22/23 of implementing the range of actions included in the Children’s Development Plan aimed at improving and strengthening Children Services through the following:
- addressing caseloads / capacity pressures by using agency staff across case holding teams to cover vacancies / absences (£2.667M).
 - establishing a development board to improve senior management line of sight / performance as well as implementing a practice hub / model to develop and embed practice standards across the service (£0.273M).
 - creating a variety of additional permanent staffing roles across the business unit to further develop the service, quality, compliance, and outcomes for children (£0.206M).
 - increasing capacity in the Early Help Service (by creating additional family support worker posts) to address increased caseloads (£0.094M).
 - Other investment proposals (£0.438M) including retention payments, additional LAC commissioning capacity, etc.
- 2.17 The above overspends have been partly offset by underspends elsewhere across the Directorate.

Special Educational Needs

- 2.18 A significant overspend continues to be forecast within Special Educational Needs. An overall DSG deficit of £4.1M is forecast for Q3 (consistent with the Q2 reported position). This represents an increase of £1.5m when compared with the planned deficit for the year of £2.6M. The Council is currently participating in the DfE 2022/23 ‘Safety Valve Programme’, with discussions ongoing with the DfE through January 2023. The SVP is aimed at providing local authorities with financial support to address accumulated deficits. As part

of this process the Council submitted (January 2023) its updated DSG Management Plan and headline actions to deliver savings and achieve in-year sustainability by the period 2026/27.

Areas of Concern

- LAC numbers
- Recruitment and retention
- Children’s Development Plan
- SEND

Growth & Sustainability Directorate

Highlights

The latest approved budget for 22/23 for the Growth and Sustainability Directorate is **£50.734M**. The Directorate is forecasting an outturn of **£57.063M** as at the end of Quarter 3, resulting in an overspend of **£5.840M**.

Quarter 3 Position to the end of December 2022

| Directorate | Approved Net Budget 2022/23 | Projected Net Outturn 2022/23 | Variance |
|--|-----------------------------|-------------------------------|--------------|
| | £'000 | £'000 | £'000 |
| Regeneration & Culture | 15,894 | 19,150 | 3,257 |
| Environment & Transport | 34,840 | 37,423 | 2,583 |
| Total Growth & Sustainability | 50,734 | 57,063 | 5,840 |
| Housing Revenue Account | 75,444 | 75,444 | 0 |

- 2.19 **Regeneration and Culture** are reporting an overspend of £3.257M. The key elements of this relate to an underachievement of commercial income [as compared to budget] of £0.835M and an overspend on general service delivery budgets of £0.637M namely additional cleaning, caretaking and security costs. These pressures are in part mitigated by an underspend on salary costs due to difficulties recruiting to several vacancies across the business unit (£1.044M), giving a net operational overspend of £0.428M.
- 2.20 However there has been significant rises in utility prices over the last financial year which has also affected the financial position, specifically in relation to asset / property costs. The latest data suggests a pressure of £2.828M as at Quarter 3.
- 2.21 **Environment and Transport** is reporting an overspend of **£2.583M**. Home to School Transport costs remain the largest single pressure where the service is currently forecasting a £1.070M overspend. This is mainly due to increased student numbers and higher prices from service providers. Car parking income also continues to show a shortfall against expected levels with an overspend of £0.495M, predominantly the result of patronage levels not yet recovering to pre-pandemic levels.
- 2.22 There has also been an increase in the cost of energy associated with street lighting [£0.854M] together with an increase in the cost of fuel for the Council’s fleet of vehicles [£0.182M]. Further additional inflationary pressures in waste (£0.307M) although this cost has been fully offset by additional income (£0.326M)

Areas of Concern

- Rising cost of energy
- Shortfall in commercial income from rents (business centers etc)
- Demand for Homes to School transport and rising provider costs

Housing Revenue Account (HRA)

2.23 The HRA is reporting a balanced position as at the end of Q3.

HRA Income

Dwellings rents are projected to achieve the budgeted level of income based upon projected stock levels by year end [accounting for anticipated right to buy sales / additions / void level during the year].

HRA Expenditure

A balanced position is forecast on the Repairs and Maintenance budget (£20.7M).

Increases in responsive repairs / assessments will be contained within the R&M budget via the ring-fenced contingencies held back to offset unanticipated demand, though it should be noted that any major incident or prolonged severe weather may impact this assumption.

The revenue cost of the accelerated roll out of Smoke / CO Alarms (£0.744M) and other increases in general HRA costs have been offset by lower than anticipated debt costs (£1.117M).

From a capital perspective, the BHS standard programme is anticipated to be completed by March 2023 with 46% completed to date.

Macro-Economic Climate / Cost of Living

As with the General Fund, the HRA continues to experience severe pressures as result of rising costs across several areas.

For example, the significant increase in the price of gas and electricity is expected to impact the District Heating scheme [£1.2M] which provides the energy for communal tenancies.

A reduction in the Council's support costs to the HRA is helping to mitigate these increased costs in this financial year.

Place Health and Adult Social Care

Highlights

The latest approved budget for 2022/23 for the Place Health and Adult Social Care Directorate is **£54.154M**. The Directorate is forecasting an outturn of **£50.161M** as at Quarter 3, resulting in an underspend position of **£3.993M** for the Directorate.

Quarter 3 position to the end of December 2022.

| Directorate | Approved Net Budget 2022/23 | Projected Net Outturn 2022/23 | Variance |
|------------------------------|-----------------------------|-------------------------------|----------------|
| | £'000 | £'000 | £'000 |
| Older People | 32,120 | 30,371 | (1,749) |
| Working Age Adults | 26,839 | 26,674 | (165) |
| SD/Management | (4,805) | (6,884) | (2,079) |
| Total for Directorate | 54,154 | 50,161 | (3,993) |

2.24 **Older People** – The Older People Service is currently forecasting an underspend of -£1.749M. This underspend relates to staffing vacancies within the locality (-£0.323M) and Reablement teams (-£0.066M) as well as a reduced net spend on care provisions (-£1.314M). An overall underspend within the Assisted Living Technology service is also reported mainly due to the capitalisation of staffing costs (-£0.046M).

2.25 **Working Age Adults** – An overall underspend of -£0.165M is reported for the Working Age Adults service. This underspend relates to staffing vacancies within the Specialist Teams and Place Based Services (-£0.174M) and minor underspends on other operating costs across the service (-£0.013M). These underspends are partly offset by increased net costs on the purchasing budget for care provisions (£0.022M).

2.26 **Service Director / Management** – An underspend is reported within the Service Director account (-£2.079M) mainly as a result of currently uncommitted Adult Social Care grant resources.

2.27 The reported position assumes the full commitment of the resources carried forward from 2021-22 earmarked for specific programmes (e.g. Better Lives Programme).

Areas of Concern

- Fee levels from care providers
- Recruitment and retention

Public Health & Communities

Highlights

The latest approved net budget for the Public Health & Communities Directorate is **£12.045M**. The Directorate is projecting a net outturn for the year of **£11.513M** (after earmarkings of £0.916M), resulting in a forecast underspend of **£0.532M**.

Quarter 3 position to the end of December 2022.

| Directorate | Approved Net Budget 2022/23 | Projected Net Outturn 2022/23 | Variance |
|------------------------------|-----------------------------|-------------------------------|--------------|
| | £'000 | £'000 | £'000 |
| Public Health | 4,358 | 4,061 | (297) |
| Communities | 7,687 | 7,452 | (235) |
| Total for Directorate | 12,045 | 11,513 | (532) |

2.28 An overall underspend of -£0.532 is forecast for the **Public Health and Communities Directorate**.

Public Health – (underspend of £0.297M)

2.29 The underspend within the **Public Health Business Unit (-£0.297M)** predominantly relates to staff vacancies / turnover in the Health Protection Service (-£0.150M). The Integrated Sexual Health Service is also reporting an underspend (-£0.070M) due to the reduction in costs of out of area GUM clinics. An underspend in Regulatory Services is also reported (-£0.077M) due in the main to staff vacancies and difficulty recruiting to technical posts. This is slight offset by minor overspends elsewhere in the business unit (£0.019M).

2.30 The above reported position assumes the full commitment/drawdown of the resources carried forward from 2021-22 (net £0.403M) earmarked for specific programmes, including the extension of the Covid 19 response and recovery structure to the end of March 2023.

Stronger, Safer and Healthier Communities – (Underspend of £0.235M)

2.31 The **Stronger, Safer and Healthier Communities Business Unit** is projecting an overall underspend of **(-£0.235M)**. This underspend is predominantly due to staff vacancies and a reduction in the cost of Supplies & Services (-£0.426M); this being partly offset by an increase in temporary accommodation costs (-£0.191M).

Areas of Concern

- Rising cost of accommodation for the Homeless

Core Directorate

Highlights

The latest approved budget for 22/23 for the Core Directorate is **£22.502M**. The Directorate is forecasting an outturn of **£22.340M** as at the end of Quarter 3, resulting in an underspend of **£0.162M**.

Quarter 3 Position to the end of the quarter ending December 2022

| Directorate | Approved Net Budget 2022/23 | Projected Net Outturn 2022/23 | Variance |
|--------------------------|-----------------------------|-------------------------------|--------------|
| | £'000 | £'000 | £'000 |
| CID | 7,596 | 7,411 | (185) |
| Finance | 4,415 | 4,532 | 117 |
| Business Imp, HR & Comms | 4,799 | 4,560 | (239) |
| Law & Governance | 5,692 | 5,837 | 145 |
| Total – Core | 22,502 | 22,340 | (162) |

- 2.32 **Customer Information & Digital Services** is forecasting an underspend of (-£0.185M), primarily due to an underspend on staffing across the business unit, slightly offset by temporary agency spend to undertake one-off development work.
- 2.33 **Finance** is projecting an overspend of £0.117M. This relates to an overspend on Catering Services (£0.263M) due to the rising cost of food, which is currently not being passed on to customers, partly offset by an underspend on staffing cost (-£0.146M) in Finance due to delays in recruitment to the new structure.
- 2.34 **Business Improvement, HR and Communication** is forecasting an underspend of -£0.239M which relates to underspends on staffing costs due to vacancies (-£0.342M), offset by an overspend on the Barnsley Spotlight Magazine (£0.048M) and Interpreter Fees (£0.055M).
- 2.35 **Law and Governance** is forecasting an overspend of £0.145M. An underspend on staffing across the business unit (£0.654M) is offset by agency spend in Legal Services (£0.434M), lost SLA income from the former South Yorkshire Joint Authorities (£0.265) and other miscellaneous costs including those relating to Operation London Bridge (£0.100M).

Areas of concern

- Rising cost of food supplies in Catering Services
- Increased legal expenditure
- Loss of income within the Governance Services

Corporate Budgets

- 2.36 **Corporate budgets** continue to project an overspend of £3.348M (no change since Q2) due to the higher than anticipated cost of the 22/23 pay award offset by an underspend in borrowing costs {Appendix 1 refers}.

Area of concern

- Future pay costs
- Rising interest rates
- Delivery of Transformation programme

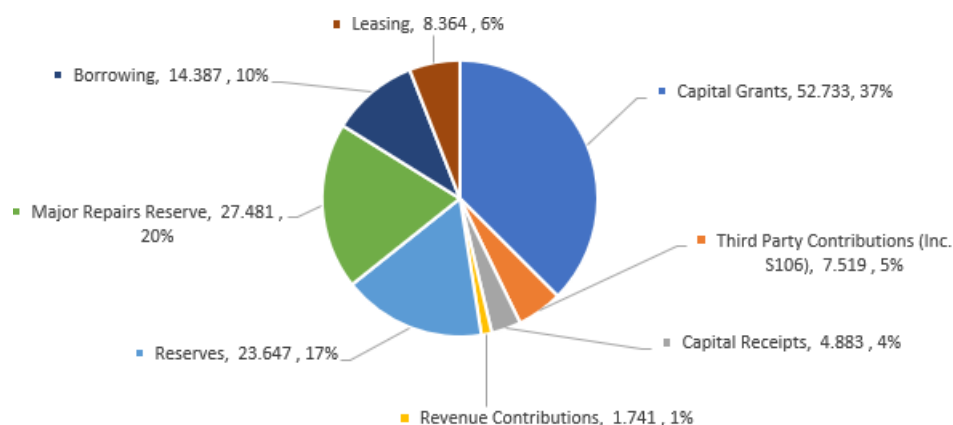
Overall Capital Programme Position as at the end of December 2022

- The Council's Capital Programme for the 22/23 financial year is currently projecting overall lower than anticipated expenditure of **£11.651M**, this being predominantly due to scheme slippage.
- The Council's Capital Programme over the five-year period to 2026/27 is currently projecting overall higher than anticipated expenditure of **£0.339M** due to minor cost variations.
- New schemes / allocations, predominantly within Growth & Sustainability, have also been approved during the Quarter totalling **£6.555M**.

2.37 The Council's capital programme is planned over the five-year period 22/23 through 26/27 and has a total projected cost of £191.5M. Current forecast spend in 22/23 totals £129.1M as highlighted in the table below:

| <u>Directorate</u> | 2022/23 Capital Programme £M | 2022/23 Projected Outturn £M | 2022/23 Variance £M | Total Capital Programme £M | Total Projected Outturn £M | Total Variance £M |
|----------------------------------|---|---|------------------------------------|---|---|----------------------------------|
| Children's Services | 5.715 | 3.670 | (2.045) | 8.360 | 8.574 | 0.214 |
| Growth & Sustainability | 83.735 | 75.397 | (8.338) | 124.572 | 124.697 | 0.125 |
| Public Health & Communities | 0.375 | 0.186 | (0.189) | 0.375 | 0.375 | - |
| Place Health & Adult Social Care | 4.300 | 4.300 | - | 8.716 | 8.716 | - |
| Core Services | 5.591 | 4.512 | (1.079) | 8.110 | 8.110 | - |
| Housing Revenue Account | 41.039 | 41.039 | - | 41.039 | 41.039 | - |
| Total | 140.755 | 129.104 | (11.651) | 191.172 | 191.511 | 0.339 |

2.38 The above costs are to be funded from a variety of sources as highlighted in the chart below, the majority of which are from external grants and reserves specifically earmarked for capital priorities:



2.39 It should be noted that the information above relates only to capital projects where funding has been formally approved through the Council's governance arrangements. There is currently a further £32.629M of provisional funding, mostly relating to future year allocations, which will be incorporated into the five year programme in due course.

Key Variances

Scheme Slippage

2.40 There has been programme slippage across several schemes during Q3 totalling £12.271M (where expenditure plans are expected to be utilised in a future year rather than the current year, due to events largely outside of the Council's control). Significant scheme slippage is explained below:

| Directorate | Scheme | £M | Explanation |
|-------------------------|-----------------------------------|-------------------|--|
| Growth & Sustainability | M1 Junction 37 Phase 2 | (£3.435M) | Delays in the acquisition of third-party land by the developer has resulted in scheme slippage & spend. Whilst some expenditure is expected to be incurred in 22/23, a new revised spend profile has been approved by SYMCA which extends the overall project into the 2024. |
| Children's Services | Elmhirst Youth Centre | (£1.000M) | Approved contractors have recently commenced work, however the majority of this spend will now take place in the next financial year. |
| Core Services | Worsborough & Elsecar Reservoirs | (£1.000M) | Banking repairs are yet to start on site due to inclement weather, meaning it is unlikely that previously expected spend levels will occur this financial year. It is anticipated that all repair works will be completed in 23/24. |
| Growth & Sustainability | Car Parking Strategy | (£0.808M) | Procurement delays have meant works are yet to start on site. The final stages of the process are currently being agreed, with a 2023 roll out now expected. |
| Children's Services | Children in Care Residential Home | (£0.800M) | The process of securing a suitable property is underway with numerous options being assessed. However, this is unlikely to be completed within this financial year. |
| Growth & Sustainability | Glass Works Phase 2 | (£0.754M) | Slippage is linked directly to leasing activity and expenditure due to be incurred for the remaining unlet units. It is anticipated all remaining units will be successfully let during 23/24 in line with the leasing strategy and scheme aspirations. |
| Various | Other | (£4.474M) | |
| | | (£12.271M) | |

Scheme Re-Phasing

2.41 There has been programme re-phasing across several schemes during Q3 totalling £0.500M (where additional works have been completed earlier than originally planned due to proactive project planning). The variance is made up primarily of schemes within the Highways capital programme.

Variation in Scheme Costs

- 2.42 A variation in scheme costs totalling £0.399M relates to an estimated net increase in expenditure across several schemes following cost variations / scheme completion. The bulk of this {£0.250M} relates to the development and improvement of the transfer loading station at Smithies Depot where during Quarter 3 additional costs have been incurred due to the rising cost of materials. It is proposed to fund this increase through a contribution from the service's revenue account.

New Approvals

- 2.43 In addition, several new approvals and allocations have taken place during the Quarter [£6.5M] as summarised in the table below:

| Reconciliation Between 22/23 Quarter Two and Quarter Three Positions: | Directorate | Capital Programme £M |
|--|-----------------------------|---------------------------------|
| Quarter 2 Approved Total Position | | 134.200 |
| <u>Approved Schemes During Quarter 3:</u> | | |
| Social Housing Decarbonisation Fund | Growth & Sustainability | 2.511 |
| Elmhirst Youth Centre | Children's Services | 1.304 |
| LAD2 | Growth & Sustainability | 1.300 |
| Market Gate Bridge | Growth & Sustainability | 0.443 |
| Athersley IKIC Centre | Children's Services | 0.298 |
| Libraries Refurbishment | Public Health & Communities | 0.242 |
| Other | | 0.457 |
| Total New Approvals | | 6.555 |
| TOTAL QUARTER 3 CAPITAL PROGRAMME | | 140.755 |

Future Funding

- 2.44 The following paragraphs outline some of the key capital funding opportunities that are currently being pursued:
- **Levelling Up Round 2** – the Council submitted two bids for Levelling Up Round 2 Funding, one for the Town Centre has been successful in gaining £10.2M of LUF monies. The other bid for Elsecar was not successful with alternative funding routes now being explored.
 - **Cannon Hall Roof** – a bid for £0.900M was recently submitted to Arts Council England for funding from the Museum Estate Development Fund (MEND) for Cannon Hall roof repairs / replacement.

A decision on the bid is expected by 31st March 2023.
 - **Brownfield Sites** - £40M is to be passed directly to SCR (£8M per year over a 5-year period) by MHCLG to develop housing on brownfield sites.
 - **SYMCA Gainshare Allocations:** Members are asked to note that discussions are currently ongoing between the Council and SYMCA regarding this allocation and approval routes to release this funding on key council priorities i.e. SEAM, Principal Towns – detailed updates will be provided later in the year.

Treasury Management Update as at End of December 2022

Economic Summary

- The UK Bank Rate increased from 2.25% to 3.5% during the Quarter.
- PWLB borrowing rates over the third quarter of 22/23 have become less volatile as a level of confidence returned to financial markets.
- Latest forecasts are for the Bank Rate to peak at around 4.5% by Spring 2023.
- A slight reduction in the Consumer Price Index (CPI) measure of inflation to 10.7% in November 2022 (down from 11.1% in October 2022).

Borrowing Activity

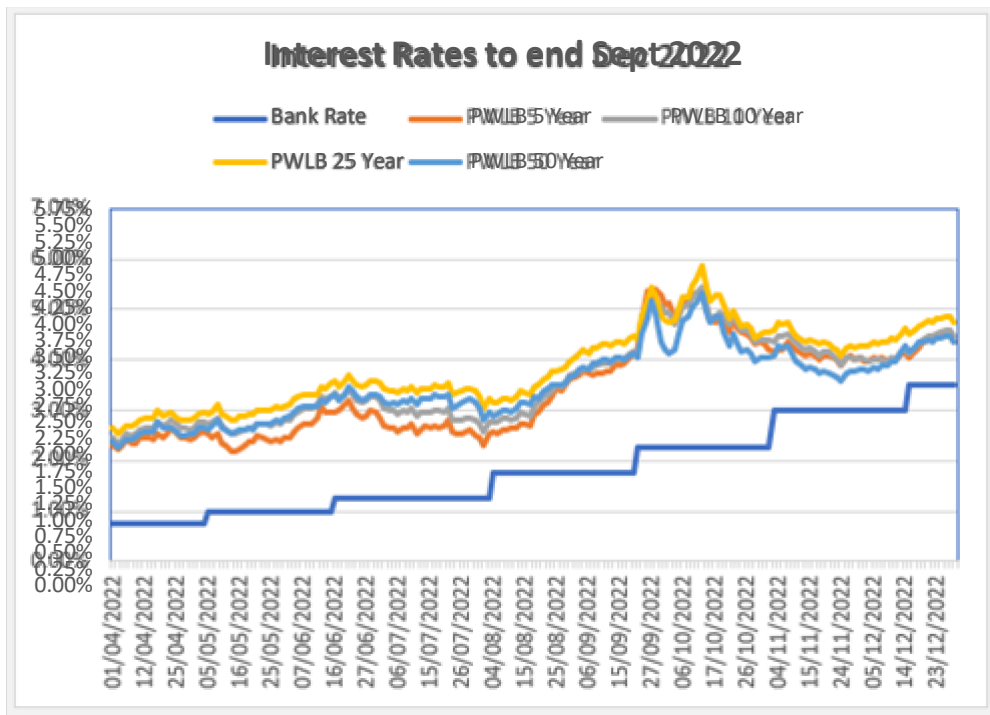
- No new long-term borrowing undertaken during the Quarter.
- A total external borrowing requirement of up to £240.3 Million by the end of 2024/25.
- Fixed rate exposure targets for the period to 24/25 remain in place to manage interest rate risk and create cost certainty within the budget.
- Over this period, £64.4 Million would need to be addressed through fixed rate borrowing in order to meet the Council's revised interest rate exposure targets.

Investment Activity

- A net decrease in investment balances of £14.2 Million during the Quarter.
- Security and liquidity remained the key priorities, and with this in mind an appropriate balance of cash was deposited in secure Money Market Funds and instant access accounts.
- During the Quarter, Officers continued to take advantage of the competitive rates offered on short term local authority deposits.
- Investment rates have continued to increase during Quarter 3 and are expected to improve further, in-line with the forecast Bank Rate increases over the next financial year.

Key Messages – Economic Summary

- 2.45 In mid-December, the Bank of England announced another increase in the Bank Rate to 3.5% and warned that further increases are likely in order to sustainably return inflation to the target level of 2%. This was the ninth consecutive Bank Rate increase over the past 12-month period and took rates to their highest level since autumn 2008. It rounded off a challenging year for economies worldwide, impacted by the war in Ukraine, rising inflation, higher interest rates and recessionary concerns.
- 2.46 PWLB rates experienced a period of high volatility at the end of September 2022 under the Truss/Kwarteng Government. Since then, as a result of confidence returning to financial markets following the appointment of the Sunak/Hunt Government, PWLB rates have stabilised during the quarter to December 2022 and Officers continue to closely monitor interest rates.

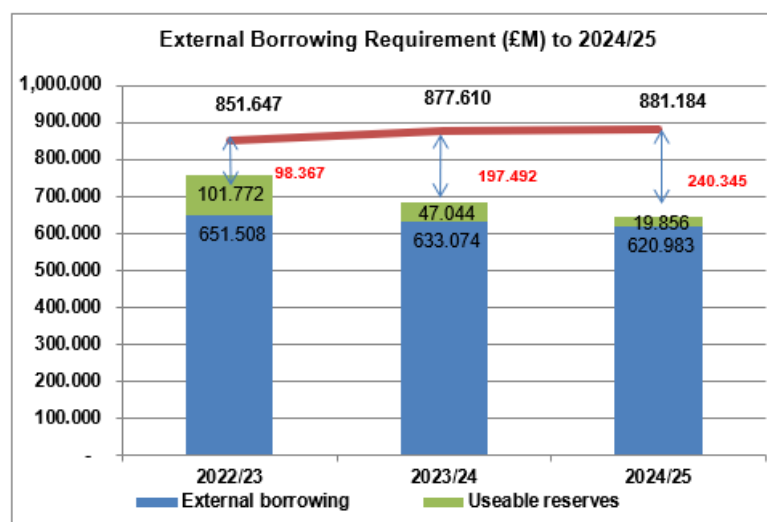


2.47 The Base Rate increased to 3.5% in December 2022. The latest view from the Council's Treasury Management Advisers, Link Group (as at 19th December) is that the Bank of England will increase the Bank Rate a further three times, at their meetings in February, March and May, to a peak of 4.50%, before falling back to lower levels by 2024/25:

| | <i>Latest</i> | <i>Mar-23</i> | <i>Sep-23</i> | <i>Mar-24</i> | <i>Sep-24</i> | <i>Mar-25</i> | <i>Sep-25</i> |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| UK Base Rate ~ Link Group | 3.50% | 4.25% | 4.50% | 4.00% | 3.50% | 3.00% | 2.50% |
| UK Base Rate ~ Capital Economics | 3.50% | 4.50% | 4.50% | 4.25% | 3.50% | 3.00% | - |
| PWLB Certainty 50 Years ~ Link Group | 4.30% | 4.30% | 4.20% | 3.90% | 3.70% | 3.50% | 3.20% |
| PWLB Certainty 50 Years ~ Capital Economics | 4.30% | 4.10% | 3.90% | 3.80% | 3.60% | 3.60% | - |

Key Messages – Borrowing Activity

- 2.48 The Council's borrowing strategy is to limit its exposure to interest rate risk whilst maintaining an appropriate level of internal borrowing in order to minimise its financing costs.
- 2.49 No new long-term borrowing was undertaken during the third quarter, however, based on current capital plans it is anticipated that the Council will need to borrow up to £240.3M by the end of 2024/25.

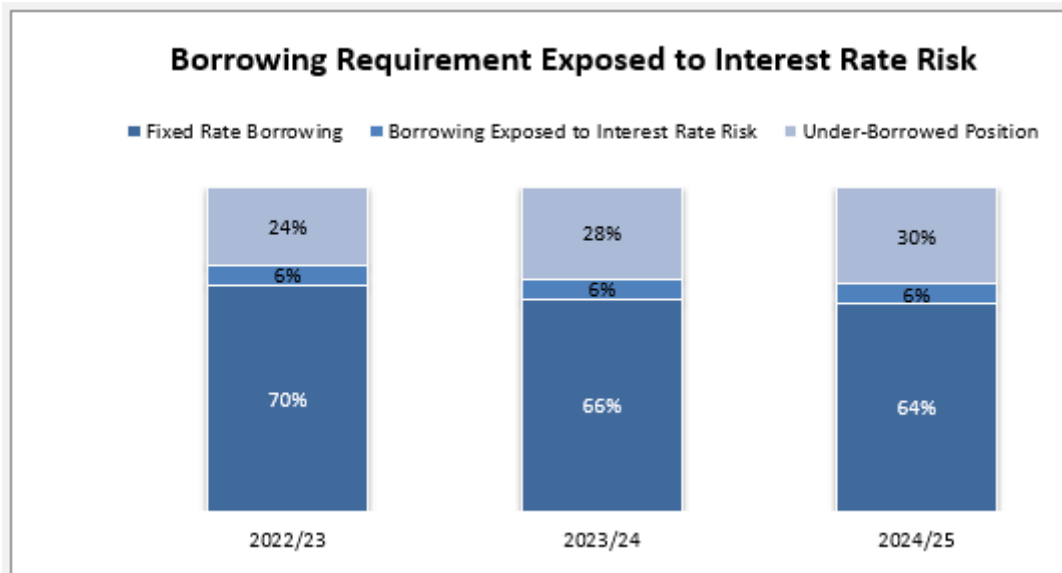


| Projected external borrowing requirement 2022/23 – 2024/25 | £M |
|---|----------------|
| Planned capital investment | 54.674 |
| Maturing loans / reduced support from useable reserves | 201.034 |
| Amounts set aside to repay debt | (15.363) |
| Total | 240.345 |

2.50 The Council is committed to maintaining its exposure to interest rate risk within the current limits set out below. The Council applies an agile approach to our treasury strategy given the number of variables impacting on interest rate forecasts. This will enable the Council to achieve optimum value and help to manage risk exposure in the long-term. Ongoing reviews will be undertaken by treasury officers and any further recommendations by the Section 151 Officer in relation to the prevailing interest rate environment and exposure targets will be reported to Members.

| Interest Rate Risk Exposure | 2022/23 | 2023/24 | 2024/25 |
|---|----------------|----------------|----------------|
| Limit on Variable Rate Borrowing / Unfinanced CFR | 30% | 30% | 30% |

2.51 The following graph shows that the borrowing target for 2022/23 has been achieved early (70% fixed rate). Based on the latest projections, should the Council take no further fixed rate borrowing there would be an exposure of 34% to variable rates in 2023/24 and 36% in 2024/25. The Council's strategy is to mitigate the risk of this interest rate exposure and the advice of the Section 151 Officer is to operate within the 70% fixed rate target over the period to 2024/25.



2.52 To deliver against the revised exposure targets, it is anticipated that the Council will need to fix out an additional £64.4M by the end of 2024/25. The remainder could be funded through temporary borrowing or utilising internal cash resources. Treasury officers continue to monitor opportunities for borrowing and achieving best value for the Council in the prevailing interest rate environment.

| | 2022/23 (£M) | 2023/24 (£M) | 2024/25 (£M) |
|---|-----------------|-----------------|-----------------|
| Fixed Rate Borrowing Requirement (Cumulative) | - | 49.841 | 64.434 |
| Temporary Borrowing Requirement (Cumulative) | 98.367 | 147.651 | 175.911 |
| Total | 98.367 | 197.492 | 240.345 |

Key Messages - Investments

- 2.53 There has been a net decrease in investment balances of £14.2M during the third quarter.
- 2.56 The Council's investment strategy remains focused on security (loss avoidance) and liquidity (ensuring cash is available when needed to meet the Council's spending commitments).
- 2.54 To reflect this strategy, officers continue to place investments in secure Money Market Funds and instant access accounts. The Council has also placed a significant level of short-term deposits with reputable banks and other local authorities to diversify the investment portfolio and help spread counterparty risk.

3. IMPLICATIONS OF THE DECISION

3.1 Financial and Risk

- The Authority's outturn currently stands at an overspend of £12.1M.
- Executive Directors have previously been requested to develop action plans to mitigate these overspends as far as is possible and to make those available for Audit and Governance Committee scrutiny as required as part of the Q3 performance management update.
- Any remaining cost pressure after this exercise will be funded temporarily via the use of one-off reserves in this financial year pending the development of a mitigation / transformation plan to address anticipated financial pressures in 23/24 and beyond.

3.2 Legal

There are no legal implications as a result of this report.

3.3 Equality

Not applicable as individual EIA's have been completed in relation to the budget proposals as appropriate.

3.4 Sustainability

Decision wheel not applicable.

3.5 Employee

There are no direct employee implications as a result of this report.

3.6 Communications

Communication will be made in line with the normal performance monitoring arrangements of the Council

4. CONSULTATION

N/A

5. ALTERNATIVE OPTIONS CONSIDERED

5.1 N/A

6. REASONS FOR RECOMMENDATIONS

6.1 Whilst some of the pressures currently being experienced were anticipated as part of the 2022/23 budget setting process, the overspend position reported at Quarter 3 is significantly higher than expected. Therefore, Executive Directors are requested to bring forward action plans to address the pressures within their respective areas to address the current position.

7. GLOSSARY

N/A

8. LIST OF APPENDICES

Appendix 1 – Finance Performance Report Quarter 3

9. BACKGROUND PAPERS

- Service and Financial Planning 2022/23 – The Council’s Medium Term Financial Strategy – 2022/23 Budget recommendations (Cab.09.02.2022/6 refers).

10. REPORT SIGN OFF

| | |
|-----------------------------------|---|
| Financial consultation & sign off | Senior Financial Services officer consulted and date. |
| Legal consultation & sign off | Legal Services officer consulted and date |

Report Author: Neil Copley
Post: Director of Finance and S151
Officer Date: 01/02/23