Financial Performance Monitoring Report

Part B

Quarter 3

Period Ending December 2018

1.0 General Fund

1.1 General Fund performance of the quarter is shown in the table below:

Department	Full Year Budget £'000	Profiled Budget £'000	Actual to 30th DEC 2018 £'000	Variance to date £'000	Outturn £'000
SUMMARY					
Corporate Services	3,319	4,850	4,613	(237)	(333)
Service Delivery	4,143	5,398	5,844	446	(348)
Regeneration, Planning & Assets	376	808	1,038	230	331
Tourism & Enterprise Services	3,271	2,208	2,405	197	309
Contingencies, etc	(332)	(249)	-	249	333
Total Service Expenditure	**10,777**	**13,015**	**13,900**	**885**	**292**
Capital Financing and Interest	2,063	890	515	(375)	(500)
Contributions to/(from) Reserves	656	342	-	(342)	278
Net Expenditure	**13,496**	**14,247**	**14,415**	**168**	**70**

Service Details are shown at **Appendix 2.**

1.2 The position at the end of December shows a negative variance of £168k on net expenditure which is a movement of £204k compared to the position reported at the end of the second quarter in September.

Forecast net expenditure as at 31.3.19 shows a favourable variance of £70k. The key movements are:

Net deficit on Bed and Breakfast Housing Benefit costs	£343k
Savings target for transitional posts to be delivered in 2019	£249k
Housing Needs and Standards – additional Staffing costs	£165k
Customer Contact Team – additional Staffing costs	£110k
Crematorium – Income shortfall	£43k
Bandstand - income over target	(£124k)
Building Control - reduced contract fee	(£36k)
Reduction in capital financing	(£500k)
Additional revenue funding	(£250k)

The contingency currently stands at £89k which is available to fund one off areas of expenditure during the year. This is likely to be utilised to fund any overall outturn variance.

1.4 Corporate Management Team (CMT) will be closely monitoring the expenditure and will be taking remedial action to ensure that expenditure is contained within the bottom line budget figure.

1.5 Members approval is sought for the transfer from reserves and virements (budget transfers) over £10,000 as set out in Appendix 3. These transfers are in line with the approved financial strategy

2.0 HRA

2.1 HRA performance of the quarter is as follows:

	Full Year Budget £'000	Profiled Budget £'000	Actual to 31 Dec 2018 £'000	Variance to date £'000	Projected Outturn £'000
HRA					
Income	(15,357)	(11,891)	(11,909)	(18)	(18)
Expenditure	12,788	5,845	5,915	70	70
Capital Financing & Interest	1,925			-	
Contribution to Reserves	500			-	
Total HRA	(144)	(6,046)	(5,994)	52	52

There is a negative variance of £52k.This is largely due to underspend on the Occupation Transfer Scheme and an adjustment in respect of insurance settlements. A further breakdown of the HRA is shown at **Appendix 4**.

3.0 Capital Expenditure

3.1` The detailed capital programme at **Appendix 5**, provides a summary of spend for quarter 3 compared to the revised allocation for 2018-19 and the total spend for each scheme as at end of December. The 2018-19 allocation has been revised to allow some re-profiling of schemes between 2018-19 and 2019-20. Brief comments are provided for each scheme and more detailed comments are provided below for larger schemes.

3.2 The Capital Programme for 2018-19 totals £55.9m compared to original Capital Programme approved in February 2018 of £50.4m. The changes to the Capital Programme are shown in the table below.

Summary of Capital Programme 2018/19	**2018-19 £'000**
Original Approved Budget at 7.2.18	50,394
HRA - Fort Lane increase	102
Re-profiled between years	34,522
EHIC Revolving Credit	65
Devonshire Park	4,360
Year end re-profiling	456
DFG allocated to SHCC	(400)
Bedfordwell Road - Pump House	3,000
West Langney Gates & Signs	18
EHIC - Loan Facility	2,500
Waste Fleet	1,600
Crematorium Improvements (Main Chapel)	50
JTP Allocation agreed Cabinet October 18	1,400
Re-profiling mid -year	(41,943)
RTB receipts applied 2017-18 for AH	(353)
Devonshire Park Theatre - Toilet Refurbishment	103
Current Programme	**55,874**

3.3 Detailed comments on larger schemes:

Line No. ref CP	Comment
7	New Build Phase 2 – Sumach Close is complete. The scheme for Fort Lane is due to go out to tender.
15	DFGs - It anticipated that the total spend on adaptations will be in the region of 700k. A further 125k will be spent on the Occupational Therapist (OT) integration project in 18/19 and again in 19/20 with the intention to extend to 20/21 in line with the Better Care Fund. This project will Integrate OT's into the Council, to focus on the prevention agenda that cuts across housing, social care and inclusion and community healthcare. It will aim to provide a less bureaucratic and more efficient offer to the local population in relation to DFG's, minor adaptations; provision of equipment and Telecare and assessments for Housing Options. Additionally a new discretionary policy is being written for 2018-2020 for DFG's to deliver a greater range of financial assistance, including fast track hospital discharge and adapted Temporary Accommodation.
20	Beach recharge works started on 26th October but due to stormy weather the operation had to be abandoned with only 60% of the shingle delivered. Extra shingle was recycled along the frontage to partly compensate for the shortfall and the work completed before Christmas. However, this meant that the final cost this year is only around £250,000. As this scheme is approved by the E.A. with funding up to 2021 this years allocated funding can be carried forward to make up the shortfall in shingle quantity from this year.
23	Works in Terminus Road (east and west), Cornfield Road and Gildredge Road are progressing well. £50k of this budget was set aside to deliver a Wayfinding Strategy for the Town Centre. Sites for all signs have been agreed and signs for first section of Town Centre Improvement Scheme have been manufactured and are expected to be installed in June/July when the public realm works are completed. It is likely that this spend will need to be re-profiled to 2019/20.
24	Construction work is complete and keys have been handed over. Some minor internal and external snagging to be completed
64	IT – Block Allocation – On target to complete in 2018-19. Allocations for 2019-20 & 2020-21 have been re-profiled to 2018-19 due to high cyclical spend on new laptops.
69	EHIC Loans (Properties purchased from EBC) - Agreed facility of £4,173k to provide loans to purchase EBC properties. Two loans totalling £980k have been agreed of which £955k has been drawn down. The remaining facility of £2,958k is available for other properties to be identified. A loan of £235k relating to Northbourne Road was drawn down and subsequently repaid.
70	EHIC loans (Properties purchased on the open market) - Agreed facility of £15m to provide loans to purchase private properties. 25 loans totalling

	£4,425k have been agreed of which £2,847k has been drawn down. The remaining facility of £10,575k is available for other properties. This facility is currently allocated to various years. One loan for £365k has now been repaid.
74	Aspiration Homes LLP Loan – Agreed a facility of £10m to provide loans to build and refurbish properties. Two facilities totalling £4,524k have been approved and £1,286k has been drawn down. There is a remaining facility of £5,476k
75	Bedfordwell Road – CSF are progressing a revised scheme layout with expected start on site Spring 2020. Well filling works in the Pump House are complete. Remaining remediation will re-commence from July once Mildren have left the site and to align with ecology works.
76	Hampden Retail Park Refurbishment – project is underway and the construction contractor has been appointed. The scheme has now had planning consent and to works are planned to commence in Q4.
78	JTP Programme - This scheme is the subject of regular update reports to Cabinet. Additional allocation of £1.4m was agreed by Cabinet on 24.10.18; £700k relates to Eastbourne and £700k relates to Lewes.
81	Devonshire Park Development. The scheme is moving to completion with The Locker Room and bulk of the tennis court works complete. The Congress Theatre and associated landscaping will reopen in March 2019, followed soon after by the Welcome Building. The works to the Winter Garden will commence in 2019 and are currently anticipated to take some 9-12 months depending on the final scope.
95	Wish Tower Restaurant – work started at the end of 2018 and is progressing well. Expected completion for shell of the building is May 2019 and this will be followed by fit out by Bistro Pierre.

4.0 Collection Fund

4.1 The Collection Fund records all the income from Council Tax and Non-Domestic Rates and its allocation to precepting authorities.

The Collection fund for the year is as follows:

	Council Tax £'000	**Business Rates £'000**
Balance B/fwd 1.4.18	(1,267)	3,522
(Deficit recovery)/Surplus distributed	1,378	(2,969)
Debit due for year	(65,733)	(35,032)
Payments to preceptors	64,919	36,314
Allowance for cost of collection		129
Transitional Relief		(43)
Allowance for appeals		157
Write offs and provision for bad debts	322	(250)
Estimated balance 31.3.19	**(381)**	**1,828**
Allocated to:		
CLG	-	914
East Sussex County Council	(281)	165
Eastbourne Borough Council	(48)	731
Sussex Police	(33)	-
East Sussex Fire & Rescue	(18)	18

4.3 The allocation to preceptors reflects the operation of the Collection Fund for Council Tax and Business Rates which are distributed on different bases under regulations. The distributions for the estimated balance calculated at quarter 3 will be made in 2018/20. Any changes in quarter 4 will be made in 2020/21.

4.4 Council Tax performance is predicted to be a £0.4m surplus for the year. As the aim of the collection fund is to break even the surplus represents an overachievement of £0.5m for the year. This is due to the result of a combination of factors including better performance against the collection allowance forecast within the Council Tax base. The estimated balance as at 31.3.19 represents 0.6% of the gross debit.

4.5 The predicted Business Rate deficit of £1.8m for the year represents an in year underachievement from business rate income of £1.3m. There continues to be a significant risk associated with business rate income, with more than 117 appeals still outstanding against the 2010 rating list remaining to be settled with a total rateable value of £13.1m.

4.6 There is also a continued uncertainty over the number of appeals against the 2017 rating list received by the Valuation Office. Limited information is available on these appeals, therefore until more detail is known and evaluated an estimate has been calculated based on the previous appeals experience.

4.7 The estimated deficit balance as at 31.3.19 represents 5.2% of the total debit for the year.

5.0 Treasury Management

5.1 The Annual Treasury Management and Prudential Indicators were approved by Cabinet and Council in February.

5.2 **Economic Background**

5.3 After weak economic growth of only 0.1% in quarter one, growth picked up to 0.4% in quarter 2 and to 0.6% in quarter 3. However, uncertainties over Brexit look likely to cause growth to have weakened again in quarter four. After the Monetary Policy Committee raised Bank Rate from 0.5% to 0.75% in August, it is little surprise that they have abstained from any further increases since then. We are unlikely to see any further action from the MPC until the uncertainties over Brexit clear. In the event of a disorderly exit, the MPC have said that rates could go up or down, though it is probably much more likely to be down so as to support growth. Nevertheless, the MPC does have concerns over the trend in wage inflation which peaked at a new post financial crisis high of 3.3%, (excluding bonuses), in the three months to October. The main issue causing this is a lack of suitably skilled people due to the continuing increase in total employment and unemployment being near to 43 year lows. Correspondingly, the total level of vacancies has risen to new highs.

As for CPI inflation itself, this has been on a falling trend, reaching 2.3% in November. However, in the November Bank of England Inflation Report, the latest forecast for inflation over the two year time horizon was raised to being marginally above the MPC's target of 2%, indicating a slight build up in inflationary pressures.

The rise in wage inflation and fall in CPI inflation is good news for consumers as their spending power is improving in this scenario as the difference between to two figures in now around 1%, i.e. a real terms increase. Given the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months.

5.4 **Interest Rate Forecast**

Bank Rate remains at 0.75% having been increased by the MPC on 2nd August 2018.

Link Asset Services forecasts Base Rate increase to 1.00% during Q2 2019, followed by a further 0.25% increase during Q1 2020.

5.5 **Annual Investment Strategy**

The Treasury Management Strategy Statement (TMSS) for 2018/19 which includes the Annual Investment strategy, was approved by Council on 7 February 2018. It sets out the Council's investment priorities as being :

- Security of Capital;
- Liquidity;
- Yield.

There were no short term investments held as at 31 December 2018, except a sum of £1m is invested with Lloyds Bank at a rate of 3.03% maturing on 23.1.19. This investment is held as part of the LAMS scheme.

Approved limits within the Annual Investment Strategy were not breached during the quarter ending 31 December 2018, except for the balance held with Lloyds Bank, which exceeded the £10m limit for 3 days during the quarter.

Investment rates available in the market have continued at historically low levels. Investment funds are available on a temporary basis and arise mainly from the timing of the precept payments, receipts of grants and the progress of the capital programme.

5.6 Investment performance for the quarter ending 31 December 2018 is as follows:

Benchmark	Benchmark Return	Council Performance	Interest Earning
7 day LIBID	0.48%	0.53%	£26,900

The Council outperformed the benchmark by 0.05%. The budgeted investment returns for 2018/19 is £50k. Due to cash flow requirements and current low interest rates, investments held are at minimum and it is unlikely that this budget will be achieved.

The continuous use of internal balances is in line with the Council's strategy and reduces the amount of interest payable on loans and investment income.

5.7 **Borrowing**

The following loans were taken during the quarter:

New Short Team Borrowing				
Start Date	Counterparty	Amount	Interest	End Date

			Rate %	
22-Oct-18	East Riding of Yorkshire	-£2,000,000	1.00	17-Oct-19
22-Oct-18	Lewes DC	-£2,000,000	0.70	23-Jan-19
07-Nov-18	Liverpool City Council	-£1,000,000	0.75	07-Feb-19
20-Nov-18	Barnsley Met Council	-£3,000,000	0.95	20-May-19
23-Nov-18	Cheshire East BC	-£5,000,000	0.82	12-Feb-19
03-Dec-18	Lewes DC	-£3,000,000	0.75	01-Mar-19
Total		-£16,000,000		
Less Short Term Borrowing Repaid				
Repayment Date	Counterparty	Amount	Interest Rate	No of Days
22-Oct-18	North Yorkshire CC	£4,000,000	0.80	185
15-Nov-18	Derbyshire CC Pension Fund	£5,000,000	0.80	92
20-Nov-18	Barnsley Met Council	£3,000,000	0.75	92
Total		£12,000,000		
Net New Short Term Borrowing during quarter		-£4,000,000		

Cash flow predictions indicate that further borrowing will be required in the next quarter, depending on the timing of capital expenditure. The exact timing and nature of this borrowing will be considered at that time in light of prevailing interest rates.

5.8 **Compliance with Treasury and Prudential Limits**

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordability limits) are included in the approved TMSS.

During the quarter to 31 December 2018 the Council has operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices, except for a temporary balance exceeding limits with Lloyds Bank.

6.0 **Write-offs**

6.1 Financial Procedure Rule 4.26 provides delegated authority to the Chief Finance Officer for the write off of irrecoverable debts below £5,000. Beyond that limit, unless particular circumstances apply (like bankruptcy and liquidation) the approval of Cabinet is required

6.2 Details of the write offs being recommended for write off by Cabinet are listed in the Exempt Appendix to the report with brief explanation of the circumstances.

6.3 In all cases a number of methods of collection were attempted before the debts were recommended for write off. The write off does not mean that debt is not still due to the council and in cases where circumstances have changed the debt will be written back on and recover pursued,

6.4 The write offs do not have an immediate financial effect on the current year's budget as the bad debt provision is greater than the write off total. However, the making of that provision did have a cost implication at the time the provision was made. The Council maintains provisions against the level of debts outstanding as follows:

	Provision as % of total debt	Funded by
NNDR	25%	50% Central Government, 40% EBC, 9% East Sussex CC,& 1% East Sussex Fire
Council Tax	36%	73% East Sussex CC, 13% EBC, 9% Sussex Police & 5% East Sussex Fire
Housing Rents	35%	100% EBC HRA
Housing Benefit Overpayments	55%	100% EBC General Fund
Sundry Debts	3%	100% EBC General Fund