

Body:	Cabinet
Date:	27th March 2019
Subject:	Finance update – Performance Quarter 3 2018/19
Report of:	Chief Finance Officer
Cabinet member:	Councillor Bill Giles (Cabinet Member for Finance)
Ward(s):	All
Purpose of the report:	To update members on the Council’s financial performance in Quarter 3 2018/19
Decision type:	Non Key
Recommendation:	<p>Cabinet is recommended to</p> <ol style="list-style-type: none"> 1. Agree the General Fund, HRA and Collection Fund financial performance for the quarter ended Dec 2018. 2. Agree the amended capital programme as set out in Appendix 3 3. Agree the Treasury Management performance.
Reasons for recommendations:	To enable Cabinet members to consider specific aspects of the Council’s financial performance.
Contact:	<p>Pauline Adams, Head of Finance Tel: 01323 415979 or email Pauline.Adams@lewes-eastbourne.gov.uk</p>

1.0 Introduction

- 1.1 It is essential to ensure that the Council has a sound financial base from which to respond to changing activity levels and demand for statutory services and to ensure that, when appropriate, its finances are adjusted in response to reducing income levels and inflationary pressures on expenditure.
- 1.2 A report on the financial performance following the end of each quarter is made to Cabinet to ensure that the financial health of the General Fund(GF), Housing Revenue Account (HRA), Capital Programme and Treasury Management activities are kept under continual review.

2.0 General Fund

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

Department	Full Year Budget	Profiled Budget	Actual to 31st Dec 2018	Variance to date	Projected Outturn
	£'000	£'000	£'000	£'000	£'000
SUMMARY					
Corporate Services	5,158	3,834	3,833	(1)	26
Service Delivery	8,473	6,390	7,141	751	850
Regeneration, Planning & Assets	597	599	926	327	383
Tourism & Enterprise Services	626	429	466	37	52
Recharges to the Housing Revenue Account	(3,312)	(2,484)	(2,613)	(129)	(310)
Total Service Expenditure	11,542	8,768	9,753	985	1,001
Contingencies, etc	(302)	(292)	(125)	167	200
Capital Financing and Interest	5	(76)	(81)	(5)	
Grant Reallocation	0	0	(600)	(600)	(633)
Contributions to/(from) Reserves	907	680	197	(483)	(487)
Net Expenditure	12,152	9,080	9,144	64	81

Service Details are shown in **Appendix 1**

2.2 The position at the end of December shows a variance of £64k on net expenditure. The significant items to note are:

- The Council continues to incur additional costs for services relating to the homelessness and demand management. The primary cause of variance of £751k for Service Delivery directorate is due to additional temporary resource requirements and related costs. The Council has developed a longer term strategic approach to address future years' demand for these services.
- There has been a shortfall of £270k against an anticipated income of £1.040m for the quarter from industrial estates and commercial properties. This is partly due to loss of rental income re unlet commercial properties and in part caused by incurring additional running expenditure of about £200k, (largely relating to business rates payable on empty property),
- Whilst Waste collection income remains strong (£230k above budget for the quarter), this is off set by the reduction in recycling income.
- JTP transitional costs £129k is one off and will be met from planned use of reserves and anticipated future savings.
- During the period the Council has benefitted from a grant reallocation of £600k
- The above variations will require unwinding of contingencies and adjustments to the reserves. This is estimated to be £487k following review of the amounts required to be added to reserves

2.3 The projected outturn shows a variance of £81k on net expenditure of over £12 million, a variance of less than 1%.

2.4 The Council's 2018/19 Budget includes expected efficiency savings which due to timing have not been fully realised; this has been rolled forward to be achieved in 2019/20.

2.5 The amount held in the General Fund Uncommitted Reserve, which acts as a buffer against negative movement in the budget, is projected to be £2.1m at 31 March.

The projected balance of the General Fund Earmarked Reserves at 31 March 2019 is over £4 million.

The following table shows the movements in each Reserve for 2018/19 and the projected balance at the end of the year.

General Fund Reserves	Actual Balance at 1 April 2018	Contributions from General Fund Revenue Budget	Use for Capital and Revenue	Estimated Balance at 31 March 2019
	£'000	£'000	£'000	£'000
Earmarked				
Asset Management	(3,020)	(280)	1,668	(1,632)
Economic Regeneration	(300)	(373)	50	(623)
Revenue Grants and Contributions	(396)	0	0	(396)
Strategic Change	(3,350)	(225)	2,743	(832)
Vehicle and Equipment Replacement	(1,445)	(320)	577	(1,188)
Unallocated	(226)	226	0	0
Total Earmarked Reserves	(8,737)	(972)	5,038	(4,671)
General Fund Working Balance	(2,093)	0	0	(2,093)
Total General Fund Reserves	(10,830)	(972)	5,038	(6,764)

3.0 Housing Revenue Account

3.1 HRA performance for the quarter is as follows:

	Current Budget	Profiled Budget	Actual to 30th Dec 2018	Variance to date
	£'000	£'000	£'000	£'000
HRA				
Income	(16,429)	(12,247)	(12,247)	-
Expenditure	13,947	10,460	9,958	(502)
Capital Financing & Interest	2,170	1,628	1,628	-
Contribution to Reserves				-
Total HRA	(312)	(159)	(661)	(502)

A further breakdown is shown at **Appendix 2**.

3.2 The position at the end of December shows a variance of (£502k). The main variances to note are:

Spending on repairs and Aids & Adaptations, currently below budget by £284k, is demand led and fluctuates during the course of the year. Budget is expected to be achieved by year end.

Supervision & Management expenditure is below budget by £107k, primarily due to lower consultancy costs and a reduced uptake of the tenant transfer incentive scheme.

Other Services expenditure is below budget by £112k, predominantly due to postponed replacement of sheltered schemes fixture & fittings and reduced communal heating repairs costs.

4.0 Capital Expenditure

4.1 The detailed capital programme at Appendix 3, provides a summary of spend for quarter 3 compared to the allocation for 2018/19. The 2018/19 allocation has been revised to allow re-profiling of schemes from 2017/18. Brief comments are provided for each scheme and more detailed comments are provided below for larger schemes.

4.2 The Capital Programme for 2018/19 totals £21.884m compared to the original Capital Programme approved by Council 5 February 2018 of £32.407m. The changes to the Capital Programme are shown in the table below.

Capital Programme Summary 2018/19 - 2020/21	2018/19 £'000	2019/20 £'000	2020/21 £'000
<i>Original Approved Budget 5 February 2018</i>	32,407	12,515	11,418
<i>Re-profiled from 2017/2018</i>	16,203	-	-
<i>Variations previously approved by Cabinet</i>			
Improvements to Stock	(1,176)	-	-
Temporary Accommodation	2,200	-	-
Asset Development Newhaven	500	-	-
Asset Management	9	-	-
Avis Way Depot Facility, Newhaven	4,100	-	-
Coastal Defence Works	58	-	-
Commercial Property Acquisition & Development	(2,700)	-	-
Community Infrastructure	322	-	-
IT Block Allocation	3	-	-
Joint Transformation Programme (JTP)	700	-	-
North Street Quarter, Lewes	181	-	-
North Street Quarter, Lewes (Temporary Car Park)	700	-	-
Parks, Pavilions etc. (Remedial Works)	89	-	-
Robinson Road Enabling Works	170	-	-
Sutton Road, Seaford	17,200	-	-
Vehicle & Plant Replacement Programme	630	-	-
<i>Variations requiring approval</i>			
Mandatory Disabled Facilities Grants	204		
Mandatory Disabled Facilities Grants	(1,100)		
Magic Circle, The Maltings, Lewes	94		
Ashington Gardens Development, Peacehaven	120		
<i>Re-profiled to 2019/2020</i>			
Saxonbury Redevelopment	(1,400)	1,400	
LHIC (Loans for Delivery of Mixed Tenure Homes)	(2,500)	2,500	

Aspiration Homes (Loan for Delivery of Mixed Tenure Homes)	(16,000)	16,000	
NSQ (Temporary Car Park)	(700)	700	
Sutton Road Seaford	(18,600)	18,600	
Denton Island Commercial Development	(530)	530	
Construction of Avis Way Depot, Newhaven	(4,000)	4,000	
Temporary Accommodation	(2,100)	2,100	
Blue Light Services Hub	(3,200)	3,200	
Current Programme	21,884	61,545	11,418

4.3 Detailed comments on larger schemes:

Magic Circle, The Maltings – also known as the Peace Garden. Funding for this project is being provided in the following breakdown: £13,600 Friends of Lewes, £35k Lewes Town Council, £25k CIL and £20k Lewes District Council.

Ashington Gardens original budget was approved at an estimated £1.2m, the final sum has now been received and an additional £120k has been authorised to deliver the project.

5.0 Treasury Management

5.1 The Annual Treasury Management and Prudential Indicators were approved by Cabinet and Council in February 2019.

5.2 Economic Background

The UK economic environment remains relatively soft, despite seemingly strong labour market data. Arlingclose's view is that the economy still faces a challenging outlook as it exits the European Union and Eurozone growth softens. While assumptions are that a Brexit deal is struck and some agreement reached on transition and future trading arrangements before the UK leaves the EU, the possibility of a "no deal" Brexit still hangs over economic activity.

UK Consumer Price Inflation (CPI) for October was up 2.4% year/year, slightly below the consensus forecast and broadly in line with the Bank of England's November Inflation Report. The most recent labour market data for October 2018 showed the unemployment rate edged up slightly to 4.1% while the employment rate of 75.7% was the joint highest on record. The 3-month average annual growth rate for pay excluding bonuses was 3.3% as wages continue to rise steadily and provide some pull on general inflation. Adjusted for inflation, real wages grew by 1.0%, a level still likely to have little effect on consumer spending.

The rise in quarterly GDP growth to 0.6% in Q3 from 0.4% in the previous quarter was due to weather-related factors boosting overall household consumption and construction activity over the summer following the weather-related weakness in Q1. At 1.5%, annual GDP growth continues to remain below trend. Looking ahead, the BoE, in its November Inflation Report, expects GDP growth to average around 1.75% over the forecast horizon, providing the UK's exit from the EU is relatively smooth.

5.3 Interest rate forecast

Following the increase in Bank Rate to 0.75% in August 2018, the Authority's treasury management adviser Arlingclose is forecasting two more 0.25% hikes during 2019 to take official UK interest rates to 1.25%. The Bank of England's MPC has maintained expectations for slow and steady rate rises over the forecast horizon. The MPC continues to have a bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. Arlingclose believes that MPC members consider both that ultra-low interest rates result in other economic problems, and that higher Bank Rate will be a more effective policy weapon should downside Brexit risks crystallise when rate cuts will be required.

The risks to the interest rate forecast are considered firmly to the downside.

5.4 Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2018/19 which included the Annual Investment strategy was approved by Council on 25 February 2019. It sets out the Council's investment priorities as being:

- Security of Capital;
- Liquidity;
- Yield.

The following table shows the fixed term deposits and tradeable investments held at 31 December 2018.

Ref	Counterparty	Date From	Date To	Days	Principal £	Int Rate %
FIXED TERM DEPOSITS						
TL240618	Thurrock BC	02 Oct 18	02 Apr 19	182	£2,500,000	0.900
TL241218	Eastbourne BC	22 Oct 18	23 Jan 19	93	£2,000,000	0.700
TL241418	Thurrock BC	14 Nov 18	14 May 19	181	£3,000,000	0.900
TL241818	Thurrock BC	09 Nov 18	11 Feb 19	94	£5,000,000	0.730
TL242018	Eastbourne BC	03 Dec 18	01 Mar 19	88	£3,000,000	0.750
TL242318	Debt Management Office	17 Dec 18	02 Jan 19	16	£3,000,000	0.500
					£18,500,000	

In addition to the fixed term deposits, the Council has made use of the following Deposit accounts and Money Market Funds:

	Balance at 31 Dec 18 £m	Average balance £m	Current Int Rate %
Instant Access			
Santander Business Reserve Account	£2,000	£1,195	0.65
Lloyds Bank Corporate Account	£1,108	£1,276	0.65
Goldman Sachs Sterling Liquid Reserves Fund	£3,000	£2,554	0.87
Deutsche Managed Sterling Fund	£2,000	£2,635	0.85

Approved limits within the Annual Investment Strategy were not breached during the

quarter ending 31 December 2018.

5.5 Investment performance

Treasury Management investment performance at the end of Quarter 3 is shown in the table below, along with the average 7-day London Interbank Bid (LIBID) Rate. All activity was consistent with the Council's approved Treasury and Investment Strategy for 2018/2019.

Type of Investment	Average return Qtr1 18/19 %	Average return Qtr2 18/19 %	Average return Qtr3 18/19 %
Fixed Term Deposits	0.59	0.58	0.67
Treasury Bills	n/a	0.65	0.66
Bonds & Certificates of Deposit	0.65	0.69	0.69
Money Market Funds	0.56	0.68	0.82
Interest Bearing Account	0.40	0.65	0.65
Total Investments	0.53	0.65	0.70
7 day LIBID Benchmark	0.36	0.54	0.54

5.6 Borrowing

The current account with Lloyds Bank remained in credit throughout the period. No temporary borrowing for cash-flow management purposes took place.

There has been no change in the total value of the Council's long term borrowing in the reporting period, which remains at £56.673m.

5.7 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.

6.0 Collection Fund

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

6.2 The Collection fund for the year is as follows:

	Council Tax £'000	Business Rates £'000
Balance B/fwd 1.4.18	(781)	1,949
(Deficit recovery)/Surplus distributed	839	(780)
Debit due for year	(72,431)	(25,448)
Payments to preceptors	72,003	24,213
Designated area payment		101
Allowance for cost of collection		135
Transitional Relief		(527)
Allowance for appeals		(263)
Write offs and provision for bad debts	(36)	229
Estimated balance 31.3.18	(406)	(391)
Allocated to:		
CLG	-	(196)
East Sussex County Council	(291)	(35)
Lewes District Council	(61)	(156)
Sussex Police	(35)	-
East Sussex Fire & Rescue	(19)	(4)
	(406)	(391)

- 6.3 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 2019/20. Any changes in quarter 4 will be made in 2020/21.
- 6.4 Council Tax performance is predicted to be a £406k surplus for the year. As the aim of the collection fund is to break even the surplus represents an overachievement of £464k 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 31.3.18 represents 0.56% of the gross debit.
- 6.5 The predicted Business Rate surplus of £391k for the year represents an in year overachievement from business rate income of £1.5m. This is as a result of a number of business rate backdated appeals settled, resulting in a reduction in the value of the provision required. The total number of appeals outstanding against the 2010 rating list as at 30.12.18 was 36 with a total rateable value of £4.7m.

With the introduction of the new 2017 rating list the procedure for making appeals has been changed, which is intended to speed up the process, reduce the number of appeals and provide some certainty on the financial implications to local authorities. The valuation office is yet to publish any data relating to these appeals, therefore an estimate has had to be calculated based on experience from the previous appeals system.

The estimated surplus balance as at 31.3.18 represents 1.54% of the total debit for the year.

7.0 Financial appraisal

- 7.1 All the financial implications are contained within the body of the report.

8.0 Legal implications

8.1 There are no legal implications arising from this report.

9.0 Equality analysis

9.1 This Finance update is a routine report for which detailed Equality Analysis is not required to be undertaken. The equality implications of individual decisions relating to the projects/services covered in this report are addressed within other relevant Council reports.

10.0 Conclusion

10.1 The General Fund is currently predicting an adverse variance of £705k and will require an injection from reserves to provide a balanced budget for year end. The main variances are due to additional expenditure on unlet properties and an delay in the achievement of efficiency savings. . The HRA budgets are on target. Capital expenditure is in line with expectations.

10.2 Treasury Management performance is on target and all activities were within the approved Treasury and Prudential Limits.

Appendices

- **Appendix 1 – General Fund detail analysis by service**
- **Appendix 2 – Housing Revenue Account**
- **Appendix 3 – Capital Programme**

Background papers

None

To inspect or obtain copies of background papers please refer to the contact officer listed above.