

Part B

Financial Performance Q1 2019/20

1.0 General Fund

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

Department	2018-19 Actual	Full Year Budget	Profiled Budget	Actual to 30 th June 2019	Variance to date
	£'000	£'000	£'000	£'000	£'000
SUMMARY					
Corporate Services	2,518	5,365	1,926	1,632	(294)
Service Delivery	5,072	4,947	881	936	55
Regeneration, Planning & Assets	945	(298)	(58)	179	237
Tourism & Enterprise Services	3,752	3,496	865	978	113
Total Service Expenditure	12,287	13,510	3,614	3,725	111
Contingencies, etc	0	(450)	1	-	(1)
Capital Financing and Interest	1,643	1,763	30	120	90
Other Movements	386				
Contributions to/(from) Reserves	(725)	(1,277)	(112)	(112)	-
Net Expenditure	13,591	13,546	3,533	3,733	200

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

1.2 The position at the end of June shows a negative variance of £200,000 on net expenditure. Variances at 30 June included:

Housing Benefit Payments and Subsidy -	
Shortfall in subsidy B&B accommodation	£210k
Corporate Property & Initiatives - Income target shortfall	£84k
Deposit Loan Scheme – Increase in bad debt provision	£81k
Housing enhancement services – recharge to the HRA	(£150k)

1.3 Where significant exceptional, unexpected and unavoidable expenditure is incurred the Council will rely on its reserves and working balance. At 1 April 2019 the General Fund working balance was £5.6 million.

2.0 HRA

2.1 HRA performance of the quarter is as follows:

	Full Year Budget	Profiled Budget	Actual to 30 June 2019	Variance to date
	£'000	£'000	£'000	£'000
HRA				
Income	(15,104)	(3,812)	(3,839)	(27)
Expenditure	13,069	1,906	1,978	72
Capital Financing & Interest	1,948	-	-	-
Contribution to Reserves	Nil	-	-	-
Total HRA	(87)	(1,906)	(1,861)	45

There is a small negative variance of £18,000 for the quarter. A further breakdown is shown at **Appendix 3**.

3.0 Capital Expenditure

3.1 The detailed capital programme at **Appendix 4**, provides a summary of spend for quarter 1 compared to the revised allocation for 2019/20 and the total spend for each scheme as at 30 June. Brief comments are provided for each scheme and more detailed comments are provided below for larger schemes.

3.2 Detailed comments on larger schemes:

Line No.	Comment
5	The Fort Lane scheme is planned to start in the Autumn. The tender process is currently live.
10	Disabled Facilities Grant – a verbal update will be provided.
13	The final scope of the Beach Management works this year will be decided following the results of the monitoring survey which is due to be carried out in early September. Initial thoughts are that there will not be an overspend this year but the entire budget will be required for these works. The contractor is currently checking the availability of the dredger that will be required to import shingle but it is anticipated that the works will be undertaken between October and the end of December.
16	The £450k on the Terminus Road Improvement Scheme has now been paid to ESCC. The remaining £50k was to be used to fund the bespoke signage to complement the public realm improvements and the costs associated with the signs were higher than expected.
17	Sovereign Harbour Community Centre. Work is virtually complete and the Centre

	is due to open in September. Overspend relates to costs that were associated with the original site (Site 5). These costs were largely associated with establishing whether the centre could be built on the site having regard to the ground conditions (due diligence) and the results demonstrated that as a result of the ground conditions, it was financially unviable to proceed with Site 5. Additional external funding is being sought.
47	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.
48	EHIC loans (Properties purchased on the open market) - Agreed facility of £15m to provide loans to purchase private properties. 26 loans totalling £5,093k have been agreed of which £4,127k has been drawn down. The remaining facility of £9,907k is available for other properties. This facility is currently allocated to various years.
49	EHIC loans (Mixed tenure properties) - Agreed facility of £20m to provide loans to purchase private mixed tenure properties. 10 loans totalling £6,838k have been agreed of which £1,201k has been drawn down. The remaining facility of £13,162k is available for other properties. This facility is currently allocated to various years.
52	Aspiration Homes LLP Loan – Agreed a facility of £10m to provide loans to build and refurbish properties. Three loans totalling £4,336k have been agreed to develop various sites and £1,201k has been drawn down. This facility is currently allocated to various years.
53	Bedfordwell Road - Designs are nearing completion ready for consultation and pre-app, planning. Highways consultation is also underway. Final phase of remediation is due to start in September following ecology relocation which is happening now. Once the remediation is complete the site will be completely clear to enable a start on site.
55	Hampden Retail Park Refurbishment – this scheme is currently under consideration for further development.
61	Devonshire Park Redevelopment - Progress currently as per construction programme agreed in main contract. Congress Theatre completed and opened in March. The Welcome Building completed and opened July 2019. This is the subject of a separate Cabinet report. Tennis player facilities construction complete.
70	Wish Tower Restaurant – The building construction is complete and fit out is in progress. This will be the subject of a separate repro to Cabinet in October.

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.

4.2 The Collection fund for the year is as follows:

	Council Tax £'000	Business Rates £'000
Balance B/fwd 1.4.19	(359)	2,258
(Deficit recovery)/Surplus distributed	456	(1,827)
Debit due for year	(69,080)	(35,885)
Payments to preceptors	68,318	35,154
Allowance for cost of collection		129
Transitional Relief		(42)
Allowance for appeals		281
Write offs and provision for bad debts	771	182
Estimated balance 31.3.20	106	250
Allocated to:		
CLG	-	62
East Sussex County Council	78	65
Eastbourne Borough Council	13	110
Sussex Police	10	-
East Sussex Fire & Rescue	5	13
	106	250

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 2019/20. Any changes in quarter 4 will be made in 2020/21.

4.4 Council Tax is showing a deficit of £106k for the quarter. The Council's share of the deficit is £13k. This is due to the result of a combination of factors including higher collection rate assumptions than is considered achievable and delays to the recovery proceedings caused by rescheduling of the HMCS court dates. The performance of the service will be monitored closely and reflected in the future council tax estimates.

4.5 The Business Rate deficit for the quarter is £250k. There continues to be a significant risk associated with business rate income, with a large number of appeals still outstanding against the 2010 rating list. There is also 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 estimated has had to be calculated based on experience from the previous appeals system.

4.6 Collection fund performance is as follows:

Cash Collection Rates	Council Tax 2018/9	Council Tax 2019/20	Business Rates 2018/19	Business Rates 2019/20
Q1 Actual	28.75%	28.38%	29.53%	28.68%
Q1 Target	29.19%	28.75%	29.90%	29.53%

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

After only tepid annual economic growth of 1.4% in 2018, growth in quarter 1 was unexpectedly strong at 0.5%. However, this was boosted by stock building ahead of the original March Brexit deadline so quarter 2 is now expected to be zero or slightly negative.

After the Monetary Policy Committee raised Bank Rate from 0.5% to 0.75% in August 2018, 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. If there were a no deal exit, it is likely that Bank Rate would be cut in order 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 3.5%, (excluding bonuses), in the three months to December before falling marginally to 3.4% more recently. Growth in employment fell to only 32,000 in the three months to April, well below the 2018 average, while the unemployment rate remained at 3.8 percent, its lowest rate since 1975. Correspondingly, the total level of vacancies has risen to new highs.

As for CPI inflation itself, this rose slightly to 2.1% in April before falling back again to 2.0% in May, and is likely to remain around this level over the next two years. If there was a no deal Brexit though, it could rise towards 4%, primarily as a result of imported inflation on the back of a weakening pound.

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 the two figures is now around 1.3%, 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.

5.3 Interest Rate Forecast

Base Rate has remained at 0.75% since 2nd August 2018. Link Asset Services forecasts Base Rate increase to 1.00% in December 2020.

5.4 Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2019/20 which includes the Annual Investment strategy, was approved by Council on 6 February 2019. It sets out the Council's investment priorities as being :

- Security of Capital;
- Liquidity;
- Yield.

There were no short term investments held as at 30 June. Approved limits within the Annual Investment Strategy were not breached during the quarter ending 30 June 2019, except for the balance held with Lloyds Bank, which exceeded the £10m limit for 8 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.

5.5 Investment performance for the quarter ending 30 June is as follows:

Benchmark	Benchmark Return	Council Performance	Interest Earning
7 day LIBID	0.57%	0.65%	£8,788

The Council outperformed the benchmark by 0.08%. The budgeted investment return for 2019/20 is £50,000. 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, but this will be offset by reduced borrowing.

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.

5.6 **Borrowing**

The following loan was taken during the quarter:

New Long Term Borrowing From PWLB During Quarter				
Date	Amount £'m	Interest Rate	Yrs	Loan Type
18-Apr-2019	4.0	1.87	14	EIP
26-Apr-2019	4.0	1.84	14	EIP
10-May-2019	4.0	1.77	14	EIP
17-May-2019	4.0	1.71	14	EIP
28-May-2019	4.0	1.66	14	EIP
30-May-2019	4.0	2.21	40	Maturity
Total	24.0			

Equal Instalment Principal (EIP) Loans are repaid in equal instalment during the term of the loan and maturity loans are repaid in full at maturity.

New Short Term Borrowing				
Start Date	Counterparty	Amount	Interest Rate %	End Date
23-May-19	Worcester CC	5.0	0.80	23-Sep-19
20-May-19	Cherwell District Council	3.0	0.84	17-Feb-20
Total		8.0		

Less Short Term Borrowing Repaid				
Repayment Date	Counterparty	Amount	Interest Rate	No of Days
14-May-19	E Northamptonshire DC	2.0	0.90	364
20-May-19	Barnsley Met Council	3.0	0.95	181
23-May-19	Greater Manchester Pension Fund	5.0	0.80	359
Total		10.0		
Net New Short Term Borrowing during quarter				
		2.0		

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.

5.7 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 30 June 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 temporary balances exceeding limits with Lloyds Bank.