

Body: Cabinet

Date: 16th September 2019

Subject: Finance update – Provisional Outturn 2018/19 and Performance Quarter 1 2019-20

Report of: Homira Javadi, Chief Finance Officer

Cabinet member: Councillor Zoe Nicholson, Leader of the Council

Ward(s): All

Purpose of the report: To update members on the Council’s 2018/19 outturn in advance of audit and the financial performance in Quarter 1 2019-20

Decision type: Non Key

Recommendation: Cabinet is recommended to

1. Agree the update on outturn 2018/19
2. Agree the General Fund financial performance for the quarter ended June 2019.
3. Agree HRA financial performance for the quarter ended June 2019.
4. Agree the amended capital programme as set out in Appendix 2
5. Agree the Treasury Management performance.

Reasons for recommendations: To enable Cabinet members to consider specific aspects of the Council’s financial performance.

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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, Housing Revenue Account, Capital Programme and Treasury Management activities are kept under continual review.

2.0 General Fund

2.1 2018/19 interim outturn (Subject to audit)

As previously advised, production of the Council's statutory accounts were delayed due to systems implementation issues. However, this work is now about to finalise and the Council's external auditors will commence their work in October.

This section provides Cabinet with an update regarding the financial position of the authority during 2018/19. Subject to audit, the outturn position for the year is expected to be in line with the overall approved budget

Department	Full Year Budget	Full Year Actual	Variance
	£'000	£'000	£'000
SUMMARY			
Corporate Services	5,422	4,846	(576)
Service Delivery	8,280	8,717	437
Regeneration, Planning & Assets	673	1,292	619
Tourism & Enterprise Services	672	626	(46)
Housing Revenue Account	(3,312)	(3,562)	(250)
Total Service Expenditure	11,735	11,919	184
Efficiency Savings	(700)	(500)	200
Capital Financing and Interest	-	9	9
Contributions to/(from) Reserves and allocation of contingencies	1,117	724	(393)
Net Expenditure	12,152	12,152	-

2.2 Q4 2018/19(Outturn) Update

During the financial year 2018/19, the Council experienced a considerable demand for its housing services and incurred additional costs for the provision of Temporary and Emergency Accommodation (TA/EA).

The Council has undertaken work to reduce the overall costs of TA/EA and to drive performance in the service through the realignment of work streams. The outcomes of this work will be reflected in the current fiscal year's financial performance.

The increased demand for services delayed delivery of some aspects of the planned transformation programme. However, the Council was able to mitigate some of the

increased costs associated with this with one-off government funding for homelessness. In addition, £1.1m of the transformational costs were met by use of flexible capital receipts in line with the Joint Transformation Programme.

The economic slowdown and uncertainty continued to place added pressure on net income from commercial properties by driving costs including business rate up and reducing income levels. Some of the key variances are listed below:

- unlet commercial property of £128k,
- a consequent income is shortfall of £184k, and
- additional expenditure of £307k on property being held pending redevelopment

The Council is carrying out a comprehensive review of its finances as part of the budget setting and Medium Term Financial planning process, which will include a review of its reserves and balances. This review will inform and revise the authority's future budget and service delivery plans.

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

Department	Full Year Budget	Profiled Budget	Actual to 30th June 2019	Variance to date
	£'000	£'000	£'000	£'000
SUMMARY				
Corporate Services	7,051	2,101	1,706	(395)
Service Delivery	8,557	2,097	2,215	118
Regeneration, Planning & Assets	431	128	184	56
Tourism & Enterprise Services	439	125	178	53
Recharges to the Housing Revenue Account	(3,235)	-	-	-
Total Service Expenditure	13,243	4,451	4,283	(168)
Efficiency Savings	(750)	(188)	-	188
Capital Financing and Interest	-	(45)	(12)	33
Contributions to/(from) Reserves	964	(150)	(150)	-
Net Expenditure	13,457	4,068	4,121	53

2.4 The position at the end of June shows a negative variance of £53k on net expenditure. At the time of preparing this report, further analysis was being carried out to examine the possibility of capitalising some or all of this variance. Key variances at 30 June included:

Service Priorities/Contingency – (to mitigate against loss of commercial income & increase in demand for services – including EA/TA)	(£486k)
Profiling of savings to meet additional demand for services	£188k
Waste and Recycling – Loss of recycling credits and fuel costs	£132k
Information Technology – Additional IT Contract cost	£95k
Planning Policy – Play Strategy, National Park Habitat regs	£72k
Newhaven Fort – Remedial works	<u>£52k</u>
	£53k

The amount held in the General Fund Uncommitted Reserve, which acts as a buffer against negative movements in the budget, is expected to remain at £2m at 31 March. The table below shows the projected movements in each Reserve in 2019-20 and the balance at the end of the year.

General Fund Reserves	Actual Balance at 1 April 2019	Contributions from General Fund Revenue Budget	Use for Capital and Revenue	Estimated Balance at 31 March 2020
	£'000	£'000	£'000	£'000
Earmarked				
Asset Management	(2,716)			(2,716)
Economic Regeneration	(1,124)			(1,124)
Revenue Grants and Contributions	(468)			(468)
Strategic Change	(1,969)		150	(1,819)
Vehicle and Equipment Replacement	(1,132)			(1,132)
Total Earmarked Reserves	(7,409)		150	(7,259)
General Fund Working Balance	(2,093)			(2,093)
Total Earmarked Reserves	(9,502)		150	(9,352)

3. Housing Revenue Account

3.1 HRA performance for the quarter is as follows:

	Current Budget	Profiled Budget	Actual to 30th June 2018	Variance to date
	£'000	£'000	£'000	£'000
HRA				
Income	(16,021)	(4,005)	(4,005)	
Expenditure	14,183	3,187	3,400	220
Capital Financing & Interest	2,170	452	452	
Contribution to Reserves				
Total HRA	(29)	(366)	(153)	220

A further breakdown is shown at **Appendix 1**.

3.2 The position at the end of June shows a surplus of £153k.

During the period, repairs figures were largely based on estimates. There were continuing issues with the Council's supplier, Mears and their ability to issue invoices. Reconciliations will take place once invoices have been received at the end of August 2019.

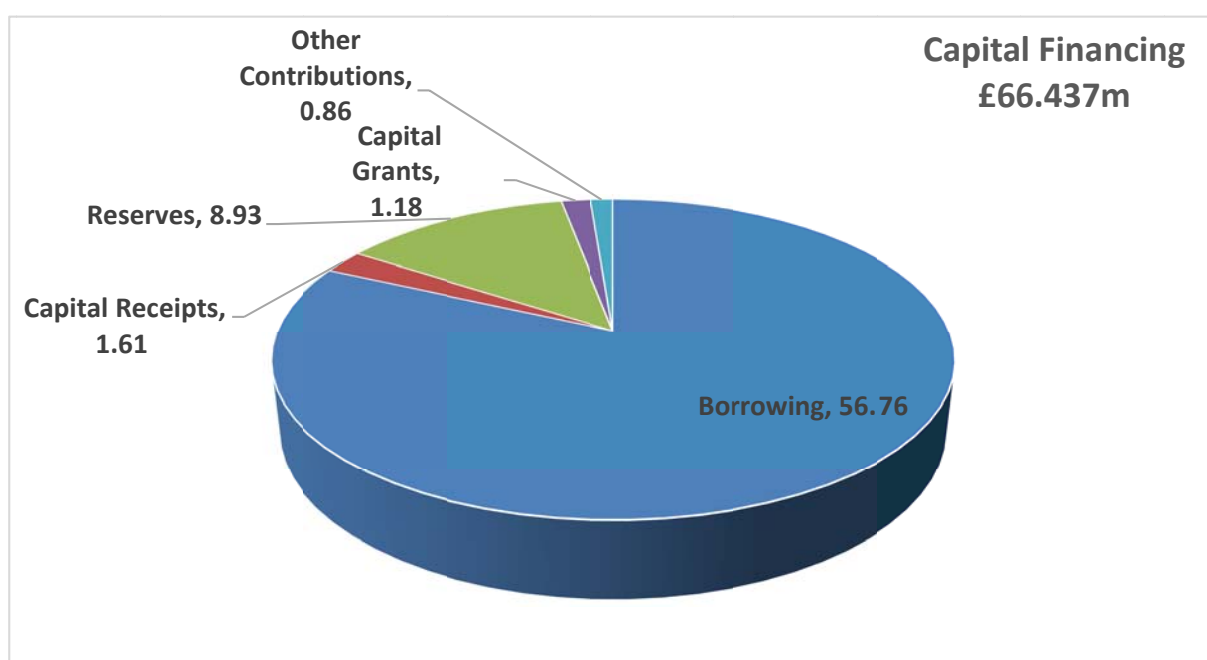
4.0 Capital Expenditure

4.1 The detailed capital programme at **Appendix 2**, provides a summary of spend for quarter 1 compared to the allocation for 2019/20. The 2019/20 allocation has been revised to allow re-profiling of schemes from 2018/19.

4.2 The Capital Programme for 2019/20 totals £69,337m compared to the original Capital

Programme approved by Council 11 February 2019 of £11,901m. The changes to the Capital Programme and Capital Financing are shown in the tables below.

Capital Programme Summary 2019/20 - 2021/22	2019/20 £'000
<i>Original Approved Budget 11 February 2019 plus minor adjustments</i>	11,981
Brought forward 2018/19	7,556
Re-profiled from 2018/2019	49,030
Variations previously approved	
Temporary Accommodation	700
Asset Management	170
Current Programme	69,437



4.3 **Items previously approved by Cabinet:**

Temporary Accommodation – increased budget to be funded by right to buy receipts.
Asset Management – increased budget to fund works to the All Weather Pitch

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**

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 included the Annual Investment strategy was approved by Council on 11 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 30 June 2019.

Counterparty	Date	Date	Days	Principal	Int Rate
	From	To		£	%
Thurrock Borough Council	02/10/2018	02/04/2019	182	2,500,000	0.90
Thurrock Borough Council	14/11/2018	14/05/2019	181	3,000,000	0.90
Debt Management Office	02/04/2019	11/04/2019	9	4,000,000	0.50
Debt Management Office	01/05/2019	13/05/2019	12	5,000,000	0.50
Debt Management Office	13/05/2019	22/05/2019	9	3,000,000	0.50
Thurrock Borough Council	14/06/2019	16/03/2020	276	3,000,000	0.88
Derbyshire County Council	14/05/2019	14/06/2019	31	3,000,000	0.57
				23,500,000	

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

	Balance at 28 June '19 £'000	Average balance £'000	Interest rate %
Santander Business Reserve Account	2,000	1,373	0.65
Lloyds Bank Corporate Account	3,474	1,961	0.65
Goldman Sachs Sterling Liquid Reserves Fund	1,000	1,561	0.86
Deutsche Managed Sterling Fund	1,500	1,793	0.85

Approved limits within the Annual Investment Strategy were not breached during the quarter ending 30 June 2019.

5.5 Investment performance

Treasury Management investment performance at the end of Quarter 1 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 2019/2020.

Type of Investment	Average return Qtr4 18/19	Average return Qtr1 19/20
	%	%
Fixed Term Deposits	0.50	0.75
Treasury Bills	0.65	n/a
Bonds & Certificates of Deposit	0.65	0.65
Money Market Funds	0.73	0.84
Interest Bearing Account	0.59	0.65
Total Investments	0.67	0.75
7 day LIBID Benchmark	0.48	0.51

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 £57.762m.

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 2019 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 **Financial appraisal**

6.1 All the financial implicates are contained within the body of the report.

7.0 **Legal implications**

7.1 There are not legal implications arising from this report.

8.0 **Equality analysis**

8.1 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.

9.0 **Conclusion**

9.1 As anticipated, there are a number of variations within the General Fund and HRA budgets. However, through careful budgetary control measures and close monitoring of the income and expenditure both budgets are expected to be delivered within the approved estimates.

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

Appendices

- **Appendix 1 – Housing Revenue Account**
- **Appendix 2 – Capital Programme**

Background papers

The background papers used in compiling this report were as follows:

- Budget monitoring 19/20 working papers
- To inspect or obtain copies of background papers please refer to the contact officer listed above.