

Report to: Leader of the Council

Date: 2 April 2020

Subject: Finance update – Performance Quarter 3 2019-20

Report of: Chief Finance Officer

Cabinet member: Councillor Zoe Nicholson (Leader of the Council and Chair of Cabinet)

Ward(s): All

Purpose of the report: To update members on the Council’s financial performance in Quarter 3 2019-20

Decision type: Non Key

Recommendation: The Leader of the Council is recommended to

1. Agree the General Fund and HRA financial performance for the quarter ended December 2019.
2. Agree the Treasury Management performance.

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

Contact: Homira Javadi, Chief Finance Officer
Tel: 01323 415512 or email
Homira.Javadi@lewes-eastbourne.gov.uk

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, it’s 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 The Council's budget for 2019/20 included a contingency provision of £1,600k. Against this provision, during the third quarter, the net service expenditure increased by £1,421k. This report provides a position update in comparison to the Original budget which have since been revised and provides a closer alignment to the in-year expenditure.

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

Department	Full Year Budget	Profiled Budget	Actual to 31 st December 2019	Variance to date	Outturn projection
	£'000	£'000	£'000	£'000	£'000
SUMMARY					
Corporate Services	5,451	4,010	4,235	225	5,632
Contingency Provision	1,600	1,210	1,210	0	1600
Service Delivery	8,558	5,961	6,655	694	8,909
Regeneration, Planning & Assets	431	462	819	357	1,168
Tourism & Enterprise Services	439	317	484	167	612
Recharges to the HRA	-3,235	-	-	-	-3,535
Total Service Expenditure	13,244	11,960	13,403	1,443	14,386
Efficiency Savings	-750	-450	-450	-	-720
Use of Contingency		-1210	-1210		-1600
Capital Financing and Interest	-	135	113	-22	150
Contributions to/(from) GF Reserves					300
Contributions to/(from) Earmarked Reserves	964			-	964
Net Expenditure	13,458	11,371	11,856	1,421	13,480

Service Details are shown in **Appendix 1**.

2.2 The reasons for the major variances are set out below:

- **£694k Service Delivery**

Additional costs relating to housing services continued to impact on the budget. Housing costs rose by £259k, £216k relating to Housing need and Standards.

Waste and recycling costs increased by £711k, however, due to profiling, the variance is expected to be £145k for the outturn.

Customers and neighbourhood Services costs increased by £145k.

The above increases were offset by savings and a reduction of costs of £421k in case management and specialist services.

- **£357k Regeneration, Planning and Assets**

The most significant variation relates to the corporate Landlord budget, which has seen a further reduction in investment property income of £411k. In addition to increased operating costs of £150k.

Net Planning costs increased by £111k this is an improvement of £94k in comparison to Q2's position.

These increases have significantly been offset by saving of £193k primarily in relation to facilities management and business planning services.

- **£167k Tourism & Enterprise**

£125k relating to the Lewes Tourism services reflecting employee, events and consultancy work.

A further £83k increase in costs relates to additional repairs at Newhaven Fort.

These increases have been offset by £42k reduction in leisure centre and swimming pool costs.

- **(£300k) Housing Revenue Account**

In recovering costs relating to additional services which were provided to the HRA.

- **£150k Capital Financing and Interest**

In line with previously reported amounts, this budget has been revised to reflect the latest interest rate forecast and financing charges.

3.0 Housing Revenue Account

3.1 HRA performance for the quarter is as follows:

	Current Budget	Profiled Budget	Actual to 31st December	Variance to date
	£'000	£'000	£'000	£'000
HRA				
Income	(16,021)	(12,535)	(12,452)	83
Expenditure	14,183	8,748	8,267	(481)
Net Operating Cost of HRA Services	(1,838)	(3,787)	(4,185)	(398)
Capital Financing & Interest	1,809	1,357	1,405	48
Total HRA	(29)	(2,430)	(2,780)	(350)

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

3.2 The position at the end of December shows a surplus of £350k.

During the period, repairs figures were largely based on estimates. There are continuing issues with the Council's supplier, Mears and their ability to issue invoices. However, this is a top priority which is currently being worked on to ensure the situation is resolved in time for closedown of the 2019/20 accounts.

4.0 Capital Expenditure

- 4.1 The detailed capital programme at **Appendix 3**, provides a summary of spend for quarter 1 compared to the allocation for 2019/20.
- 4.2 The revised Capital Programme for 2019/20 totals £15m compared to the original Capital Programme approved by Council 11 February 2019 of £11.9m. The changes to the Capital Programme and Capital Financing are shown in the tables below.
- 4.3 The latest position shows spend of £11.215m against the budget of £17.832m, leaving a balance of £6.617m.

5.0 Treasury Management

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

The timetable for reporting Treasury Management activity in 2019/2020 is shown in the table below. This takes into account the timescale for the publication of each Committee agenda and is on the basis that it is preferable to report on activity for complete months. Any extraordinary activity taking place between the close of the reporting period and the date of the Audit and Standards Committee meeting will be reported verbally at that meeting.

Meeting date	Reporting period for transactions
16 July 2019	1 March to 30 June 2019
23 September 2019	1 July to 31 August 2019
18 November 2019	1 September to 31 October 2019
20 January 2020	1 November to 31 December 2019
17 March 2020	1 January to 29 February 2020

5.3 Fixed Term Deposits pending maturity

The following table shows the fixed term deposits held at 31 December 2019 and identifies the long-term credit rating of counterparties at the date of investment. It is important to note that credit ratings are only one of the criteria that are taken into account when determining whether a potential counterparty is suitable. All of the deposits met the necessary criteria the minimum rating required for deposits made after 1 April 2018 is long term A- (Fitch).

Ref	Counterparty	Date From	Date To	Days	Principal £	Int Rate %	Long-term Rating
243419	Thurrock Borough Council	14 Jun 19	16 Mar 20	276	3,000,000	0.88	*
244719	Stockport Metropolitan BC	03 Dec 19	03 Feb 20	62	5,000,000	0.68	*
244819	Cheltenham BC	12 Dec 19	12 Feb 20	62	3,000,000	0.70	*
					11,000,000		

*UK Government body and therefore not subject to credit rating

5.4 Fixed Term Deposits which have matured in the reporting period

No fixed term deposits have matured during the reporting period.

At no stage did the total amount held by any counterparty exceed the approved limit set out in the Investment Strategy. The average rate of interest earned on deposits held in the period 1 November to 31 December 2019 was 0.75%. The bank rate was 0.75% for the period.

5.5 Use of Deposit accounts

In addition to the fixed term deposits, the Council has made use of the following interest bearing accounts in the period covered by this report, with the average amount held being £13.383m generating interest of approximately £0.014m.

	Balance at 31 Dec '19 £'000	Average balance £'000	Current interest rate %
Santander Business Reserve Account	£2,500	2,500	0.40
Lloyds Bank Corporate Account	£8,816	10,883	0.65

5.6 Use of Money Market Funds

Details of the amounts held in the two Money Market Fund (MMF) accounts used by the Council are shown below. The approved Investment Strategy allows a maximum investment of £3m in each fund, and at no time was this limit exceeded.

	Balance at 31 Dec '19 £'000	Average balance £'000	Average return %
Goldman Sachs Sterling Liquid Reserves Fund	£1,000	1,000	0.85
Deutsche Managed Sterling Fund	£1,500	1,500	0.78

5.7 Treasury Bills (T-Bills)

There were no Treasury Bills held at 31 December 2019, and there was no activity in the period.

5.8 Secured Investments

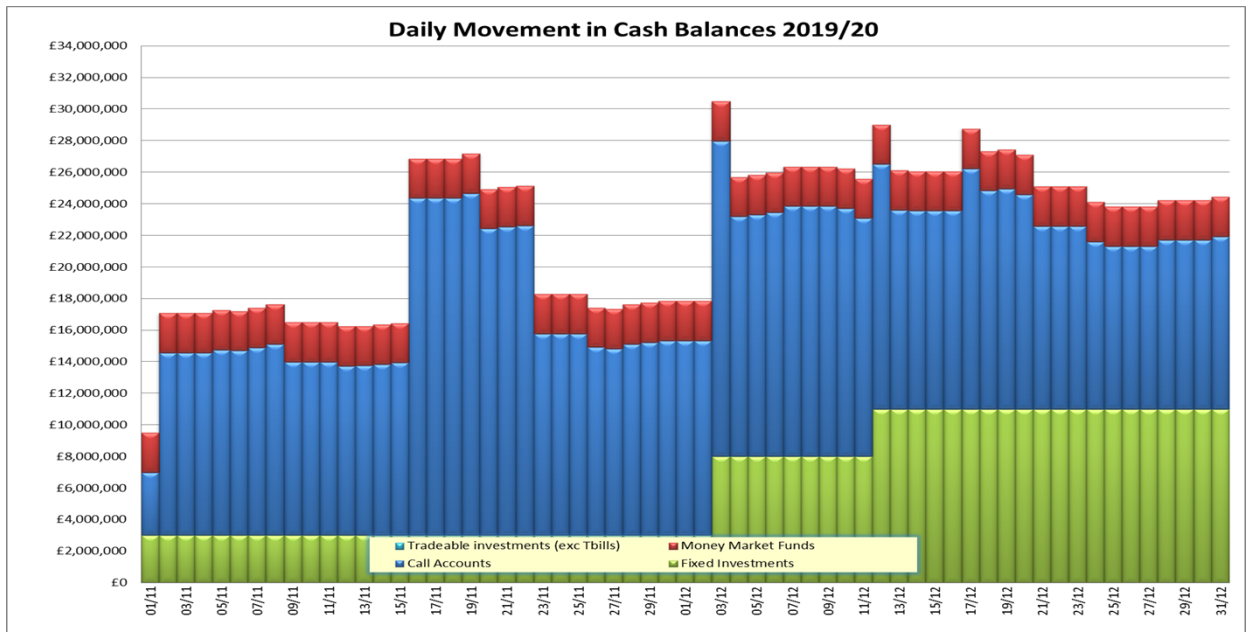
There were no Secured Investments at 31 December 2019.

5.9 Tradeable Investments

There were no Tradeable Investments at 31 December 2019, and there was no activity in the period.

5.10 Overall investment position

The chart below summarises the Council's investment position over the period 1 November to 31 December 2019. It shows the total sums invested each day as Fixed Term deposits, Treasury Bills, amounts held in Deposit accounts, Money Market Funds and Tradeable Investments.



5.11 Borrowing

The current account with Lloyds Bank generally remained with credit limits throughout most of the period with the following exceptions:














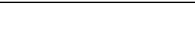

5.12 Exceptions:

Friday 1 November to Tuesday 31 December – excess funds of between £4m and £17m. The Council's long term borrowing in the reporting period is £56.673m.

6.0 Compliance with Treasury and Prudential Limits

6.1 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.

6.2 As at 31 December 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.

Treasury Prudential Indicators	2019/20 Estimate Indicator	31 December Indicator	RAG Status
Authorised limit for external debt (CS 4.2.2)	£117.7m	£117.7m	
Operational boundary for external debt (CS 4.2.2)	£127.7m	£127.7m	
Gross external debt (CS 4.2.2)	£117.3m	£86.0m	
Capital Financing Requirement (TMS)	£136.9m	£136.9m	
Debt vs CFR under/(over) borrowing	£19.6m	£50.9m	
<i>Investments</i>			
Investment returns expectations	0.65	0.75	
Upper limit for principal sums invested for longer than 365 days			
<i>Maturity structure of fixed rate borrowing - upper limits:</i>			
Under 12 months	75%	75%	
12 months to 2 years	75%	75%	
2 years to 5 years	75%	75%	
5 years to 10 years	100%	100%	
10 years and above	100%	100%	
Capital expenditure (CS 2.1.4)	£11.9m	£11.4m	
<i>Ratio of financing costs to net revenue stream (CS 8.1.1):</i>			
Proportion of Financing Costs to Net Revenue Stream (General Fund)	1.68%	1.68%	
Proportion of Financing Costs to Net Revenue Stream (HRA)	18.08%	18.08%	

6.3 Non-treasury investments

At its previous meeting, the Committee requested that information should be included in this report about the Council's 'non-treasury' investment activity e.g. loans to Council-owned companies or the purchase of property assets for the purpose of income generation.

6.4 Lewes Housing Investment Company

Lewes Housing Investment Company (LHIC) is a wholly owned subsidiary of the Council. Incorporated in July 2017, LHIC has been set up to acquire, improve and let residential property at market rents. Although the 2018/19 Capital programme included £2.5m as potential commercial loan funding to facilitate property purchases, this facility was not drawn down and has rolled forward into 2019/20. No payments were made to, or monies received from, LHIC during 2018/19 and no amounts were owing to, or owed by, LHIC at the end of the year. There were no transactions during the period 1 March 2019 to 30 June 2019. During the period 1 July to 31 August 2019 £35.00 was drawn down. There were no further transactions for the period 1 November to 31 December 2019.

6.5 Aspiration Homes LLP

Aspiration Homes LLP (AH) is a limited liability Partnership owned equally by Lewes District Council and Eastbourne Borough Council. Incorporated in June 2017, AH has been set up for the purpose of developing housing to be let at affordable rent. Although the 2018/19 Capital programme included £17.5m as potential commercial loan funding to AH to facilitate property purchases, this facility was not drawn down and has rolled forward into 2019/20. During the period 1 March 2019 to 30 June 2019, £121,300 was drawn down for the purchase of Grays School, Newhaven. There have been no transactions during the period 1 July 2019 to 31 August 2019. A further £1,140,000 was drawn down in September for the purchase of property in Western Road, Newhaven.

A working Capital facility loan of £100,000 has been agreed, at an interest rate of 2% above Base Rate. As at 31 March 2019 £10,000 of the working Capital facility loan had been drawn down. During the period 1 March 2019 to 30 June 2019, a further £35,000 has been drawn down against the loan facility.

6.6 Update on ESG and Responsible Investment (Arlingclose)

Local authorities recognise that they can further enhance their efforts through their investment decisions and activity. There are, however, no universally agreed and accepted definitions or metrics for environmental, social and governance issues. The Council treasury management advisor Arlingclose Limited has provided an update on ESG and Responsible Investment attached as Appendix 4.

7.0 Financial appraisal

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

8.0 Legal implications

8.1 There are not 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 As anticipated, there are a number of variations within the General Fund and HRA budgets. However, both are anticipated to make surpluses by the year end.

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**
- **Appendix 4 – ESC and Responsible Investment (Arlingclose)**

Background papers

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

- Budget monitoring 2019/20 working papers

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