Part B

Financial Performance Q1 2020/21

1.0 General Fund

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

Department	Current Budget £'000	Profiled Budget £'000	Actual to 30th June 2020 £'000	Variance to date £'000
SUMMARY				
Corporate Services	3,337	2,054	2,088	34
Service Delivery	5,876	1,428	1,867	439
Regeneration & Planning	(37)	749	792	43
Tourism & Enterprise	2,659	724	1,467	743
Total Service Expenditure	**11,835**	**4,955**	**6,214**	**1,259**
Covid-19	0	0	(413)	(413)
Contingencies & Corporate Savings	(599)	0	0	0
Capital Financing and Interest	2,286	30	35	5
Net Expenditure	**13,522**	**4,985**	**5,836**	**851**

1.2 The position at the end of June shows a negative variance of £851k on net expenditure. Variances at 30 June included:

Additional Software costs	£65k
Housing Benefit Payments and Subsidy - Mainly shortfall in subsidy on emergency accommodation	£149k
Revenues – no summons cost income	£136k
Crematorium – reduction in income	£52k
Car parks – reduction in income	£128k
Corporate Landlord – additional business rates and R&M	£42k
Tourism – net catering income shortfalls	£236k
Sovereign Centre – transferred back to the Council in March	£185k
Seafront – net shortfall in income	£153k
Events – cost savings from cancellations	(£188k)
Theatres – net shortfall in income	£358k
Covid-19 – balance of grant to be applied to future costs	(£413k)

1.3 The impact of the pandemic and associated lockdown has had a significant impact on the Council's financial position, in particular on income within the Tourism and Enterprise service which has a net shortfall of £747k at the end of June.

1.4 The £413k balance on the Covid-19 grant is expected to be fully allocated against future costs before the year end. Therefore, excluding this, the current shortfall is £1.264m, and is expected to increase as the impact of lockdown continues.

1.5 It should be noted that the returns to MHCLG on the financial impact of Covid-19 (previously reported) include forecast losses in Collection Fund income, and also the additional cost of homelessness and temporary accommodation which is expected to materialise later in the year. The above is purely as snapshot at the end of June specifically for General Fund.

1.6 The updated Medium Term Financial Strategy report, elsewhere on this agenda, provides the latest forecast which is a shortfall of approximately £8m by year end. This is after allowing for additional Government support in relation to income shortfalls (see below). The position is being monitored closely and updates will continue to be reported to Cabinet and Government.

1.7 The Government has sought to help Councils throughout this time with grants to deal with the immediate costs associated with pandemic/lockdown and has also now announced an income compensation scheme for lost sales, fees and charges.

1.8 Councils have to absorb the first 5% of their planned sales, fees and charges and then the Government compensates them for 75p in every pound of relevant loss thereafter.

2.0 HRA

2.1 HRA performance of the quarter is as follows:

	Full Year Budget £'000	**Profiled Budget £'000**	**Actual to 30 June 2020 £'000**	**Variance to date £'000**
HRA				
Income	(15,473)	(3,868)	(3,868)	-
Expenditure	13,501	3,372	3,326	(46)
Capital Financing & Interest	1,897	474	487	13
Contribution to Reserves	3,656	914	914	-
Total HRA	**3,581**	**892**	**859**	**(33)**

There is a small positive variance of £33,000 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 2020/21 and the total spend for each scheme as at 30 June. Comments are provided for each scheme in the appendix.

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 1.4.20	(208)	331
(Deficit recovery)/Surplus distributed	481	(73)
Debit due for year	(70,348)	(12,148)
Payments to preceptors	71,062	37,540
Allowance for cost of collection	-	129
Additional Business Rate Reliefs	-	(24,717)
Transitional Relief	-	(40)
Allowance for appeals	-	164
Write offs and provision for bad debts	805	326
Estimated balance 31.3.21	**1,792**	**1,511**
Allocated to:		
Government	-	756
East Sussex County Council	1,311	604
Eastbourne Borough Council	221	136
Sussex Police	176	-
East Sussex Fire & Rescue	84	15
	1,792	**1,511**

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 2021/22.

4.4 Council Tax is showing a deficit of £1.792m for the quarter. The Council's share of the deficit is £221k. This has resulted from a reduction in income collected and increased provision for bad debt. The position continues to be monitored on a monthly basis and the final surplus or deficit will be formally set in January 2021. Under new accounting regulations brought in by Government in response to Covid-19, deficits can be spread over three financial years from 2021-2024.

4.5 The Business Rate deficit for the quarter is £1.5m. There continues to be a significant risk associated with business rate income, despite the additional business rate reliefs (£24.7m) that have been given by Government. The latest deficit would be split between the relevant preceptors with Eastbourne's share equating to £136k. This again could be spread over the following three financial years. The exact surplus or deficit position will be determined in January 2021.

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**

Economic growth 2020 started with optimistic business surveys pointing to an upswing in growth after the ending of political uncertainty as a result of the decisive result of the general election in December settled the Brexit issue. However, the three monthly GDP statistics in January were disappointing, being stuck at 0.0% growth. Since then, the whole world has changed as a result of the coronavirus outbreak. The overall growth rate in quarter 1 was -2.2%, -1.7% y/y. However, the main fall in growth did not occur until April when it came in at -24.5% y/y after the closedown of whole sections of the economy. What is uncertain, however, is the extent of the damage that will have been done to businesses by the end of the lockdown period, how consumer confidence and behaviour may be impacted afterwards, whether there could be a second wave of the outbreak, how soon a vaccine will be created and then how quickly it can be administered to the population. This leaves huge uncertainties as to how quickly the economy will recover to what was formerly regarded as normality. However, some changes during lockdown are likely to be long lasting e.g. a shift to online purchasing, working from home, etc. The lockdown has also had a sharp effect in depressing expenditure by consumers which means their level of savings have increased and debt has fallen. This could provide fuel for a potential surge in consumer expenditure once some degree of normality returns.

Although the UK left the EU on 31 January 2020, we still have much uncertainty as to whether there will be a reasonable trade deal achieved by the end of 2020. At the end of June, the UK government rejected extending the transition period beyond 31 December 2020. This has increased the chances of a no-deal **Brexit.** However, the most likely outcome is expected to be a slim deal on trade in order to minimise as much disruption as possible. However, uncertainty is likely to prevail until the deadline date which will act as a drag on recovery.

After the Monetary Policy Committee left **Bank Rate** unchanged at 0.75% in January 2020, the onset of the coronavirus epidemic in March forced it into making two emergency cuts in Bank Rate first to 0.25% and then to 0.10%. These cuts were accompanied by an increase **in quantitative easing (QE),** essentially the purchases of gilts (mainly) by the Bank of England of £200bn. In June, the MPC decided to add a further £100bn of QE purchases of gilts, but to be implemented over an extended period to the end of the year. The total stock of QE purchases will then amount to £745bn. It is not currently thought likely that the MPC would go as far as to cut Bank Rate into negative territory, although the Governor of the Bank of England has said all policy measures will be considered. The Governor also recently commented about an eventual tightening in monetary policy – namely that he favours unwinding QE before raising interest rates. Some forecasters think this could be as far away as five years.

The Government and the Bank were also very concerned to **stop people losing their jobs** during this lockdown period. Accordingly, the Government introduced various schemes to subsidise both employed and self-employed jobs for three months to the end of June while the country is locked down. It also put in place a raft of other measures to help businesses access loans from their banks, (with the Government providing guarantees to the banks against losses), to tide them over the lockdown period when some firms may have little or no income. However, at the time of writing, this leaves open a question as to whether some firms will be solvent, even if they take out such loans, and some may also choose to close as there is, and will be, insufficient demand for their services. The furlough scheme was subsequently extended for another three months to October, but with employers having to take on graduated increases in paying for employees during that period. The Bank of England expects the unemployment rate to double to 8%.

The Government measures to support jobs and businesses will result in a huge increase in the annual budget deficit for the current year, from about 2% to nearly 17%. **The ratio of debt to GDP is also likely to increase from 80% to around 105%.** In the Budget in March, the Government also announced a large increase in spending on infrastructure; this will also help the economy to recover once the lockdown is ended. Economic statistics during June were giving a preliminary indication that the economy was recovering faster than previously expected. However, it may be a considerable time before economic activity recovers fully to its previous level.

Inflation. The annual inflation rate dropped to 0.5% in May from 0.8% in April and could reach zero by the end of the year. Inflation rising over 2% is unlikely to be an issue for the MPC over the next two years as the world economy will be heading into a recession; this has caused a glut in the supply of oil which initially fell sharply in price, although the price has recovered somewhat more recently. Other UK domestic prices will also be under downward pressure; wage inflation was already on a downward path over the last half year and is likely to continue that trend in the current environment where unemployment will be rising significantly. In May's Monetary Policy Report, the Bank of England predicted that inflation would hit their 2% target by 2022. This was in the context of its forecast that GDP would rise by 3% in 2022 after a recovery during 2021. While inflation could even turn negative in the Eurozone, this is currently not likely in the UK.

5.3 **Interest Rate Forecast**

The Council's treasury advisor, Link Group, provided the following forecast on 31 March 2020. This forecast will be updated to take account of recent downward movements in LIBID rates, (currently they are 3 month 0.01%, 6 month 0.15% and 12 month 0.33%).

Link Asset Services Interest Rate View								
	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 Month LIBID	0.45	0.40	0.35	0.30	0.30	0.30	0.30	0.30
6 Month LIBID	0.60	0.55	0.50	0.45	0.40	0.40	0.40	0.40
12 Month LIBID	0.75	0.70	0.65	0.60	0.55	0.55	0.55	0.55
5yr PWLB Rate	1.90	1.90	1.90	2.00	2.00	2.00	2.10	2.10
10yr PWLB Rate	2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30
25yr PWLB Rate	2.50	2.50	2.50	2.60	2.60	2.60	2.70	2.70
50yr PWLB Rate	2.30	2.30	2.30	2.40	2.40	2.40	2.50	2.50

The above table is based on PWLB certainty rates – gilt yields plus 180bps.

Uncertainty over Brexit caused the MPC to leave Bank Rate unchanged during 2019 and at its January 2020 meeting. However, since then the coronavirus outbreak has transformed the economic landscape: in March, the MPC took emergency action twice to cut Bank Rate first to 0.25%, and then to 0.10%. It is now unlikely to rise for the next two years pending a protracted recovery of the economy from this huge set back.

The assumption is that there will be some form of muddle through agreement on a reasonable form of Brexit trade deal but the coronavirus outbreak could affect the timing of reaching a deal. As there is so much uncertainty around the impact of, and pace of recovery from this outbreak, the above forecasts currently only cover two years, not three as provided in the past.

However, HM Treasury imposed two changes of **margins over gilt yields for PWLB rates** in 2019-20 without any prior warning; the first on 9 October 2019, added an additional 1% margin over gilts to all PWLB rates. That increase was then at least partially reversed for some forms of borrowing on 11 March 2020, but not for mainstream General Fund capital schemes, at the same time as the Government announced in the Budget a programme of increased spending on infrastructure expenditure. It also announced that there would be a consultation with local authorities on possibly further amending these margins; this was to end on 4 June but the date has since been put back to 31 July. It is clear that the Treasury will no longer allow local authorities to borrow money from the PWLB to purchase commercial property if the aim is solely to generate an income stream (assets for yield).

Following the changes on 11 March 2020 in margins over gilt yields, the current situation is as follows: -
PWLB Standard Rate is gilt plus 200 basis points (G+200bps)
PWLB Certainty Rate is gilt plus 180 basis points (G+180bps)
PWLB HRA Standard Rate is gilt plus 100 basis points (G+100bps)
PWLB HRA Certainty Rate is gilt plus 80bps (G+80bps)
Local Infrastructure Rate is gilt plus 60bps (G+60bps)

As the interest forecast table for PWLB certainty rates (gilts plus 180bps) above shows, there is likely to be little upward movement in PWLB rates over the next two years as it will take economies a prolonged period to recover all the momentum they will lose in the sharp recession that will be caused during the coronavirus shut down period. Inflation is also likely to be very low during this period and could even turn negative in some major western economies during 2020-21.

5.4 **Annual Investment Strategy**

The Treasury Management Strategy Statement (TMSS) for 2020/21 which includes the Annual Investment strategy, was approved by the Full Council on Wednesday, 19th February. 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 2020, except for the balance held with Lloyds Bank, which exceeded the £5m limit for 43 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	-0.04%	0.04%	£1,874.15

The Council outperformed the benchmark by 0.08%. The budgeted investment return for 2020/21 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 Short Term Borrowing				
Start Date	Counterparty	Amount	Interest Rate %	End Date
21-05-20	Sevenoaks District Council	3.0	0.55	23-11-20
21-05-20	North Yorkshire County Council	5.0	0.55	23-11-20
29-06-20	PCC Gwent	5.0	0.14	30-10-20
Total		**13.0**		
Less Short Term Borrowing Repaid				
Repayment Date	Counterparty	Amount	Interest Rate	No of Days
26-05-20	Oxfordshire CC	3.0	0.87	183
19-06-20	GLA Fund for LTL London	9.0	0.90	183
Total		**12.0**		
Net New Short Term Borrowing during quarter		**1.0**		

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 **Debt Rescheduling**

Debt rescheduling opportunities have been limited in the current economic climate and following the various increases in the margins added to gilt yields which has impacted PWLB new borrowing rates since October 2010. During the quarter ended 30 June 2020 no debt rescheduling was undertaken.

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 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.

5.9 **Climate change and environmental implications**

Treasury management is a Council-wide function and its climate change, environmental and sustainability implications are the same as for the Council itself. The Council and its TM Advisors will have regard to the environmental activities of its Counterparties (where reported) but: -

Prioritises Security, Liquidity and Yield,

Recognises that as large, global institutions our high-quality counterparties operate across the full range of marketplaces in which they are legally able to, and as a result climate change considerations are an increasingly important and heavily-scrutinised part of their overall business.

Excluding any one counterparty will likely mean others will similarly have to be avoided and thus impact the Council's capacity to mitigate risk through diversification.

5.10 **Covid-19 crisis**

The projection of gradual rises in interest rates that formed the Bank of England Monetary Policy Committee's guidance at the start of the period eased through the year and then evaporated entirely with the onset of the Covid-19 crisis. As the Council's borrowing rates are directly linked to market expectations this gives rise to the potential that our borrowing rates will remain close to all-time lows for some time. With the Council's Capital Programme and re-financing commitments over the next few years, our ability to secure good value in our borrowing has significant implications for the spending plans of Council as a whole. This ability will be affected by the outcome of the current consultation by Public Works Loan Board (PWLB) on how it offers debt to the sector. Potentially this may mean some reversal of the PWLB's 1% margin hike imposed in October 2019. At the time of writing any such reversal is by no means certain and so our central borrowing strategy remains one of undertaking regular transactions in order to lock in current rates to fulfil our long-term borrowing requirement. Timing will be managed through a portfolio of short-term debt and we will seek to add new sources of borrowing while PWLB's margin remains competitive.