Part B

Financial Performance Q1 2021/22

1.0 General Fund

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

	Current Budget £'000	Profiled Budget £'000	Actual to 30 June 2021 £'000	Variance to date £'000
SUMMARY				
Corporate Services	4,104	1,412	1,388	(24)
Service Delivery	9,258	2,022	1,703	(319)
Regeneration & Planning	606	116	462	346
Tourism & Enterprise	3,853	1,162	1,112	(50)
Net Cost of Services	**17,821**	**4,712**	**4,665**	**(47)**
Levy (Pevensey)	229	119	119	0
Contingency (yearend adj)	250	0	0	0
Reserves (yearend adj)	6	0	0	0
Capital Financing and Interest	2,318	(7)	(7)	0
Recovery & Reset Costs/Redundancy Provision	1,850	150	150	0
Corporate Savings (included in R&R savings)	(438)	0	0	0
Income Recovery- estimate	(300)	0	0	0
Capitalisation Direction (yearend adj)	(6,000)	0	0	0
Recovery & Reset Savings	(850)	0	0	0
Net Expenditure	**14,886**	**4,824**	**4,777**	**(47)**
Financing				
Council Tax	(8,911)	(2,228)	(2,228)	0
Business Rates	(5,057)	(1,264)	(1,264)	0
Government Grants	(918)	(304)	(304)	0
Total Financing	**(14,886)**	**(3,796)**	**(3,796)**	**0**
(Surplus)/Deficit	**0**	**1,028**	**981**	**(47)**
			Net Variance	**(47)**

1.2 The position at the end of June shows a net saving of £0.047m. Key variances are set out in the following table:

	Net Full year Budget £000's	Q1 Variance to Profiled Budget £000's	Total Q1 Variance £000's
Corporate Services			
IT - salaries	689	(24)	(24)
Service Delivery			
Account Management - salaries	477	(73)	
Summons Cost/Liability Order income shortfall	(475)	137	
Licensing income shortfall	(226)	16	
Crematoria income shortfall	(1,610)	28	
B&B Accommodation – net reduction in spend	616	(185)	
Case Management – salaries	434	(97)	
Neighbourhood First – salaries	328	(13)	
Car parks – business rates	46	13	
Homes First – agency staffing	0	22	
Neighbourhood Management – agency staffing/salaries	468	15	
Retirement Housing Team – salaries/car allowances	220	(29)	
Housing Property Services – agency staffing/salaries	456	(14)	
Specialist Advisory – salaries	903	(117)	
Green Waste – additional income	(689)	(22)	(319)
Regeneration & Planning			
Property - salaries	272	(24)	
Corporate Landlord – business rates	61	6	
Investment Properties – R&M/business rates/rental income	(2,147)	435	
Housing Delivery Team – salaries	431	(8)	
Development Control – salaries	194	62	
Development Control – additional fee income	(229)	(104)	
Planning Policy – salaries	224	(16)	
Regeneration - salaries	110	(5)	346
Tourism and Culture			
Theatre Management – salaries	262	(65)	
Stage Door – mainly income shortfall	(436)	38	
Edge Catering – income shortfall	(158)	12	
Edge Golf – additional income	(195)	(57)	
Black Robin Farm – contract cleaning costs	0	10	
Theatre Operations Team - salaries	210	(31)	
Devonshire Park – business rates	0	13	
The Pavilion – income shortfall	(113)	8	
Conferences – mainly salaries	261	(27)	
Congress Theatre catering – net income shortfall	(39)	13	
Devonshire Park catering – net income shortfall	(44)	11	
Winter Garden Kitchen – net income shortfall	(80)	18	
ILTC Kitchen – net income shortfall	(27)	7	(50)
		NET SAVING	**(47)**

1.3 The above analysis shows that at the end of June there are net salary savings of £444k, offset by net income shortfalls of £491k and additional cost savings of £94k.

1.4 It is still anticipated that the income recovery claim of c.£300k will still be achieved, as the relevant income losses shown above are measured against the pre-Covid 2020/21 budgets. The guidance and claim form for 2021/22 is still to be issued by MHCLG but is expected soon.

1.5 The above analysis is focused on the net cost of services and excludes the latest Recovery & Reset savings of £2.391m and the net Cultural Recovery Fund grant of £1.300m, and other anticipated changes. The updated Medium Term Financial Strategy report, elsewhere on this agenda, provides an overall revised position for this year and forecasts for the following three years.

1.6 As summary of the expected revised position is as follows:

	2021/22 Current Budget £000's	**2021/22 Revised Forecast £000's**
Original Net Cost of Services Budget	**17,821**	**17,821**
Net Cost of Services variances at Q1	-	(47)
Forecast changes to year end *(see note)*	-	708
Revised Net Cost of Services Variance	**17,821**	**18,482**
Capital Financing & Interest	2,318	2,318
Levy (Pevensey)	229	229
Contingency	250	250
Reserves	6	0
Cultural Recovery Fund *(gross amount – see note)*	0	(1,800)
Recovery & Reset Saving	(850)	(2,391)
Removal of R&R Set up Costs/Redundancy Provision	1,850	0
Removal of savings now incorporate in R&R Savings	(438)	0
Income Recovery	(300)	(300)
Full application of Emergency Covid-19 grant	(598)	0
Capitalisation Direction	**(6,000)**	**(2,500)**
Net Revenue Expenditure	**14,288**	**14,288**

Note: The Cultural Recovery Fund grant is shown gross in the above table, and additional costs of £500k have been included in the Tourism & Culture net cost of services. In addition, it is expected that income losses will continue to a degree and that salary savings will reduce as posts are filled resulting in a net pressure of £708k to the year end.

1.7 Based on the information to date, the above table shows the expected use of the capitalisation direction is likely to be reduced by £3.5m to £2.5m mainly as a result of the additional R&R savings, Cultural Recovery Fund grant and reduced need for the R&R set up/redundancy provision. The position is positive at this stage, however it is heavily reliant on the delivery of savings from the Recovery and Reset Programme. The position continues to be monitored on a regular basis and future updates will be incorporated into the quarterly monitoring and budget reports.

2.0 HRA

2.1 HRA performance of the quarter is as follows:

	Full Year Budget £'000	Profiled Budget £'000	Actual to 30 June 2021 £'000	Variance to date £'000
HRA				
Income	(15,819)	(3,955)	(3,963)	(8)
Expenditure	13,866	2,011	1,990	(21)
Capital Financing & Interest	1,564	0	0	0
Contribution to Reserves	389	0	0	0
Total HRA	**0**	**(1,944)**	**(1,973)**	**(29)**

There is a positive variance of £29k at the end of quarter 1. The main variance relates to a £21k underspend on the supervision and management costs. A further breakdown is shown at **Appendix 1**.

3.0 Capital Expenditure

3.1 The detailed capital programme at **Appendix 2,** provides a summary of spend for quarter 1 compared to the budget for 2021/22 and the total spend for each scheme as at 30 June. Current spend totals £13.443m against the latest programme of £54.858m. 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
(Surplus)/Deficit Brought Forward 01 April 2021	**(505)**	**27,858**
Total Collectable Income for year*	(74,566)	(29,663)
Net Payments to Preceptors	73,332	11,768
Write offs, provisions for bad debts and appeals	910	995
Additional Business Rate Relief s31 grant	-	(8,806)
Estimated Balance 31 March 2021 – (Surplus) / Deficit	**(829)**	**2,152**
Allocated to:		
Government	-	1,076
East Sussex County Council	(606)	194
Eastbourne Borough Council	(101)	861
Sussex Police	(84)	-
East Sussex Fire & Rescue	(38)	21
	(829)	**2,152**

** This represents the latest total amount of income due for the year and allows for changes as a result of discounts, exemptions and reliefs, as well as increases in the Council Tax and Business Rate bases.*

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 have now been finalised for 2021/22 in line with the above allocations.

4.4 Council Tax is showing a surplus of £829k for the quarter, which represents an in-year improvement of £324k after allowing for the brought forward surplus of £505k. The Council's share of the overall forecast surplus is £101k.

4.5 There is a Business Rates deficit of £2.152m at the end of June, of which the Council's share is £861k. The position is changing on a monthly basis as the impact of reliefs and s31 grants are applied, and a more accurate position will be known when the final surplus or deficit position is formally set in January 2022.

5.0 Treasury Management

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

5.2 Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2021/22 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 2021. 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.

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

Benchmark	Benchmark Return	Council Performance	Interest Earning
7-day LIBID	-0.08%	0.04%	£1,800

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.

5.4 **Borrowing**

The following loan was taken during the quarter:

New Short-Term Borrowing				
Start Date	Counterparty	Amount £'m	Interest Rate %	End Date
21-05-21	West Midlands Combined Authority	10.0	0.07	21-01-22
Total		**10.0**		
Less Short-Term Borrowing Repaid				
Repayment Date	Counterparty	Amount	Interest Rate	No of Days
10-May-21	Gwynedd Council	5.0	0.3	89
24-May-21	Hertfordshire County Council	7.0	0.10	182
Total		**12.0**		
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.

5.5 **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 2021 no debt rescheduling was undertaken.

5.6 **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.

5.7 **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 it's 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.

5.8 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. 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.

5.9 Interest Rate Forecasts

The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012.

The latest forecasts on 10th May is shown below. A comparison of forecasts shows that PWLB rates have increased marginally and there is also now a first increase in Bank Rate from 0.10% to 0.25% in quarter 2 of 2023/24.

Link Group Interest Rate View	10.5.21											
	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.25	0.25	0.25
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.30	0.30	0.30
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.20	0.30	0.40	0.40	0.40
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.30	0.30	0.40	0.50	0.50	0.50
5 yr PWLB	1.20	1.20	1.30	1.30	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50
10 yr PWLB	1.70	1.70	1.70	1.80	1.80	1.90	1.90	1.90	2.00	2.00	2.00	2.00
25 yr PWLB	2.20	2.20	2.30	2.40	2.40	2.40	2.50	2.50	2.50	2.50	2.50	2.60
50 yr PWLB	2.00	2.00	2.10	2.20	2.20	2.20	2.30	2.30	2.30	2.30	2.30	2.40

The coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings, although some forecasters had suggested that a cut into negative territory could have happened prior to more recent months when strong recovery started kicking in. However, the minutes of the Monetary Policy Committee in February 2021 made it clear that commercial banks could not implement negative rates within six months; by that time the economy would be expected to be recovering strongly and so there would be no requirement for negative rates.

As shown in the forecast table above, one tentative increase in Bank Rate from 0.10% to 0.25% has now been pencilled in for quarter 2 of 2023/24 as an indication that the Bank of England will be moving towards some form of monetary tightening around this time. However, it could well opt for reducing its stock of quantitative easing purchases of gilts as a first measure to use before increasing Bank Rate so it is quite possible that we will not see any increase in Bank Rate in the three-year forecast period shown.

Significant risks to the forecasts

- COVID vaccines do not work to combat new mutations and/or new vaccines take longer than anticipated to be developed for successful implementation.
- The lockdowns cause major long-term scarring of the economy.
- The Government implements an austerity programme that supresses GDP growth.
- The MPC raises tightens monetary policy too early – by raising Bank Rate or unwinding QE.
- The MPC tightens monetary policy too late to ward off building inflationary pressures.
- Major stock markets e.g. in the US, become increasingly judged as being over-valued and susceptible to major price corrections.
- Geo-political risks are widespread e.g. German general election in September 2021 produces an unstable minority government and a void in high-profile leadership in the EU.

GILT YIELDS / PWLB RATES. There was much speculation during the second half of 2019 that bond markets were in a bubble which was driving bond prices up and yields down to historically very low levels. The context for that was heightened expectations that the US could have been heading for a recession in 2020. In addition, there were growing expectations of a downturn in world economic growth, especially due to fears around the impact of the trade war between the US and China, together with inflation generally at low levels in most countries and expected to remain subdued. Combined, these conditions were conducive to very low bond yields.

While inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers. This means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. The consequence of this has been the gradual lowering of the overall level of interest rates and bond yields in financial markets. Over the year prior to the coronavirus crisis, this resulted in many bond yields up to 10 years turning negative in the Eurozone. In addition, there was, at times, an inversion of bond yields in the US whereby 10-year yields fell below shorter-term yields. In the past, this has been a precursor of a recession.

Gilt yields had, therefore, already been on a generally falling trend up until the coronavirus crisis hit western economies during March 2020. After gilt yields initially spiked upwards in March, yields fell sharply in response to major western central banks taking rapid policy action to deal with excessive stress in financial markets during March and starting massive quantitative easing driven purchases of government bonds: these actions also acted to put downward pressure on government bond yields at a time when there was a huge and quick expansion of government expenditure financed by issuing government bonds. Such unprecedented levels of issuance in "normal" times would have caused bond yields to rise sharply.

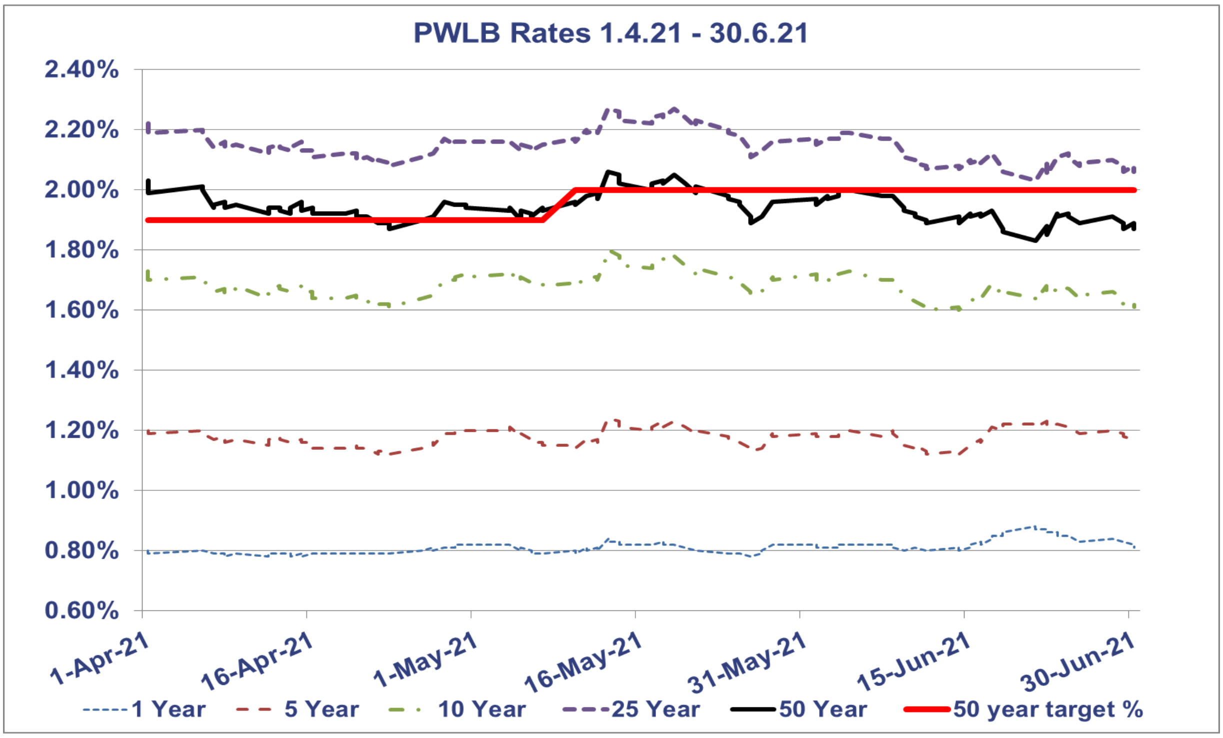
The current PWLB rates are set as margins over gilt yields as follows: -

- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
- **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 80bps), above shows, there is likely to be little upward movement in PWLB rates over the next three years as the Bank of England is not expected to raise Bank Rate above 0.25% during that period as inflation is not expected to be sustainably over 2%.

5.10 **PWLB maturity certainty rates year to date to 30th June 2021**

Gilt yields and PWLB rates rose sharply during the first three months of 2021 but have lacked any consistent direction since then over the last three months to 30th June. The 50-year PWLB target certainty rate for new long-term borrowing started at 1.90% in this quarter but then rose to 2.00% in May.



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	0.78%	1.12%	1.60%	2.03%	1.83%
Date	08/04/2021	22/04/2021	11/06/2021	21/06/2021	21/06/2021
High	0.88%	1.24%	1.80%	2.27%	2.06%
Date	21/06/2021	13/05/2021	13/05/2021	13/05/2021	13/05/2021
Average	0.81%	1.18%	1.68%	2.14%	1.94%
Spread	0.10%	0.12%	0.20%	0.24%	0.23%

5.11 **Outlook for the remainder of 2021/22**

The medium-term global economic outlook has continued to improve with the rollout of vaccination programmes. The UK has continued to benefit from its initial rapid vaccine rollout and has shifted focus onto second vaccinations to increase protection to counter a third wave of COVID-19 variant.

The opening up of the UK economy in Q2/Q3 will continue to prompt a sharp increase in GDP. While downside risks seem to have fallen somewhat after recent trends in GDP and labour, the upside risks remain relatively balanced with the MPC reiterating its commitment not to tighten policy until there is clear evidence that the recovery is eliminating spare capacity in the economy.

Inflation has moved above the Bank of England's 2% target. Alongside the increase in commodity prices, the MPC has acknowledged the prospect of a sharper upturn in inflation, with the potential CPI could rise above 3% in the coming months. However, the nature of the commodity price rise and the base effect easing, this is likely a more transitory effect.

Upward pressure on gilt yields could continue in the short term due to the preponderance of strong data, but this is likely to ease once inflation fears recede as the effect of weak base effects subsides and growth figures return to more normal levels. Bank Rate is expected to remain at the current 0.10% level. The risk of movement in Bank Rate in the short term is low.

Gilt yields could continue to increase in the short term but will begin to plateau and reduce once the market's expectation of rises in Bank Rate and inflation fears subside. Longer term yields may face upward pressure towards the end of the forecast period as the economy moves back to a sustained footing and policy expectations start to strengthen.

Downside risks remain – the damage from the pandemic will have lasting effects and there is the risk of further virus mutations due to the uneven global rollout of vaccines. Downside risks also arise from potential future vaccine shortages as the global demand for vaccines increases.