

Part B

Financial Performance Q2 2021/22

1.0 General Fund

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

	Current Budget	Profiled Budget	Actual to 30 Sept 2021	Variance to date
	£'000	£'000	£'000	£'000
SUMMARY				
Corporate Services	4,104	2,543	2,533	(491)
Service Delivery	9,258	5,171	3,941	(906)
Regeneration & Planning	606	56	690	638
Tourism & Enterprise	3,853	1,925	1,914	159
Net Cost of Services	17,821	9,695	9,078	(600)
Levy (Pevensey)	229	119	119	0
Contingency (year-end adj)	250	0	0	0
Reserves (year-end adj)	6	0	0	0
Capital Financing/Interest (R&R)	2,318	(7)	(7)	0
Costs/Redundancy Provision	1,850	386	386	0
Corporate Savings (R&R)	(438)	0	0	0
Income Recovery- estimate	(300)	(300)	(839)	(539)
Capitalisation Direction	(6,000)	0	0	0
Net Expenditure	15,736	9,893	8,737	(1,139)
Financing				
Council Tax	(8,911)	(4,455)	(4,455)	0
Business Rates	(5,057)	(2,528)	(2,528)	0
Government Grants	(918)	(459)	(459)	0
Total Financing	(14,886)	(7,442)	(7,442)	0
(Surplus)/Deficit	0	2,451	1,295	(1,139)
			Net Variance	(1,139)

1.2 The position at the end of September shows a net surplus of £1.139m. Key variances for the Net Cost of Services are set out in the following table:

	Net Full year Budget £000's	Profiled Q2 Variance £000's	Total Q2 Variance £000's
Corporate Services			
IT – salaries	689	(8)	
IT – network costs	284	95	
Corporate R&R savings	850	(559)	
CMT savings	438	(26)	
Finance – insurance claims	27	7	(491)
Service Delivery			
Account Management - salaries	477	123	
Licensing additional income	(226)	(19)	
Crematoria income shortfall	(1,610)	57	
B&B Accommodation – net reduction in spend	616	(140)	
Case Management – salaries	434	(261)	
Neighbourhood First – salaries	328	(57)	
Public Conveniences – contract reduction	390	(56)	
Homes First – agency staffing	0	60	
CF Functional Leads	0	40	
Customer Contact Team	1,761	(36)	
Specialist Advisory – salaries	903	(68)	
HB Subsidy underspend	2,004	(394)	
Summons Cost Income	(216)	(102)	
Green Waste – additional income	(689)	(53)	(906)
Regeneration & Planning			
Property - salaries	272	(50)	
Corporate Landlord – business rates	61	45	
Investment Properties – NNDR/rental income	(2,147)	659	
Housing Delivery Team – salaries	431	(13)	
Development Control – salaries	194	143	
Development Control – additional fee income	(229)	(113)	
Planning Policy – salaries	224	(30)	
Regeneration – salaries	110	(3)	638
Tourism and Culture			
Director of Tourism – salary saving	108	(23)	
Stage Door – staffing costs	(73)	57	
EDGC Catering – staffing costs	(5)	21	
EDGC Golf – additional income	48	(60)	
Theatre Operations Team - salaries	155	13	
Devonshire Park Grounds– operational costs	272	3	
Heritage Eastbourne – income shortfall	50	40	
Professional Tennis – increased costs	52	10	
Airbourne – net saving	145	(137)	
Sovereign Centre – net saving	258	(41)	
Bandstand – income shortfall	(162)	155	
Beach and Sea bathing – staff costs	8	3	
Redoubt Event – reduced income	(9)	29	
The Pavilion – increased operating costs	6	40	
Conferences – salaries	304	(36)	
Winter Garden Kitchen – income shortfall	(80)	71	
ILTC Kitchen – net income shortfall	(28)	14	159
NET COST OF SERVICES SURPLUS			(600)

- 1.3 The recent announcement regarding the removal of the public sector pay freeze will impact the budget outturn position further. During the medium-term financial planning process for 2021/22 no additional funding was factored in for pay inflation. Any new pay agreements will be partially funded by the £250k contingency currently available. Any additional costs will be reflected in the outturn.

1.4 The Cultural Recovery Fund grant of £1.3m and its associated budgets remain outside of the General Fund monitor. An update of that expenditure and grant usage will be provided at the Q3 update.

2.0 HRA

2.1 HRA performance of the quarter is as follows:

	Full Year Budget	Profiled Budget	Actual to 30 Sept 2021	Variance to date
	£'000	£'000	£'000	£'000
HRA				
Income	(15,819)	(35)	(35)	0
Expenditure	13,866	4,215	4,075	(141)
Capital Financing & Interest	1,564	0	0	0
Contribution to Reserves	389	0	0	0
Total HRA	0	4,180	4,040	(141)

There is a positive variance of £141k at the end of quarter 2. The main variance relates to a £141k 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 2 compared to the budget for 2021/22 and the total spend for each scheme as of 30 September. The current expenditure totals £17.6m against the latest programme of £54.8m. 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	Business Rates
	£'000	£'000
(Surplus)/Deficit Brought Forward 01 April 2021	(505)	27,858
Total Collectable Income for year*	(74,655)	(28,520)
Net Payments to Preceptors	73,332	11,767
Write offs, provisions for bad debts and appeals	832	327
Additional Business Rate Relief s31 grant	-	(11,784)
Estimated Balance 31 March 2022 – (Surplus) / Deficit	(996)	(352)
Allocated to:		
Government	-	(176)
East Sussex County Council	(728)	(32)
Eastbourne Borough Council	(121)	(141)
Sussex Police	(101)	-
East Sussex Fire Authority	(46)	(3)
	(996)	(352)

** 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 £996k for the quarter, which represents an in-year improvement of £167k after allowing for the brought forward surplus of £505k. The Council's share of the overall forecast surplus is £121k.

4.5 There is a Business Rates surplus of £0.352m at the end of September, of which the Council's share is £141k. 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.

Approved limits within the Annual Investment Strategy were not breached during the period ending 31 October 2021, except for the balance held with Lloyds Bank, which exceeded the £5m limit for 13 days during the period.

5.3 Investment performance for the quarter ending 31 October is as follows:

Benchmark	Benchmark Return	Council Performance	Interest Earning
7-day LIBID	-0.08%	0.04%	£2,500

The budgeted investment return for 2021/22 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 TM Borrowing – Q2 2021/22

In taking borrowing decision, the Council carefully considered achieving best value, the risk of having to borrow at higher rates at a later date, the carrying cost of the difference between interest paid on such debt and interest received from investing funds which would be surplus until used, and that the Council could ensure the security of such funds placed on temporary investment.

- **Rescheduling** – no debt rescheduling was carried out during the quarter as there was no financial benefit to the Council.
- **Repayment** – None

Borrowing – The Council has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed. No new loans were drawn down from PWLB (Public Works Loan Board) during the quarter to fund the net unfinanced capital expenditure and/or to replace maturing loans. Various temporary loans were taken to cover cash flow requirements. All loans drawn were for fixed rate as detailed within the table below.

Lender - Temp Debt	£m	Start Date	End Date	Rate
				%
Loans held:				
North Yorkshire County Council	5.0	23-Nov-20	22-Nov-21	0.25
North Yorkshire County Council	5.0	24-Nov-20	23-Nov-21	0.25
Northern Ireland Housing Executive	7.0	20-Sep-21	20-Jun-22	0.07
West Midlands Combined Authority	10.0	21-May-21	21-Jan-22	0.07
Loans repaid:				
Wokingham Borough Council	10.0	15-Mar-21	15-Sep-21	0.12

5.5 **Debt Rescheduling**

Debt rescheduling opportunities have been very limited in the current economic climate and following the various increases in the margins added to gilt yields which have impacted PWLB new borrowing rates since October 2010. As short-term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt.

However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred). The reasons for any rescheduling to take place will include:

- The generation of cash savings and / or discounted cash flow savings;
- Helping to fulfil the treasury strategy;
- Enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt. No debt rescheduling has therefore been undertaken to date in the current financial year.

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 31 October 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 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.

5.8 Interest Rate Forecasts

The Council 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 forecast on 29th September is compared below to the previous forecast on 10th May. A comparison of these forecasts shows that some PWLB rates have increased marginally and there are now three increases in Bank Rate, to end at 0.75%, instead of one to only 0.25%. However, many PWLB rates were significantly lower than forecast during the earlier part of quarter 2.

Link Group Interest Rate View		29.9.21									
		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	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.75
3 month ave eamings		0.10	0.10	0.20	0.20	0.30	0.40	0.50	0.50	0.60	0.70
6 month ave eamings		0.20	0.20	0.30	0.30	0.40	0.50	0.60	0.60	0.70	0.80
12 month ave eamings		0.30	0.40	0.50	0.50	0.50	0.60	0.70	0.80	0.90	1.00
5 yr PWLB		1.40	1.40	1.50	1.50	1.60	1.60	1.60	1.70	1.70	1.70
10 yr PWLB		1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10
25 yr PWLB		2.20	2.20	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.60
50 yr PWLB		2.00	2.00	2.10	2.20	2.20	2.20	2.20	2.30	2.30	2.40

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 eamings		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 eamings		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 eamings		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.

Forecasts for Bank Rate

Bank Rate is not expected to go up fast after the initial rate rise as the supply potential of the economy has not generally taken a major hit during the pandemic, so should be able to cope well with meeting demand without causing inflation to remain elevated in the medium-term, or to inhibit inflation from falling back towards the MPC's 2% target after the surge to around 4% towards the end of 2021. Three increases in Bank rate are forecast in the period to March 2024, ending at 0.75%. However, these forecasts may well need changing within a relatively short time frame for the following reasons: -

- There are increasing grounds for viewing the economic recovery as running out of steam during the summer and now into the autumn. This could lead into stagflation which would create a dilemma for the MPC as to which way to face.
- Will some current key supply shortages e.g., petrol and diesel, spill over into causing economic activity in some sectors to take a significant hit?
- Rising gas and electricity prices in October and next April and increases in other prices caused by supply shortages and increases in taxation next April, are already going to deflate consumer spending power without the MPC having to take any action on Bank Rate to cool inflation.
- On the other hand, consumers are sitting on around £200bn of excess savings left over from the pandemic so when will they spend this sum, in part or in total?
- There are 1.6 million people coming off furlough at the end of September; how many of those will not have jobs on 1st October and will, therefore, be available to fill labour shortages in many sectors of the economy? So, supply shortages which have been driving up both wages and costs, could reduce significantly within the next six months or so and alleviate the MPC's current concerns.
- There is a risk that there could be further nasty surprises on the COVID-19 front, on top of the flu season this winter, which could depress economic activity.

In summary, with the high level of uncertainty prevailing on several different fronts, it is likely that these forecasts will need to be revised again soon - in line with what the new news is. It also needs to be borne in mind that Bank Rate being cut to 0.10% was an emergency measure to deal with the COVID-19 crisis hitting the UK in March 2020. At any time, the MPC could decide to simply take away that final emergency cut from 0.25% to 0.10% on the grounds of it no longer being warranted and as a step forward in the return to normalisation. In addition, any Bank Rate under 1% is both highly unusual and highly supportive of economic growth.

Forecasts for PWLB rates and gilt and treasury yields

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

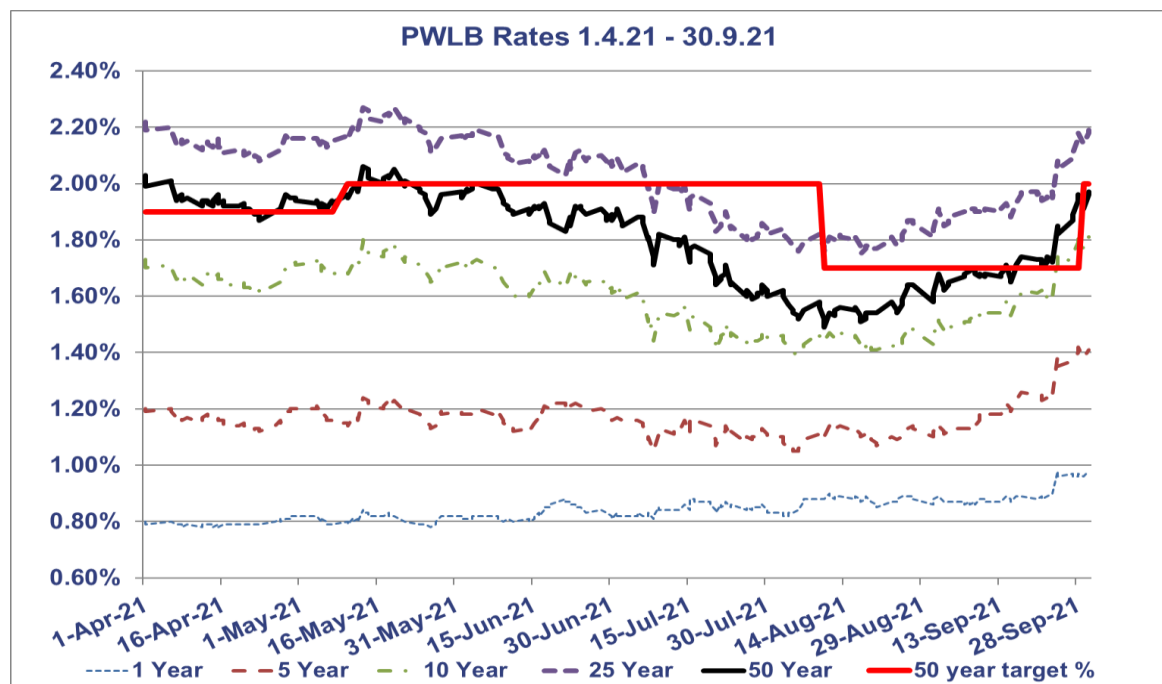
- PWLB Standard Rate is gilt plus 100 basis points (G+100bps)
- PWLB Certainty Rate is gilt plus 80 basis points (G+80bps)
- PWLB HRA Standard Rate is gilt plus 100 basis points (G+100bps)
- PWLB HRA Certainty Rate is gilt plus 80bps (G+80bps)
- Local Infrastructure Rate is gilt plus 60bps (G+60bps).

Gilt yields. Since the start of 2021, we have seen a lot of volatility in gilt yields, and hence PWLB rates. During September, gilt yields from 5 – 50 years have steadily risen and rose further after the hawkish tone of the MPC's minutes last week. Our forecasts show a steady, but slow, rise in both Bank Rate and gilt yields during the forecast period to March 2024. While monetary policy in the UK will have a major impact on gilt yields, there is also a need to consider the potential impact that rising treasury yields in America could have on gilt yields.

There are also possible DOWNSIDE RISKS from the huge sums of cash that the UK populace have saved during the pandemic; when savings accounts earn little interest, it is likely that some of this cash mountain could end up being invested in bonds and so push up demand for bonds and support their prices i.e., this would help to keep their yields down. How this will interplay with the Bank of England eventually getting round to not reinvesting maturing gilts and then later selling gilts, will be interesting to keep an eye on.

5.9 PWLB maturity certainty rates year to date to 30th September 2021

Gilt yields and PWLB rates were on a falling trend between May and August. However, they rose sharply towards the end of September. The 50-year PWLB target certainty rate for new long-term borrowing started 2021/22 at 1.90%, rose to 2.00% in May, fell to 1.70% in August and returned to 2.00% at the end of September after the MPC meeting of 23rd September.



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	0.78%	1.05%	1.39%	1.75%	1.49%
Date	08/04/2021	08/07/2021	05/08/2021	17/08/2021	10/08/2021
High	0.98%	1.42%	1.81%	2.27%	2.06%
Date	24/09/2021	28/09/2021	28/09/2021	13/05/2021	13/05/2021
Average	0.84%	1.16%	1.60%	2.02%	1.81%
Spread	0.20%	0.37%	0.42%	0.52%	0.57%

5.10 Budget and Outlook for the remainder of 2021/22

Chancellor Rishi Sunak outlined his budget in October 2021, outlining the government's tax and spending plans for the year ahead. The Government were trying to push ahead with a post-COVID-19 focus. The Chancellor outlined the current situation in the economy and the state of public finances. It wasn't as grim listening as some forecasters had expected, however there were some still rather punchy numbers issued by the Office for Budget. The remainder of the budget speech focused on adjustments to universal credit taper rate, a confirmation of business rates and the associated reform, and significantly an increase to the national living wage of 6.6% to £9.50/hour.

Government spending is set to increase totalling £150 billion over the course of this Parliament. The Levelling Up fund will mean £1.7bn invested in local areas across the UK. Various tax adjustments including tax relief for museums, alcohol duty changes and domestic air travel. In what some will consider a boost for the housing market, £24bn has been earmarked for housing, including £11.5bn for up to 180,000 affordable homes, with brownfield sites targeted for development. Also included was a 4% levy on high rise property developer with profits over £25 million to help fund the removal of unsafe cladding.

Ahead is a significant engagement for climate action, the COP26 conference in Glasgow will see leaders from around the world agree on climate action. Releases should indicate the direction of motion for agreements to come.