Part B

Financial Performance Q1 2017/18

1.0 General Fund

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

Department	Full Year Budget £'000	Profiled Budget £'000	Actual to 30th June 2017 £'000	Variance to date £'000
SUMMARY				
Corporate Services	5,763	2,317	2,359	42
Service Delivery	6,394	14,473	14,447	(26)
Regeneration, Planning & Assets	(1,322)	482	512	30
Tourism & Enterprise Services	3,766	969	961	(8)
Total Service Expenditure	**14,601**	**18,241**	**18,279**	**38**
Contingencies, etc	(793)	19	1	(18)
Capital Financing and Interest	1,868	52	52	-
Contributions to/(from) Reserves	(1,143)	-	-	-
Net Expenditure	**14,533**	**18,312**	**18,332**	**20**

Service Details are shown at **Appendix 2.**

1.2 The position at the end of June shows a small variance of £38,000 on service expenditure. This relates to several areas of minor under and over spends which are being carefully monitored.

1.3 The contingency fund currently stands at £78,250 which is available to fund inflationary increases and any future unforeseen one off areas of expenditure during the year. This may however be required to fund any underachievement in the JTP savings target for the year if financial benefits from the programme are delayed.

1.4 Financial procedure rules require all virement requests over £10,000 for revenue expenditure to be approved by Cabinet. Members are asked to note the following virement which has been submitted to Cabinet for approval:

Amount	**From**	**To**	**Description**
£35,700	Western View	MRP	Western View Invest to Save - year 5 17/18 MRP

2.0 HRA

2.1 HRA performance of the quarter is as follows:

	Current Budget £'000	Profiled Budget £'000	Actual to 30 Jun 2017 £'000	Variance to date £'000
HRA				
Income	(15,551)	(4,071)	(4,080)	(9)
Expenditure	12,617	1,831	1,809	(22)
Capital Financing & Interest	1,885	-	-	-
Contribution to Reserves	1,049	-	-	-
Total HRA	**-**	**(2,240)**	**(2,271)**	**(31)**

A further breakdown is shown at **Appendix 3**.

2.2 HRA performance shows a favourable variance of (£31,000), which is mainly due to the under occupation scheme (£16K). Other small variances are being carefully monitored.

3.0 Capital Expenditure

3.1` The detailed capital programme at **Appendix 4**, provides a summary of the spend for quarter 1 compared to the allocation for 2017-18 and the total spend for each scheme as at 31.3.17. Brief comments are provided for each scheme and more detailed comments are provided below for larger schemes.

3.2 The Capital Programme for 2017-18 totals £76.1m compared to £76.7m approved at Cabinet in July 2017. The reduction relates to changes to the HRA New Build Phase 2 & HRA Empty Homes Phase 2 (£319k) and the removal of the Princes Park Fit Out (£260k).

3.3 At the start of the Wish Tower project, the cost consultants identified that there was a tension between the aspirations for the building and the budget. However, following a process of value engineering the costs have been reduced to a more realistic level. The new cost of the building (to include all fees) is £1,800,000. It is proposed that the Council funds the gap of £600,000 between the Pier Grant (£1,200,000) and the building cost, from the capital programme allocation for acquisition of land and property. This additional investment will be covered by the revenue earned from the rent of the building as Heads of Terms have been agreed with Bistrot Pierre.

3.4 Detailed comments on larger schemes:

Line No.	Comment
64	Future Model phase 2 - The remaining budget for this project relates to outstanding deliverables from the principle software supplier. Some of these deliverables will now be managed through the Joint Transformation Programme (JTP) but once delivered, will trigger payments against the original project. The budget will be fully spent by year end.

66	IT – Block Allocation - Significant investment will take place this year in storage systems, additional server capacity and replacement laptops and mobile devices to replace ageing equipment purchased during the agile working programme in 2010/11. The majority of this budget will be committed in 2017/18.
69	EHIC Loans (Properties purchased from EBC) - Agreed facility of £4,173k to provide loans to purchase EBC properties. Three loans totalling £2,803k have been agreed of which £843k has been drawn down. The remaining facility of £1,370k is available for other properties to be identified.
70	EHIC loans (Properties purchased on the open market) - Agreed facility of £5m to provide loans to purchase private properties. Six loans totalling £1,675k have been agreed of which £1,050k has been drawn down. The remaining facility of £3,325k is available for other properties; 5 further properties have been identified totalling £801k and work is currently on-going to complete.
75	JTP Programme - This scheme is the subject of regular update reports to Cabinet. The budget will be spent over three years from 2016/17 to 2018/19. Currently the programme is on-budget.
79	Devonshire Park Redevelopment - Progress currently as per construction programme agreed in main contract, expected completion Feb/Mar 2019 and open for business Spring 2019.Tennis player facilities construction complete and all snagging to be resolved in August 2017.

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 1.4.17	(1,432)	2,377
(Deficit recovery)/Surplus distributed	973	(854)
Debit due for year	(61,744)	(35,197)
Payments to preceptors	60,709	35,731
Allowance for cost of collection		114
Allowance for appeals		373
Write offs and provision for bad debts	243	105
Estimated balance 31.3.18	**(1,251)**	**2,649**
Allocated to:		
CLG	-	1,325
East Sussex County Council	(918)	238
Eastbourne Borough Council	(163)	1,060
Sussex Police	(108)	-
East Sussex Fire & Rescue	(62)	26
	(1,251)	**2,649**

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 2018/19. Any changes in quarter 4 will be made in 2019/20.

4.4 Council Tax performance is predicted to be a £1.3m surplus for the year. As the aim of the collection fund is to break even the surplus represents an overachievement of £0.8m for the year. This is due to the result of a combination of factors including better performance against the collection allowance forecast within the Council Tax base. The estimated balance as at 31.3.18 represents 2.03% of the gross debit.

4.5 The predicted Business Rate deficit of £2.7m for the year represents an in year underachievement from business rate income of £1.1m. This is as a result of the on-going risk from the number of outstanding business rate backdated appeals. The total number of appeals outstanding against the 2010 rating list as at 30.6.17 was 374 with a total rateable value of £28.8m.

With the introduction of the new 2017 rating list the procedure for making appeals has been changed, which is intended to speed up the process, reduce the number of appeals and provide some certainty on the financial implications to local authorities. The valuation office is yet to publish any data relating to these appeals, therefore an estimate has had to be calculated based on experience from the previous appeals system.

The estimated deficit balance as at 31.3.18 represents 7.53% of the total debit for the year.

4.6 Collection fund performance is as follows:

Cash Collection Rates	**Council Tax**	**Business Rates**
Q1 Actual	29.19%	29.91%
Q1 Target	29.20%	29.12%

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

UK data has been less robust in recent months and, in particular, all of the June Purchasing Manager Index (PMI) numbers turned lower, while consumer confidence dipped to its lowest level since the EU referendum. Household savings levels are at a record low. The largest drag on the economy in Q1 was the retail sector and there appears to have been a partial reversal of the declines in Q2. Overall, economists still expect a bounce in quarterly growth to around 0.5%.

Q1 was confirmed as having experienced a sharp slowing in the rate of growth to 0.2% q/q, from 0.7% the previous quarter. Households are feeling the effect of rising inflation on spending capacity so the 0.4% q/q increase in consumer spending looks likely to weaken, as growth was supported by savings levels being cut to a record low. Output indices reflect an increased pace through Q1, which extended into Q2. Overall, analysts see Q1's tepid performance as a blip rather than an on-going problem.

Sterling's weakening has, to date, had little positive impact on the external sector, the weak net trade performance has been put down to strong imports growth, for both goods and tourism services. But import growth has started to ease in recent months and surveys point to improved export prospects, both from a price and capacity perspective.

Employment growth picked up in the three months to April but the annual rate of growth was unchanged at 1.2%, as was the unemployment rate of 4.6,

CPI increased to 2.9% in May, the highest since 2013 as falling fuel prices were outweighed by gains in other areas. Analysts are looking for CPI to peak around in the autumn before edging slowly back toward target.

5.3 **Interest Rate Forecast**

The Bank of England had forecast in August 2016 that growth would be near to zero in the second half of the year due to the economic shock it expected from the result of the Brexit referendum in June. However, it has had to change its mind and in its February and May 2017 Inflation Reports, the Bank upgraded its forecasts for growth (May Report - 2017 1.9%, 2018 and 2019 1.9%). However over these years, it also expects inflation to accelerate towards nearly 3% as increases in costs as a result of the fall in the value of sterling since the referendum, gradually feeds through into the economy, though it should fall back to 2.2% in 2019. Provided those cost pressures do not feed through into significantly higher domestically generated inflation within the UK, the MPC is expected to 'look through' this one off blip upwards in inflation. Wage inflation, which is a key driver of domestically generated price pressures, is currently subdued. There is, though, a potential risk that the MPC might muster a majority to reverse the emergency 0.25% rate cut before embarking on a progressive trend of increases in Bank Rate at a later time.

5.4 **Annual Investment Strategy**

The Treasury Management Strategy Statement (TMSS) for 2017/18, which includes the Annual Investment strategy, was approved by Council on 22 February 2017. It sets out the Council's investment priorities as being :

- Security of Capital;
- Liquidity;
- Yield.

A full list of short term investments held as at 30 June 2017 is shown in the table below:

Counterparty	**Amount** £	**Interest Rate** %	**Maturity**
Santander	1,000,000	0.55	Call
	1,000,000		

In addition, a sum of £1m is invested with Lloyds Bank at a rate of 3.03% maturing on 23.1.19. This investment is held as part of the LAMS scheme and all interest earned will be transferred into a reserve set up to mitigate any financial risks arising from that scheme.

No approved limits within the Annual Investment Strategy were breached during the quarter ending 30 June 2017.

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 2017 is as follows:

Benchmark	Benchmark Return	Council Performance	Interest Earning
7 day LIBID	0.20%	0.35%	£4,143

The Council outperformed the benchmark by 0.15%. The budgeted investment return for 2017/18 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.

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 loans was taken during the quarter:

New Long Term Borrowing from PWLB			
Date	Amount	Interest Rate	Yrs
15-May-17	£2,000,000	2.43	42
15-May-17	£2,000,000	2.41	45
15-May-17	£2,000,000	2.40	48
22-May-17	£2,000,000	2.33	49
22-May-17	£2,000,000	2.33	49
Total	£10,000,000		

New Short Team Borrowing				
Start Date	Counterparty	Amount	Interest Rate	End Date
10-May-17	Runnymede BC	£2,000,000	0.35	21-Aug-17
15-May-17	Middlesbrough BC	£5,000,000	0.30	09-Aug-17
30-May-17	Lewes DC	£3,000,000	0.32	30-Aug-17
30-May-17	North Yorkshire CC	£5,000,000	0.45	29-May-18
30-Jun-17	Edinburgh CC	£4,500,000	0.20	31-Jul-17
Total		£19,500,000		
Less Short Term Borrowing Repaid				
Repayment date				
10-May-17	Runnymede BC	-£2,000,000	0.30	
15-May-17	Middlesbrough BC	-£5,000,000	0.36	
Net New Short Term Borrowing		£12,500,000		

Cash flow predictions indicated that further borrowing will be required throughout the year, 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 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 2017 the Council has operated within all 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 Performance for year 2016/17

6.1 The draft accounts for the year 2016/17 were completed and submitted for audit at the end of June 2017, and are available on the Council's website. The audit is nearing completion and the BDO annual audit report together with the Statement of Accounts are due to be submitted to the Audit and Governance Committee on 20th September for approval.

6.2 Details of the outturn for the year for the General Fund, HRA and Collection Fund are included within the forward of the Statement of Accounts. The quarter 4 performance for 2016/17 was reported to Cabinet on 12th July and a summary is attached at Appendix 4.

Background Papers:

The Background Paper used in compiling this report were as follows:

Budget monitoring working papers 2017/18
Collection Fund and Business Rates Collection Fund monitoring working papers 2017/18
Capita Asset Services City Watch July 2017

Capital Asset Services Quarter 1 Treasury Management Model report.
Draft Statement of Accounts 2016/17.