Part B

Financial Performance Q2 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 Sept 2017 £'000	Variance to date £'000	Projected Outturn £'000
SUMMARY					
Corporate Services	5,307	3,210	3,271	61	119
Service Delivery	5,861	28,426	28,645	119	159
Regeneration, Planning & Assets	(409)	963	1,007	44	78
Tourism & Enterprise Services	3,786	1,902	1,895	(7)	25
Total Service Expenditure	**14,545**	**34,501**	**34,718**	**217**	**381**
Contingencies, etc	(751)	53	(1)	(54)	(107)
Capital Financing and Interest	1,889	104	4	(100)	(200)
Contributions to/(from) Reserves	(1,150)	(7)	(7)	-	-
Net Expenditure	**14,533**	**34,651**	**34,714**	**63**	**74**

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

The principles that support the budget profiling are set out in **Appendix 3**.

1.2 The position at the end of September shows a variance of £63,000 on net expenditure which is a movement of £25,000 compared to the position reported at the end of the first quarter in June. Service expenditure has a variance of £217,000 mainly as a result of:

Housing Benefit Subsidy difference on Bed and Breakfast	£81k
Investment Properties shortfall on income target	£38k
Airbourne cost of barriers	£30k
Housing Benefit Admin Grant reduction	£28k

1.3 The contingency fund currently stands at £106,000 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 under-achievement in the JTP savings target for the year if financial benefits from the programme are delayed.

1.4 The projected outturn shows a variance of £74,000. This is within 0.5% of the net budget and is within an acceptable tolerance level This position is being closely monitored to ensure that the final outturn position is improved.

1.5 Cabinet approval is sought for the transfer from reserves for:

£6,950 from Revenue Grants Reserve DEFRA Grant to fund Amazone Machinery.

This transfer is in line with the approved financial strategy and the propose of the grant.

2.0 HRA

2.1 HRA performance of the quarter is as follows:

	Current Budget £'000	Profiled Budget £'000	Actual to 30 Sept 2017 £'000	Variance to date £'000	Projected Outturn £'000
HRA					
Income	(15,551)	(7,913)	(7,921)	(8)	14
Expenditure	12,617	3,684	3,648	(36)	(72)
Capital Financing & Interest	1,885	-	-	-	-
Contribution to Reserves	1,049	-	-	-	-
Total HRA	**-**	**(4,229)**	**(4,273)**	**(44)**	**(58)**

A further breakdown is shown at **Appendix 4**.

2.2 HRA performance shows a favourable variance of (£44,000), which is mainly due to the under occupation scheme (£32K). Other small variances are being carefully monitored.

3.0 Capital Expenditure

3.1` The detailed capital programme at **Appendix 5**, provides a summary of the spend for quarter 2 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 £79.1m compared to original Capital Programme approved in February 2017 of £44m. The changes to the Capital Programme are shown in the table below.

Summary of Capital Programme 2017/18 to 2020/21	**2017-18 £'000**	**2018-19 £'000**	**2019-20 £'000**	**2020-21 £'000**
Original Approved Budget at 8.2.17	44,045	44,843	30,904	1,376
Re-profiled from 16/17	16,782			
Re-profiled between years	15,600	(7,800)	(7,800)	
Approved Additions and Deletions				
Riverbourne Kitchen	262			
Princes Park Café Fit out	(262)			
New Homes Programme	(483)			
Empty Homes Programme	165			
EHIC mixed tenure homes	2,000	6,000	6,000	6,000
Aspiration Home for mixed tenure homes	1,000	3,000	3,000	3,000
Coastal Protection reduction in grant	(50)			
Current Programme	**79,059**	**46,043**	**32,104**	**10,376**

3.3 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 £3,044k have been agreed of which £1,113k has been drawn down. The remaining facility of £1,129k is available for other properties to be identified.
73	EHIC loans (Properties purchased on the open market) - Agreed facility of £5m to provide loans to purchase private properties. 10 loans totalling £2,477k have been agreed of which £1,740k has been drawn down. The remaining facility of £2,523k is available for other properties.
80	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.
85	Devonshire Park Redevelopment - Progress currently as per construction programme agreed in main contract, expected completion Feb/Mar 2019 and opens for business Spring 2019.Tennis player facilities construction complete and only minor snagging outstanding.

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	(61,801)	(34,313)
Payments to preceptors	60,709	35,731
Allowance for cost of collection		125
Transitional Relief		(52)
Allowance for appeals		(170)
Write offs and provision for bad debts	173	125
Estimated balance 31.3.18	**(1,378)**	**2,969**
Allocated to:		
CLG	-	1,485
East Sussex County Council	(1,012)	267

Eastbourne Borough Council	(179)	1,188
Sussex Police	(119)	-
East Sussex Fire & Rescue	(68)	30
	(1,378)	**2,969**

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 £1.4m surplus for the year. As the aim of the collection fund is to break even the surplus represents an overachievement of £0.9m 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 2.23% of the gross debit.

4.5 The predicted Business Rate deficit of £3.0m for the year represents an in year underachievement from business rate income of £1.4m. This is as a result of a number of business rate backdated appeals settled and a reduction in the overall debit due to various redevelopment activities in the borough. The total number of appeals outstanding against the 2010 rating list as at 30.9.17 was 165 with a total rateable value of £16.7m.

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 8.65% of the total debit for the year.

4.6 Collection fund performance is as follows:

Cash Collection Rates	**Council Tax**	**Business Rates**
Q2 Actual	56.13%	54.72%
Q2 Target	56.05%	54.02%

5.0 Treasury Management

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

5.2 The Treasury Management Mid-year Review Report has been considered by the Audit and Governance Committee on 29th November 2017.

5.3 The Council's Treasury Management Advisors Capital Asset Services have been acquired by the Link Group and rebranded Link Asset Services.

5.2 **Economic Background**

The headline inflation figure, CPI, rose to a five and a half year high of 3.0% in September from 2.9% in August on an annual basis. Food prices and transport costs in particular pushed the figure up. The Bank of England has said it expects inflation to remain at 3% in quarter 4, much of it due to the fall in the value of the pound since the Brexit vote. They predict we will see a gradual fall in the inflation rate which will reach 2.2% in 2020.

UK GDP growth for quarter 2 has been confirmed at 0.3% but downward revisions to quarter 3/4

2016 saw the annual growth rate slip to 1.5%. However September consumer confidence hit its highest level since April 2001, which would suggest that retail sales should swing around strongly. Various indicators suggest that quarter 3 GDP will match that of quarter 2 or could be stronger.

The Office for Budgetary Responsibility expects growth of 1.5% in 2017, a reduction on previous expectations due to weakening growth prospects and productivity growth remaining stubbornly flat. The future years see growth at its lowest in both 2019 and 2020, before beginning to pick back up to 1.5% in 2021.

5.3 **Interest Rate Forecast**

On 2nd November the MPC increased Bank Rate to 0.5%. The big question after that will be whether this is a one off increase or the start of a slow, but regular, increase in Bank Rate. As at the start of October, short sterling rates are indicating that financial markets do not expect a second increase until May 2018 with a third increase in November 2019. However, some forecasters are flagging up that they expect growth to improve significantly in 2017 and into 2018, as the fall in inflation will bring to an end the negative impact on consumer spending power while a strong export performance will compensate for weak services sector growth. If this scenario were to materialise, then the MPC would have added reason to embark on a series of slow but gradual increases in Bank Rate during 2018. While there is so much uncertainty around the Brexit negotiations, consumer confidence, and business confidence to spend on investing, it is far too early to be confident about how the next two years will pan out.

Link Asset Services forecasts are cautious and in line with a subdued path for increases in Bank Rate; they do not currently see inflation posing a significant threat over the next three years, and are suggesting increases of 0.25% increase in November 2018 to 0.75%, 1.0% in November 2019 and 1.25% in August 2020. This is much in line with market expectations. They central assumption is that the UK will make progress with concluding a satisfactory outcome over the Brexit negotiations with the EU by March 2019, although the UK finance sector is likely to be an area of particular concern and difficulty

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 September 2017 is shown in the table below:

Counterparty	Amount £	Interest Rate %	Maturity
Santander	5,000,000	0.55	Call
	5,000,000		

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 September 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 September 2017 is as follows:

Benchmark	Benchmark Return	Council Performance	Interest Earning
7 day LIBID	0.11%	0.38%	£8,482

The Council outperformed the benchmark by 0.27%. 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 form PWLB			
Date	Amount	Interest Rate	Yrs
11-Aug-17	2,000,000	2.39%	49.5
15-Aug-17	2,000,000	2.33%	48.5
31-Aug-17	2,000,000	2.30%	45.5
Total	£6,000,000		

New Short Team Borrowing				
Start Date	Counterparty	Amount	Interest Rate	End Date
31-Jul-17	Manchester City Council	£3,500,000	0.18	08-Sep-17
09-Aug-17	Middlesbrough Borough Council	£5,000,000	0.17	08-Sep-17
30-Aug-17	Lewes District Council	£3,000,000	0.26	30-Nov-17
08-Sep-17	Lewes District Council	£4,000,000	0.25	08-Dec-17
25-Sep-17	Middlesbrough Borough Council	£6,000,000	0.19	26-Oct-17
Total		£21,500,000		
Less Short Term Borrowing Repaid				
Repayment Date	Counterparty	Amount	Interest Rate	No of Days
31-Jul-17	Edinburgh City Council	-£4,500,000	0.20	31
09-Aug-17	Middlesbrough Borough Council	-£5,000,000	0.30	86
21-Aug-17	Runnymede Borough Council	-£2,000,000	0.35	103
30-Aug-17	Lewes District Council	-£3,000,000	0.32	92
08-Sep-17	Manchester City Council	-£3,500,000	0.18	39
08-Sep-17	Middlesbrough Borough Council	-£5,000,000	0.17	30
Net New Short Term Borrowing		-£1,500,000		

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.

Total borrowing for the year is predicted at £57.9m, bring the total expected borrowing as at 31.3.18 to £123.2m, of which £19.5m represents loans to third parties supported by charges on properties. Of the remainder £41.5m is HRA and £62.2m General Fund.

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 September 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.

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
Link Asset Services City Watch October 2017
Link Asset Services Updated Interest Rate Forecast 7/11/17