

## Part B

### Financial Performance Q3 2017/18

#### 1.0 General Fund

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

Department	Full Year Budget	Profiled Budget	Actual to 31st Dec 2017	Variance to date	Projected Outturn
	£'000	£'000	£'000	£'000	£'000
<b>SUMMARY</b>					
Corporate Services	5,286	4,781	4,873	92	(380)
Service Delivery	5,790	41,802	41,935	133	196
Regeneration, Planning & Assets	(291)	1,277	1,362	85	84
Tourism & Enterprise Services	3,731	2,205	2,312	107	122
<b>Total Service Expenditure</b>	<b>14,516</b>	<b>50,065</b>	<b>50,482</b>	<b>417</b>	<b>22</b>
Contingencies, etc	(728)	80	-	(80)	(107)
Capital Financing and Interest	1,951	256	6	(150)	
Contributions to/(from) Reserves	(1,206)	(63)	(63)	-	-
<b>Net Expenditure</b>	<b>14,533</b>	<b>50,238</b>	<b>50,425</b>	<b>187</b>	<b>(85)</b>

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

1.2 The position at the end of December shows a variance of £187,000 on net expenditure which is a movement of £124,000 compared to the position reported at the end of the second quarter in September. Variances at 31 December included:

Housing Benefit Subsidy difference on Bed and Breakfast	£122k
Bereavement Services shortfall in income	£97k
Airbourne cost of barriers	£30k
Housing Benefit Admin Grant reduction	£28k
Solarbourne Income	(£53k)

1.3 The contingency currently stands at £107,000 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 overall outturn variance.

1.4 The projected outturn shows a favourable variance of £85,000. This is within 0.6% of the net budget. This position is being closely monitored to ensure that the final outturn position is maintained.

#### 2.0 HRA

2.1 HRA performance of the quarter is as follows:

	<b>Current Budget</b>	<b>Profiled Budget</b>	<b>Actual to 31 Dec 2017</b>	<b>Variance to date</b>	<b>Projected Outturn</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>HRA</b>					
Income	(15,551)	(11,727)	(11,714)	13	26
Expenditure	12,617	5,741	5,687	(54)	(86)
Capital Financing & Interest	1,885	-	-	-	-
Contribution to Reserves	1,049	-	-	-	-
<b>Total HRA</b>	<b>-</b>	<b>(5,986)</b>	<b>(6,027)</b>	<b>(41)</b>	<b>(60)</b>

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

- 2.2 HRA performance shows a favourable variance of (£41,000), which is mainly due to the under occupation scheme (£48K). Other small variances are being carefully monitored.

### 3.0 Capital Expenditure

- 3.1 The detailed capital programme at **Appendix 4**, provides a summary of spend for quarter 3 compared to the revised allocation for 2017-18 and the total spend for each scheme as at 31.3.17. The 2017-18 allocation has been revised to allow re-profiling of schemes to 2018-19. 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 £51.6m compared to original Capital Programme approved in February 2017 of £80.2m. The changes to the Capital Programme are shown in the table below.

<b>Summary of Capital Programme 2017/18 to 2020/21</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Approved Budget at 7.2.18	80,184	50,394	36,073	14,774
Devonshire Park (External Funding)	5,625			
Re-profiled from 17/18 to 18/19	(34,205)	34,205		
HRA - Fort Lane increase		102		
Allocations no longer required	(32)			
EHIC – revolving credit facility		65		
Coastal Protection additional grant	20			
<b>Current Programme</b>	<b>51,592</b>	<b>84,766</b>	<b>36,073</b>	<b>14,774</b>

- 3.3 Detailed comments on larger schemes:

<b>Line No.</b>	<b>Comment</b>
7	New Build Phase 2 – Sumach Close is complete. The scheme for Fort Lane is being reviewed to allow for the use of Right to Buy Receipts. An additional allocation of £102k is required which is included within the Capital Programme Appendix.

23	Terminus Road Improvements - Contractor due to be appointed. Works to start on site in April 2018. As part of this scheme we have commissioned a consultant to deliver a Wayfinding Strategy for the Town Centre alongside the Devonshire Park Wayfinding Strategy.
24	Sovereign Harbour Community Centre - Works on site are progressing well and contractor is on schedule to complete the building by the target date of 16th April 2018. Some of the allocation has been re-profiled into 2018/19.
73	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.
76	EHIC Loans (Properties purchased from EBC) - Agreed facility of £4,173k to provide loans to purchase EBC properties. Two loans totalling £900k have been agreed of which £893k has been drawn down. The remaining facility of £87k is available for other properties to be identified. One loan facility of £1,823k is no longer required as Northbourne Road site has been sold to Aspiration Homes LLP and the loan of £280k has been repaid.
77	EHIC loans (Properties purchased on the open market) - Agreed facility of £5m to provide loans to purchase private properties. 12 loans totalling £2,657k have been agreed of which £2,134k has been drawn down. The remaining facility of £523k is available for other properties.
80	Aspiration Homes LLP Loan – Agreed a facility of £10m to provide loans to build and refurbish properties. One loan of £1.7m has been agreed to develop the site at Northbourne Road. Site purchase was completed in December 2017. Works expected to start in 2018-19.
84	Hampden Retail Park Refurbishment – Master plan in place with 3 additional units to increase income generation. ESCC has agreed sale of land required to enable some of the utilities and strategically important for the general scheme. Drain clearance to be completed across the estate as part of the scheme. Offsite drainage works to culvert complete. Planning application scheduled for March. New leases now ready to be signed.
86	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.
90	Devonshire Park Redevelopment - Progress currently as per construction programme agreed in main contract, expected completion Feb/Mar 2019 and opens for business Spring 2019. This is the subject of a separate Cabinet report. Tennis player facilities construction complete.

99	Wish Tower Restaurant – design work is being carried and should be completed by April 2018. Planning application expected to be completed by July 2018. Demolition of Western View and works on site planned to start September 2018 with construction completed January 2019 and fit out by April 2019 ready for opening.
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## 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:

	<b>Council Tax £'000</b>	<b>Business Rates £'000</b>
Balance B/fwd 1.4.17	(1,432)	2,377
(Deficit recovery)/Surplus distributed	973	(854)
Debit due for year	(61,788)	(34,013)
Payments to preceptors	60,709	35,731
Allowance for cost of collection		125
Transitional Relief		(52)
Allowance for appeals		(286)
Write offs and provision for bad debts	231	179
<b>Estimated balance 31.3.18</b>	<b>(1,307)</b>	<b>3,207</b>
Allocated to:		
CLG	-	1,604
East Sussex County Council	(960)	289
Eastbourne Borough Council	(170)	1,283
Sussex Police	(112)	-
East Sussex Fire & Rescue	(65)	32
	<b>(1,307)</b>	<b>3,207</b>

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 2.12% of the gross debit.

4.5 The predicted Business Rate deficit of £3.2m for the year represents an in year underachievement from business rate income of £1.7m. 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 31.12.17 was 151 with a

total rateable value of £16.0m.

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 only just published any data relating to these appeals, therefore until this has been evaluated 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 9.43% of the total debit for the year.

#### 4.6 Collection fund performance is as follows:

<b>Cash Collection Rates</b>	<b>Council Tax</b>	<b>Business Rates</b>
Q3 Actual	83.16%	80.38%
Q3 Target	83.18%	78.85%

### 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 29<sup>th</sup> November 2017.

### 5.3 Economic Background

There seems to have been a fairly buoyant end to 2017 for the UK economy. The Purchasing Manager Indices eased a little in December but still suggest that growth may have accelerated a touch from Q3. This should leave growth for the year at around 1.8%. There is a spread of opinions with some forecasting a slowing of growth in 2018, but others suggest that there should be less of a real income squeeze, and that healthy business investment and positive input from net trade will underpin the economy. In summary:

- Q3 growth was confirmed at 0.4% q/q but prior revisions bolstered annual growth. If recent surveys are accurate there could be a slight acceleration in Q4 to 0.5% growth.
- Q3 consumer spending was revised a touch lower but was still considerably stronger than Q2, though this was largely down to car sales that are not likely to be matched in Q4.
- The current account deficit narrowed in Q3. The trade balance was little changed as a share of GDP but investment income declined. The October trade figures put a dampener on Q4 prospects with the goods and services trade balance widening quite sharply.
- CPI picked up to 3.1% in November, largely on increased airfares. Analysts

suggest that this may prove the peak and core inflation is already easing.

- The December MPC meeting had little or no impact on market interest rate expectations. Sterling has weakened against most currencies, though it strengthened to a three month high against the US\$ with the 10% gain in £/\$ exchange rate in 2017 the largest annual move in eight years.
- Equity markets have pushed higher, with both overseas and domestic focussed companies seeing strong gains, to leave the indices at near record highs. Oil price gains have seen Brent crude at its highest price for three years.

## 5.4 Interest Rate Forecast

On 2<sup>nd</sup> November the MPC increased Bank Rate to 0.5% and gave forward guidance that they expected to increase Base Rate only twice more in the next three years to reach 1% by 2020.

Link Asset Services forecasts Base Rate increase to 0.75% in May, followed by a further 0.25% increase in December 2018 and December 2019 rising to 1.50% in September 2020.

## 5.5 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 31 December 2017 is shown in the table below:

Counterparty	Amount £	Interest Rate %	Maturity
Santander	5,000,000	0.80	Call

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.

No approved limits within the Annual Investment Strategy were breached during the quarter ending 31 December 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.

5.6 Investment performance for the quarter ending 31 December 2017 is as follows:

Benchmark	Benchmark Return	Council Performance	Interest Earning
7 day LIBID	0.17%	0.44%	£15,688

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.

## 5.7 Borrowing

The following loan was taken during the quarter:

New Long Term Borrowing form PWLB			
Date	Amount	Interest Rate	Years
23-Nov-17	2,000,000	2.38%	46.5
Total	£2,000,000		

New Short Term Borrowing				
Start Date	Counterparty	Amount	Interest Rate	End Date
8-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
20-Oct-17	Middlesbrough Borough Council	£2,000,000	0.30	05-Jan-18
26-Oct-17	Middlesbrough Borough Council	£6,000,000	0.20	24-Nov-17
24-Nov-17	Middlesbrough Borough Council	£6,000,000	0.37	31-Jan-18
24-Nov-17	Middlesbrough Borough Council	£1,000,000	0.37	31-Jan-18
30-Nov-17	Vale of Glamorgan	£3,000,000	0.40	19-Feb-18
	<b>Total</b>	<b>£28,000,000</b>		
Less Short Term Borrowing Repaid				
Repayment Date	Counterparty	Amount	Interest Rate	No of Days
08-Sep-17	Manchester City Council	-£3,500,000	0.18	39
08-Sep-17	Middlesbrough Borough Council	-£5,000,000	0.17	30
26-Oct-17	Middlesbrough Borough Council	-£6,000,000	0.19	31
24-Nov-17	Middlesbrough Borough Council	-£6,000,000	0.20	29
30-Nov-17	Lewes District Council	-£3,000,000	0.26	92
08-Dec-17	Lewes District Council	-£4,000,000	0.25	91
	<b>Total Repaid</b>	<b>-£27,500,000</b>		
<b>Net New Short Term Borrowing</b>		<b>£500,000</b>		

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.

## 5.8 **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 31 December 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 **Write Offs**

6.1 Financial Procedure Rule 4.26 provides delegated authority to the Chief Finance Officer for the write off of irrecoverable debts below £5,000. Beyond that limit, unless particular circumstances apply (like bankruptcy and liquidation) the approval of Cabinet is required.

6.2 Details of the write offs being recommended for write off by Cabinet are listed in the Exempt Appendix to the report with brief explanation of the circumstances.

6.3 In all cases a number of methods of collection were attempted before the debts were recommended for write off. The write off does not mean that debt is not still due to the council and in cases where circumstances have changed the debt will be written back on and recover pursued,

6.4 The write offs do not have an immediate financial effect on the current year's budget as the bad debt provision is greater than the write off total. However, the making of that provision did have a cost implication at the time the provision was made. The Council maintains provisions against the level of debts outstanding as follows:

	Provision as % of total debt	Funded by
NNDR	25%	50% Central Government, 40% EBC, 9% East Sussex CC,& 1% East Sussex Fire
Council Tax	34%	73% East Sussex CC, 13% EBC, 9% Sussex Police & 5% East Sussex Fire
Housing Rents	27%	100% EBC HRA
Housing Benefit Overpayments	56%	100% EBC General Fund
Sundry Debts	4%	100% EBC General Fund