Part B

Financial Performance Q1 2018/19

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 2018 £'000	Variance to date £'000
SUMMARY				
Corporate Services	5,057	2,102	2,090	(12)
Service Delivery	5,672	13,764	13,711	(53)
Regeneration, Planning & Assets	(335)	392	394	2
Tourism & Enterprise Services	3,325	777	793	16
Total Service Expenditure	**13,719**	**17,035**	**16,988**	**(47)**
Contingencies, etc	(1,219)	37	-	(37)
Capital Financing and Interest	2,109	527	527	-
Contributions to/(from) Reserves	(1,112)	-	-	-
Net Expenditure	**13,497**	**17,599**	**17,515**	**(84)**

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

1.2 The position at the end of June shows a favourable variance of £84,000 on net expenditure. Variances at 30 June included:

Additional Green Waste Income	(£66k)
Development Control Fee Income	(£58k)
Corporate Landlord Income shortfall	£37k

1.3 The contingency currently stands at £148,000 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.

2.0 HRA

2.1 HRA performance of the quarter is as follows:

	Full Year Budget £'000	Profiled Budget £'000	Actual to 30 June 2018 £'000	Variance to date £'000
HRA				
Income	(15,301)	(3,710)	(3,677)	33
Expenditure	12,733	1,875	1,844	9
Capital Financing & Interest	(1,924)	-	-	-
Contribution to Reserves	500	-	-	-
Total HRA	**(144)**	**(1,835)**	**(1,793)**	**42**

There is a small negative variance of £42,000 for the quarter. A further breakdown is shown at **Appendix 3**.

3.0 Capital Expenditure

3.1` The detailed capital programme at **Appendix 4**, provides a summary of spend for quarter 1 compared to the revised allocation for 2018-19 and the total spend for each scheme as at 30.6.18. The 2018-19 allocation has been revised to allow re-profiling of schemes from 2017-18. Brief comments are provided for each scheme and more detailed comments are provided below for larger schemes.

3.2 The Capital Programme for 2018-19 totals £94.7m compared to original Capital Programme approved in July 2018 of £92.2m. The changes to the Capital Programme are shown in the table below.

Summary of Capital Programme 2018/19 to 2021/22	**2018-19 £'000**	**2019-20 £'000**	**2020-21 £'000**	**2021-22 £'000**
Orignal Approved Budget at 7.2.18	50,394	36,073	14,775	
HRA - Fort Lane increase	102			
Re-profiled between years	34,205			
EHIC Revolving Credit	65			
Devonshire Park	4,360			
Year-end re-profiling	456			
DFG allocated to SHCC	(400)			
Bedfordwell Road - Pump House	3,000			
West Langney Gates & Signs	18			
Sovereign Centre		4,820		
EHIC - Loan Facility	2,500	2,500	2,500	2,500
Current Programme	**94,700**	**43,393**	**17,275**	**2,500**

3.3 Detailed comments on larger schemes:

Line No.	Comment
5	New Build Phase 2 – Sumach Close is complete. The scheme for Fort Lane is planned to start in the Autumn. The tender has been awarded to Ellis Builders.
14	The DFG allocation was not announced until 23 July so a discretionary policy to detail plans of grant spend has not yet been written. However a County wide project has been developed with ESCC to co-locate the Occupational Therapists within the District and Boroughs. The DFG will fund the OTs, recruitment will start in September and a discretionary DFG policy will be written.
18	The final scope of the Beach Management works this year will be decided following the results of the monitoring survey which is due to be carried out in early September. The contractor is currently checking the availability of the dredger that will be required to import shingle; it is anticipated that the works will be undertaken between October and the end of December.
21	Terminus Road Improvements. Work is taking place on site. £50k of this budget was set aside to deliver a wayfinding strategy for the town centre. This has been prepared by Placemarque.

22	Sovereign Harbour Community Centre. Work is almost complete. Overspend relates to costs that were associated with the original site (Site 5). These costs were largely associated with establishing whether the centre could be built on the site having regard to the ground conditions (due diligence) and the results demonstrated that as a result of the ground conditions, it was financially unviable to proceed with Site 5. Additional external funding is being sought.
59	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 2018/19.
62	EHIC Loans (Properties purchased from EBC) - Agreed facility of £4,173k to provide loans to purchase EBC properties. Two loans totalling £980k have been agreed of which £913k has been drawn down. The remaining facility of £3,025k is available for other properties to be identified. A loan of £235k relating to Northbourne Road was drawn down and subsequently repaid.
63	EHIC loans (Properties purchased on the open market) - Agreed facility of £15m to provide loans to purchase private properties. 12 loans totalling £2,657k have been agreed of which £2,516k has been drawn down. The remaining facility of £12,343k is available for other properties. This facility is currently allocated to various years.
67	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 and £140k has been drawn down. Site purchase was completed in December 2017. Works expected to start in 2018-19.
70	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.
72	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. Additional requirements have been identified during JTP which includes upgrades, increased storage and more resilient IT.
75	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.
88	Wish Tower Restaurant – design work completed. Planning application submitted to August Committee Demolition of Western View commenced and works on site planned to start September 2018 with construction completed January 2019 and fit out by April 2019 ready for opening.

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 1.4.18	(1,267)	3,522
(Deficit recovery)/Surplus distributed	1,378	(2,969)
Debit due for year	(65,790)	(35,896)
Payments to preceptors	64,919	36,314
Allowance for cost of collection		128
Transitional Relief		(49)
Allowance for appeals		339
Write offs and provision for bad debts	231	(253)
Estimated balance 31.3.18	**(529)**	**1,136**
Allocated to:		
CLG	-	568
East Sussex County Council	(390)	102
Eastbourne Borough Council	(67)	454
Sussex Police	(46)	-
East Sussex Fire & Rescue	(25)	11
	(529)	**1,136**

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 2018/20. Any changes in quarter 4 will be made in 2020/21.

4.4 Council Tax performance is predicted to be a £0.5m surplus for the year. As the aim of the collection fund is to break even the surplus represents an overachievement of £0.6m 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 31.3.19 represents 0.8% of the gross debit.

4.5 The predicted Business Rate deficit of £1.1m for the year represents an in year underachievement from business rate income of £0.6m. There continues to be a significant risk associated with business rate income, with more than 116 appeals still outstanding against the 2010 rating list remaining to be settled with an total rateable value of £13.3m.

There is also continued uncertainty over the number of appeals against the 2017 rating list received by the Valuation Office. Limited information is available on these appeals, therefore until more detail is known and evaluated an estimated has had to be calculated based on experience from the previous appeals system.

The estimated deficit balance as at 31.3.19 represents 3.16% of the total debit for the year.

4.6 Collection fund performance is as follows:

Cash Collection Rates	Council Tax	Business Rates
Q1 Actual	28.75%	29.53%
Q1 Target	29.19%	29.90%

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

Growth in 2017 was disappointingly weak in the first half of the year but picked up to 0.5% in quarter 3 and 0.4% in quarter 4. Growth in quarter 1 of 2018 was again disappointing, although on the first revision the rate improved from 0.1 to 0.2% to allay fears that the economy may have started a prolonged period of very weak growth. Initial indications in quarter 2 are that growth may have picked up speed to around 0.4%. The main reason for weak growth during 2017 and 2018 has been that inflation has been exceeding pay growth until recently, meaning that there has been negative growth in consumer disposable income when consumer expenditure is the biggest driver of the services sector which accounts for about 75% of GDP.

The manufacturing sector was the bright spot in the economy in 2017 in terms of strong growth but quarter 1 was the weakest quarter for one and a half years and forward indicators do not suggest a return to strong growth is likely.

During January and February financial markets were viewing a Bank Rate increase at the May Monetary Policy Committee (MPC) meeting as likely to be a near certainty after strong growth in the second half of 2017. However, the ensuing weeks before the meeting saw opinion turn right around and the MPC did not disappoint by leaving rates unchanged due to concerns as to whether the weak growth in quarter 1 was indicative of the start of a prolonged slow down or just a temporary blip, to which bad weather had been just one contributor.

5.4 Interest Rate Forecast

On 2nd August the MPC increased Bank Rate by 0.25% to 0.75%.

Link Asset Services forecasts Base Rate increase to 1.00% in September 2019, followed by a further 0.25% increase in June2020 rising to 1.50% in December 2020.

5.5 Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2018/19 which includes the Annual Investment strategy, was approved by Council on 7 February 2018. 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 2018 is shown in the table below:

Counterparty	Amount £	Interest Rate %	Maturity
Santander	2,000,000	0.50	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.

Approved limits within the Annual Investment Strategy were not breached during the quarter ending 30 June 2018, except for the balance held with Lloyds Bank, which exceeded the £10m limit for 14 days during the quarter.

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 30 June 2018 is as follows:

Benchmark	Benchmark Return	Council Performance	Interest Earning
7 day LIBID	0.36%	0.45%	£10,028

The Council outperformed the benchmark by 0.09%. The budgeted investment return for 2018/19 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 £m	Interest Rate	Years
03-Apr-18	2.0	2.28	50
31-May-18	2.0	2.25	50
Total	4.0		

New Short Team Borrowing				
Start Date	**Counterparty**	**Amount £m**	**Interest Rate**	**End Date**
20-Apr-18	N Yorkshire CC	4.0	0.80	22-Oct-18
15-May-18	E Northamptionshie DC	2.0	0.90	14-May-19
15-May-18	London Bor Brent Pension Fund	5.0	0.55	15-Aug-18
29-May-18	Greater Manchester Pension Fund	5.0	0.80	23-May-19
	Total	**16.0**		
Less Short Term Borrowing Repaid				

Repayment Date	Counterparty	Amount £m	Interest Rate	No of Days
20-Apr-18	N Yorkshire CC	4.0	0.85	42
15-May-18	Middlesbrough BC	7.0	0.70	62
29-May-18	N Yorkshire CC	5.0	0.45	364
	Total	**16.0**		
Net New Short Term Borrowing		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.

5.8 **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 30 June 2018 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.