

<b>Body:</b>	<b>Cabinet</b>
<b>Date:</b>	<b>17<sup>th</sup> September 2018</b>
<b>Subject:</b>	<b>Finance update – Performance Quarter 1 2017/18</b>
<b>Report of:</b>	<b>Deputy Chief Executive</b>
<b>Cabinet member:</b>	<b>Councillor Bill Giles</b>
<b>Ward(s):</b>	<b>All</b>
<b>Purpose of the report:</b>	<b>To update members on the Council’s financial performance in Quarter 1 2018/19</b>
<b>Decision type:</b>	<b>Non Key</b>
<b>Recommendation:</b>	<p><b>Cabinet is recommended to</b></p> <ol style="list-style-type: none"> <li><b>1. Agree the General Fund and HRA financial performance for the quarter ended June 2018.</b></li> <li><b>2. Agree the amended capital programme as set out in Appendix 3</b></li> <li><b>3. Agreed the Treasury Management performance.</b></li> </ol>
<b>Reasons for recommendations:</b>	<b>To enable Cabinet members to consider specific aspects of the Council’s financial performance.</b>
<b>Contact:</b>	<p><b>Pauline Adams, Head of Finance</b>  <b>Tel: 01323 415979 or email</b>  <b>Pauline.Adams@lewes-eastbourne.gov.uk</b></p>

## **1.0 Introduction**

- 1.1 It is essential to ensure that the Council has a sound financial base from which to respond to changing activity levels and demand for statutory services and to ensure that, when appropriate, it’s finances are adjusted in response to reducing income levels and inflationary pressures on expenditure.
- 1.2 A report on the financial performance following the end of each quarter is made to Cabinet to ensure that the financial health of the General Fund, Housing Revenue Account, Capital Programme and Treasury Management activates are kept under continual review.

## 2.0 General Fund

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

Department	Full Year Budget	Profiled Budget	Actual to 30th June 2018	Variance to date
	£'000	£'000	£'000	£'000
<b>SUMMARY</b>				
Corporate Services	5,239	1,498	1,467	(31)
Service Delivery	8,775	2,607	2,614	7
Regeneration, Planning & Assets	551	221	215	(6)
Tourism & Enterprise Services	713	186	179	(7)
Recharges to the Housing Revenue Account	(3,312)	(828)	(828)	-
<b>Total Service Expenditure</b>	<b>11,966</b>	<b>3,684</b>	<b>3,647</b>	<b>(37)</b>
Contingencies, etc	(996)	(175)	(175)	-
Capital Financing and Interest	5	(25)	(7)	18
Contributions to/(from) Reserves	1,177	-	-	-
<b>Net Expenditure</b>	<b>12,152</b>	<b>3,484</b>	<b>3,465</b>	<b>(19)</b>

Service Details are shown in **Appendix 1**

2.2 The position at the end of June shows a variance of £37k on net expenditure. There are not significant items to note at this stage of the financial year.

2.3 The amount held in the General Fund Uncommitted Reserve, which acts as a buffer against negative movements in the budget, is projected to be £2.1m at 31 March. The table below shows the projected movements in each Reserve in 2018/19 and the balance at the end of the year.

General Fund Reserves	Actual Balance at 1 April 2018	Contributions from General Fund Revenue Budget	Use for Capital and Revenue	Estimated Balance at 31 March 2019
	£'000	£'000	£'000	£'000
<b>Earmarked</b>				
Asset Management	(3,020)	(283)	1,644	(1,659)
Economic Regeneration	(300)	(373)	50	(623)
Revenue Grants and Contributions	(396)	0	0	(396)
Strategic Change	(3,350)	(874)	1,972	(2,252)
Vehicle and Equipment Replacement	(1,445)	(320)	577	(1,188)
Unallocated	(226)	0	0	(226)
<b>Total Earmarked Reserves</b>	<b>(8,737)</b>	<b>(1,850)</b>	<b>4,243</b>	<b>(6,344)</b>
General Fund Working Balance	(2,093)	0	0	(2,093)
<b>Total General Fund Reserves</b>	<b>(10,830)</b>	<b>(1,850)</b>	<b>4,243</b>	<b>(8,437)</b>

### 3.0 Housing Revenue Account

3.1 HRA performance for the quarter is as follows:

	<b>Current Budget</b>	<b>Profiled Budget</b>	<b>Actual to 30th June 2018</b>	<b>Variance to date</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>HRA</b>				
Income	(16,413)	(4,103)	(4,103)	
Expenditure	13,446	3,363	3,262	101
Capital Financing & Interest	2,967	743	743	
Contribution to Reserves				
<b>Total HRA</b>	<b>-</b>	<b>3</b>	<b>(98)</b>	<b>101</b>

A further breakdown is shown at **Appendix 2**.

3.2 The position at the end of June shows a variance of £101K. Items to note are:

- Spending and income is generally in line with service budgets.
- Spending on responsive and void repairs is demand led and can be expected to fluctuate during the course of the year.

### 4.0 Capital Expenditure

4.1 The detailed capital programme at Appendix 3, provides a summary of spend for quarter 1 compared to the allocation for 2018/19. 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.

4.2 The Capital Programme for 2018/19 totals £53,480m compared to the original Capital Programme approved by Council 5 February 2018 of £32,407m. The changes to the Capital Programme are shown in the table below.

<b>Capital Programme Summary 2018/19 - 2020/21</b>	<b>2018/19 £'000</b>	<b>2019/20 £'000</b>	<b>2020/21 £'000</b>
<i>Original Approved Budget 5 February 2018</i>	32,407		
Re-profiled from 2017/2018	16,203	-	-
<i>Variation approved by Cabinet 2 July 2018</i>			
Robinson Road Enabling Works	170	-	-
Asset Management	6	-	-
Coastal Defence Works	50	-	-
North Street Quarter Temporary Car Park	700	-	-
Avis Way Depot Facility, Newhaven	4,100	-	-
<i>Additional requiring approval</i>			
North Street Quarter	93	-	-
Community Infrastructure	286	-	-
HRA Improvements to Stock	(1,176)	-	-
Asset Management	3	-	-
Coastal Defence Works	8	-	-

Vehicle & Plan Replacement Programme	630	-	-
<b>Current Programme</b>	<b>53,480</b>	-	-

#### 4.3 Detailed comments on larger schemes:

HRA Improvements to Stock – Property Services have prepared an updated schedule of works due to be completed in 2018/2019. This budget reduction reflects the revised programme.

Vehicle & Plant Replacement Programme – three refuse/recycling vehicles have been replaced in 2018 that were originally scheduled to be replaced in 2019.

### 5.0 Treasury Management

5.1 The Annual Treasury Management and Prudential Indicators were approved by Cabinet and Council in February 2018.

#### 5.2 Economic Background

In line with market expectations, the MPC voted to increase Bank rate to 0.75% in August. There were, however, two surprises; the vote was unanimous and market expectations remained subdued despite this fact. The market reaction to the rate hike suggests that investors expect both the relatively weak economic environment and political developments (Brexit negotiations and the US trade relations) to limit the speed of future rises in Bank Rate. The UK economy still faces a challenging outlook as the country exits the European Union with central bank actions and geopolitical risks, such as prospective trade wars, have and will continue to produce significant volatility in financial markets. GDP quarterly annualised expansion of 1.6% remains below the long term average.

Inflation is currently above the Bank of England's target but is projected to fall over the year, before settling at the 2% target round mid-2020.

#### 5.3 Interest Rate Forecast

On 2<sup>nd</sup> August the MPC increased Bank Rate by 0.25% to 0.75%

Arlingclose, the Council's Treasury Management advisors, forecast base rates increase to 1.00% in March 2019, followed by a further 0.25% increase in September 2019 and then remaining at that level for the foreseeable future.

#### 5.4 Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2018/19 which included the Annual Investment strategy was approved by Council on 19 February 2018. It sets out the Council's investment priorities as being:

- Security of Capital;
- Liquidity;

- Yield.

The following table shows the fixed term deposits and tradeable investments held at 30 June 2018.

Ref	Counterparty	Date From	Date To	Days	Principal £	Int Rate %
<b>FIXED TERM DEPOSITS</b>						
239518	Thurrock Borough Council	14-May-18	14-Nov-18	184	3,000,000	0.63
239718	South Heighton Parish Council	29-May-18	29-Nov-18	184	24,000	0.63
240018	Surry Heath Borough Council	12-Jun-18	12-Dec-18	163	1,000,000	0.6
<b>TRADEABLE INVESTMENT</b>						
XS0739933421	BMW Finance NV	19-Dec-17	14-Dec-18	360	1,000,000	0.691
XS1015890210	Daimler AG	04-Oct-17	16-Jul-18	285	1,000,000	0.805
XS1015890210	Daimler AG	14-Sep-17	16-Jul-18	305	650,000	0.69
					6,674,000	

In addition to the fixed term deposits, the Council has made use of the following Deposit accounts and Money Market Funds:

	Balance at 30 June '18 £'000	Average balance £'000	Interest rate %
Santander Business Reserve Account	£Nil	1,411	0.40
Lloyds Bank Corporate Account	£1,450	1,118	0.40
Goldman Sachs Sterling Liquid Reserves Fund	£Nil	2,003	0.54
Deutsche Managed Sterling Fund	£1,000	1,997	0.53

Approved limits within the Annual Investment Strategy were not breached during the quarter ending 30 June 2018.

## 5.5 Investment performance

Treasury Management investment performance at the end of Quarter 1 is shown in the table below, along with the average 7-day London Interbank Bid (LIBID) Rate. All activity was consistent with the Council's approved Treasury and Investment Strategy for 2017/2018.

Type of Investment	Average return Qtr4 17/18 %	Average return Qtr1 18/19 %
Fixed Term Deposits	0.40	0.59
Treasury Bills	0.35	n/a
Bonds & Certificates of Deposit	0.65	0.65
Money Market Funds	0.48	0.56
Interest Bearing Account	0.40	0.40
Total Investments	0.47	0.53
7 day LIBID Benchmark	0.21	0.36

## 5.6 **Borrowing**

The current account with Lloyds Bank remained in credit throughout the period. No temporary borrowing for cash-flow management purposes took place.

There has been no change in the total value of the Council's long term borrowing in the reporting period, which remains at £56.673m.

## 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 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.

## 6.0 **Audit of 2017/18 Accounts**

6.1 As reported to Cabinet in July 2018, the statutory deadline for local authorities to publish draft accounts and make them available to the Auditor is the 31 May and the deadline for completion of the publication of the audited accounts is the 31 July. Unfortunately a delay in receiving valuation information from an external valuer prevented draft accounts from being released by the deadline.

6.2 The Accounts were sent to the Council's external auditors on 25<sup>th</sup> June, and following discussions with the Audit Manager it was agreed to delay the start of audit until August, as it would have been extremely onus for both the auditors and the finance team to have completed all the audit work by the end of July.

6.3 The audit will commenced on the 13 August and the final accounts and audit report will be submitted to the Audit and Standards Committee for approval at its September meeting.

## 7.0 **Financial appraisal**

7.1 All the financial implicates are contained within the body of the report.

## 8.0 **Legal implications**

8.1 There are not legal implications arising from this report.

## 9.0 **Equality analysis**

9.1 This Finance update is a routine report for which detailed Equality Analysis is not required to be undertaken. the equality implications of individual decisions relating to the projects/services covered in this report are addressed within other relevant Council reports.

## **10.0 Conclusion**

- 10.1 Both the General Fund and HRA budgets are on target. Capital expenditure is in line with expectations.
- 10.2 Treasury Management performance is on target and all activities were within the approved Treasury and Prudential Limits.

## **Appendices**

- **Appendix 1 – General Fund detail analysis by service**
- **Appendix 2 – Housing Revenue Account**
- **Appendix 3 – Capital Programme**

## **Background papers**

The background papers used in compiling this report were as follows:

- Budget monitoring 18/19 working papers
- Arlingclose Economic and Interest Forecast Aug 18

To inspect or obtain copies of background papers please refer to the contact officer listed above.