

Item: 8

Special General Meeting of the Council: 11 June 2020.

Provisional Budget Outturn 2019/20.

Report by Head of Finance.

1. Purpose of Report

To consider the provisional budget outturn position for General Fund Services for 2019/20 and a change to the agreed treatment of a budget surplus.

2. Recommendations

The Council is invited to note:

2.1.

That the coronavirus pandemic has markedly changed the financial outlook in the current financial year and, whilst the Council will make savings in some areas, these savings will fall well short of what will be required to offset additional costs and significantly reduced income.

2.2.

That, on 3 March 2020, when setting the budget and Council Tax levels for 2020/21, the Council agreed that General Fund underspends would be applied to the accelerated repayment of capital debt.

2.3.

That accelerated repayment of capital debt improves the affordability of the capital programme as well as the ability of the Council to fund an expanded capital programme.

2.4.

That, as a result of the changed financial circumstances brought about by the coronavirus pandemic, maximum flexibility for the Council would be afforded in 2020/21, as well as for the budget setting process for 2021/22, through retaining a higher General Fund non-earmarked balance and limiting debt repayments to minimum scheduled debt repayments levels.

2.5.

That, after payment of scheduled debt repayments and interest, £2,431,000 of the loan charges budget for 2019/20 is available to make a contribution to a General Fund underspend which can be carried forward to 2020/21 as part of the General Fund non-earmarked balance.

2.6.

That the provisional budget outturn for 2019/20 indicates an underspend on General Fund services of £766,000 and an unused General Fund contingency of £800,000, making a total of £1,566,000.

2.7.

That the following elements from the 2019/20 budget could therefore make a contribution of £3,997,000 to the General Fund non-earmarked balance which could be carried forward into 2020/21:

- Loan charges – £2,431,000.
- Unused General Fund contingency – £800,000
- General Fund provisional underspend – £766,000.

It is recommended:

2.8.

That the following elements from the 2019/20 outturn be applied to the General Fund non-earmarked balance rather than accelerated debt repayment as previously agreed on 3 March 2020:

- Loan charges – £2,431,000.
- Unused General Fund contingency – £800,000
- General Fund provisional underspend – £766,000.

2.9.

That, should the sums referred to at paragraph 2.8 above not be required, in full, to meet additional pressures in 2020/21 or consequential budget setting pressures for 2021/22, any remaining balance be applied to accelerated debt repayments, when it is deemed financially prudent to do so.

3. Background

3.1.

On 3 March 2020, when setting the revenue budget and Council Tax levels for 2020/21, the Council agreed that any underspends on General fund services would be applied to the repayment of capital debt. This is a practice that has been followed for many years and has allowed the Council to limit the level of borrowing and consequently the cost of debt servicing on future budgets has been controlled.

3.2.

The coronavirus pandemic has markedly changed the financial outlook in the current financial year. Although there are a number of services where some property costs and travel savings may be realised, there are however many services where contractual commitments are being honoured by the Council for a limited or no

service provision and additional expenditure is being incurred on changed models of service delivery. Income in most services has been adversely impacted with a dramatic reduction to nil in numerous service areas.

3.3.

The Council is collating the additional cost pressures and income savings for a COSLA return to Scottish Government which has the purpose of evidencing the estimated additional cost of Government policy on dealing with the coronavirus pandemic to Local Government. The cost to the economy including Local Government would appear to be much higher than the revenue funding available to national governments, meaning that additional support for local government can only come through further borrowing which will cost more to service and repay in future years. It is important to note that it will take time to establish the full extent of the actual additional costs to the Council resulting from the pandemic and based on current information, it would therefore be prudent to assume that the Council will not be fully compensated for the detriment suffered as a result of the pandemic.

4. Provisional General Fund Outturn

4.1.

The Council's Statement of Accounts for the 2019/20 financial year are in the process of being prepared for submission to Auditors by 30 June 2020. The provisional outturn position is now available and the high level summary, attached as Appendix 1 to this report, indicates that a General Fund surplus position has been achieved for 2019/20.

4.2.

The provisional outturn is a General Fund underspend for 2019/20 on service provision of £766,000 and an unused balance of £800,000 on the General Fund contingency. These sums would have been applied as accelerated debt repayments under the policy agreed on 3 March 2020. Under the changed circumstances as a result of the pandemic however, it would be desirable to retain flexibility over how these sums are applied so that they can be used for revenue purposes, if required, in the current financial year.

5. Loan Charges

5.1.

The approved Loan Charges budget for 2019/20 was £3,405,000 which, after scheduled principal repayments and interest and programme management costs of £968,000, leaves a remaining balance of £2,431,000. The remainder of the 2019/20 loan charges budget could be switched from making accelerated debt repayments, to contribute to a General Fund underspend which would be carried forward as part of the General Fund non-earmarked balance.

5.2.

The repurposing of the remainder of the loans charges budget to boost the General Fund revenue balance will have a detrimental impact on the affordability of the Capital Programme. The affordability funding calculation for the Capital Programme assumes £2,000,000 of accelerated debt repayment for 2019/20. The immediate priority however is to try and maximise the sums available to meet the pressures that are mounting on the 2020/21 revenue budget and in the current circumstances it is deemed prudent to adopt this approach.

5.3.

If the recommendations are agreed, it should be possible to recover the assumed affordability position on the Capital Programme in future through a combination of the following measures:

- Reinstating acceleration of debt repayment in future years by increasing the revenue loan charges budget.
- Revisiting the assumption on the funding level of General Capital Grant over the life of capital programme, which was reduced from £6.0 million to £5 million per annum from 2019/20.
- Committing the assumed available headroom of £1.1 million in General Capital Grant for Years 6 and 7 (2024/25 and 2025/26) to projects that would otherwise have been borrowed for.
- Removing £2 million of planned spend from the capital programme, which would be the subject of a separate report.

5.4.

It is therefore further recommended that the principle of reinstating the additional contributions to General Fund balances, to make accelerated debt repayments, when it is deemed financially prudent to do so, be agreed. Therefore, if the full sum of £3,997,000 is not required to meet additional pressures in 2020/21 or consequential budget setting pressures for 2021/22, any balance would be applied as accelerated debt repayments in accordance with previous policy decisions albeit at reduced levels.

6. Corporate Governance

6.1.

This report relates to the Council complying with its financial processes and procedures and therefore does not directly support and contribute to improved outcomes for communities as outlined in the Council Plan and the Local Outcomes Improvement Plan.

6.2.

However, when considering the budget setting issues for 2020/21, cognisance has been taken of the Council's duty to meet statutory obligations, together with the declared key priorities of the Council, and how these might be progressed with the resources currently available.

7. Financial Implications

7.1.

The financial implications are largely contained in the body of the report.

7.2.

The General Fund non-earmarked balance at 1 April 2020 was £4,787,100. The proposed contribution of £3,997,000 to the General Fund non-earmarked balance would increase the fund value to £8,784,100.

8. Legal Aspects

8.1.

The recommendation to apply General Fund underspends to the General Fund non-earmarked balance rather than to accelerated debt repayment would be contradictory of a Decision of the Council within the last 12 months. Accordingly, in terms of Standing Order 23.1, this recommendation would normally not be competent in the absence of a suspension of Standing Orders. However, in terms of Standing Order 23.2, it will be competent for the Council to review a Decision before the end of the 12 month period provided that the Chief Executive is satisfied that a material change of circumstances has occurred. The material change of circumstances must be recorded in the Minute and no suspension of Standing Orders would be necessary. The coronavirus pandemic would appear to constitute a material change of circumstances in the present case

8.2.

The Council is required by law to make arrangements which secure best value.

9. Contact Officer

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10. Appendix

Appendix 1: Provisional General Fund Budget Outturn for financial year 2019/20.

GENERAL FUND BUDGET STATEMENT up to 31 MARCH 2020

Department	Actual Expenditure to Date	Anticipated Expenditure to Date	Over/(Under) Spend	%age	Annual Budget
Central Administration	(129,488.33)	73,700	(203,188.33)	(56.92)	73,700
Education	33,248,831.41	33,417,100	(168,268.59)	99.50	33,417,100
Leisure & Cultural Services	4,373,965.13	4,232,200	141,765.13	103.35	4,232,200
Orkney Health & Care	19,939,704.77	19,939,700	4.77	100.00	19,939,700
Law, Order & Protective Services	102,055.83	113,500	(11,444.17)	89.92	113,500
Roads	3,526,786.31	3,325,600	201,186.31	106.05	3,325,600
Transportation	6,933,969.32	7,112,800	(178,830.68)	97.49	7,112,800
Operational Environmental Services	3,193,359.21	2,829,800	363,559.21	112.85	2,829,800
Environmental Health & Trading Standards	826,965.23	872,700	(45,734.77)	94.76	872,700
Other Housing	1,333,583.63	1,567,700	(234,116.37)	85.07	1,567,700
Economic Development	1,807,292.33	1,943,400	(136,107.67)	93.00	1,943,400
Planning	854,602.85	950,500	(95,897.15)	89.91	950,500
Other Services	6,580,957.78	10,226,300	(3,645,342.22)	63.65	10,226,300
	82,592,585.47	86,605,000	(4,012,414.53)	95.37	86,605,000
Sources of Funding	(86,589,775.07)	(86,605,000)	15,224.93	99.98	(86,605,000)
General Fund Outturn 2019/20	(3,997,189.60)	0	(3,997,189.60)	0.00	0

High Level Analysis

Cummulative Services outturn	£000's	766
Contingency Budget Not Used		800
Loan Charges Budget Not Applied		2,431
		3,997