

## **Item: 5**

### **Investments Sub-committee: 3 September 2020.**

#### **Revenue Expenditure Outturn.**

#### **Report by Head of Finance.**

### **1. Purpose of Report**

To advise of the revenue outturn position for financial year 2019 to 2020 across each of the service areas for which the Sub-committee is responsible.

### **2. Recommendations**

The Sub-committee is invited to note:

#### **2.1.**

The revenue expenditure outturn statement in respect of Strategic Reserve Fund services for financial year 2019 to 2020, attached as Annex 1 to this report, indicating a budget deficit position of £20,050,400.

The Sub-committee is invited to scrutinise:

#### **2.2.**

The explanations given and actions proposed in respect of significant budget variances, as outlined in the Budget Action Plan, attached as Annex 2 to this report, in order to obtain assurance that action is being taken with regard to significant budget variances.

### **3. Background**

#### **3.1.**

On 5 March 2019, the Council set its overall revenue budget for financial year 2019 to 2020. On 23 April 2019, the Policy and Resources Committee received the detailed revenue budgets which form the basis of the individual revenue expenditure monitoring reports.

#### **3.2.**

Individual revenue expenditure monitoring reports are circulated as briefing reports every month to inform Elected Members of the up to date financial position. Quarterly revenue expenditure monitoring reports are presented to individual service committees, replacing the need for a monthly budget briefing this reporting period.

### **3.3.**

In terms of revenue spending, at an individual cost centre level, budget holders are required to provide an explanation of the causes of each material variance and to identify appropriate corrective actions to remedy the situation.

### **3.4.**

Material variances are identified automatically as Priority Actions within individual budget cost centres according to the following criteria:

- £10,000 and 10% more or less than Anticipated position (1b).
- £50,000 more or less than Anticipated position (1c).

### **3.5.**

Priority Actions can be identified at the Service Function level according to the same criteria and these are shown in the Revenue Expenditure Statements. As with individual cost centre variances, each of these Priority Actions requires an explanation and corrective action to be identified and these are shown in the Budget Action Plan.

### **3.6.**

The details have been provided following consultation with the relevant Executive Directors and their staff.

## **4. Financial Summary**

### **4.1.**

The revenue expenditure outturn statement is attached as Annex 1 to this report.

### **4.2.**

The Budget Action Plan, attached as Annex 2 to this report, provides an explanation and proposed corrective action for each of the Priority Actions identified.

## **5. Corporate Governance**

This report relates to the Council complying with its governance and financial process 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. Financial Implications**

### **6.1.**

The Financial Regulations state that service directors are able to incur expenditure within an approved revenue budget. Such expenditure must be in accordance with the Council's policies or objectives subject to compliance with these Financial Regulations and approved schemes of delegation.

## **6.2.**

Additional expenditure requirements identified during the financial year can only be approved by means of a spending recommendation to the Policy and Resources Committee, subject to the use of emergency powers.

## **6.3.**

The outturn statements include a number of accounting entries required to comply with proper accounting practice, including International Financial Reporting Standards. This includes accounting for the use of fixed assets, for example, depreciation and revaluations, current service cost of pensions and accumulated staff absences.

## **7. Legal Aspects**

Financial monitoring and reporting help the Council meet its statutory obligation to secure best value.

## **8. Contact Officer**

Gareth Waterson, Head of Finance, extension 2103, Email [gareth.waterson@orkney.gov.uk](mailto:gareth.waterson@orkney.gov.uk).

## **9. Annexes**

Annex 1: Revenue Expenditure Outturn Statement.

Annex 2: Budget Action Plan.

## Annex 1: Revenue Expenditure Outturn Statement for Financial Year 2019 to 2020

|                              | Spend<br>£000   | Budget<br>£000 | Over/Under      |              | Annual<br>Budget<br>£000 |
|------------------------------|-----------------|----------------|-----------------|--------------|--------------------------|
|                              |                 |                | Spend<br>£000   | %            |                          |
| <b>General Fund Services</b> |                 |                |                 |              |                          |
| Strategic Reserve Fund       | 20,050.4        | 2,376.1        | 17,674.3        | 843.8        | 2,376.1                  |
| <b>Service Totals</b>        | <b>20,050.4</b> | <b>2,376.1</b> | <b>17,674.3</b> | <b>843.8</b> | <b>2,376.1</b>           |

|                                  | PA | Spend<br>£000   | Budget<br>£000 | Over/Under      |              | Annual<br>Budget<br>£000 |
|----------------------------------|----|-----------------|----------------|-----------------|--------------|--------------------------|
|                                  |    |                 |                | Spend<br>£000   | %            |                          |
| <b>Strategic Reserve Fund</b>    |    |                 |                |                 |              |                          |
| Investment Activities            | 1c | 16,028.2        | -5,705.6       | 21,733.8        | n/a          | -5,705.6                 |
| Investment Properties            | 1c | -854.8          | -615.0         | -239.8          | 139.0        | -615.0                   |
| Local Investments                | 1c | 1,492.0         | 930.3          | 561.7           | 160.4        | 930.3                    |
| Conservation Fund                |    | -1.9            | 0.0            | -1.9            | n/a          | 0.0                      |
| Travel Fund                      |    | -1.0            | 0.0            | -1.0            | n/a          | 0.0                      |
| Talented Performers Fund         |    | -0.5            | 0.0            | -0.5            | n/a          | 0.0                      |
| Flotta Decommissioning Fund      | 1c | 0.0             | -187.4         | 187.4           | 0.0          | -187.4                   |
| Talented Young Persons Fund      |    | 2.6             | 0.0            | 2.6             | n/a          | 0.0                      |
| Orkney Memorial Fund             |    | 21.6            | 31.0           | -9.4            | 69.7         | 31.0                     |
| Renewable Energy Investment Fund | 1c | -220.6          | -300.0         | 79.4            | 73.5         | -300.0                   |
| Movement in Reserves             | 1c | 3,635.8         | 8,273.8        | -4,638.0        | 43.9         | 8,273.8                  |
| Finance and Capital Charges      |    | -51.0           | -51.0          | 0.0             | 100.0        | -51.0                    |
| <b>Service Totals</b>            |    | <b>20,050.4</b> | <b>2,376.1</b> | <b>17,674.3</b> | <b>843.8</b> | <b>2,376.1</b>           |

### **Movement in Reserves Statement**

|  |                |
|--|----------------|
| IFRS Accounting Entries  | 59.5           |
| <u>Transfer to Reserves:</u>   |                |
| Annual Contribution to General Fund Services                         | 6,050.0        |
| General Fund Contribution - Island Games                             | 19.7           |
| <u>Transfer from Reserves:</u>                                       |                |
| Contribution from Scapa Flow Oil Port in Respect of Year-end Surplus | -2,419.4       |
| RRR Fund - Contributions to Strategic Projects                       | -60.2          |
| RRR Fund - Contributions to Onshore Wind Private Wire Project        | -13.8          |
|  | <b>3,635.8</b> |

### **Strategic Reserve Fund Statement of Reserves**

|                                     |                   |
|-------------------------------------|-------------------|
| Closing Balance b/f 31 March 2019   | -240,958.6        |
| * Restatement of 2018/19            | 29,865.9          |
| Opening Balance 1 April 2019        | -211,092.7        |
| Financial Year 2019/20 Deficit      | 20,050.4          |
| Closing Balance as at 31 March 2020 | <b>-191,042.3</b> |

\* A review of the Flotta Decommissioning agreement concluded that a contractual commitment exists which has now been provided for in full. On the basis that this agreement was established in 1999 it has been necessary to backdate the provision into prior years and restate the Strategic Reserve Fund closing fund balance as at 31 March 2019.

**Annex 2:****Budget Action Plan**

| <b>Strategic Reserve Fund</b> |  |   |                            |
|-------------------------------|--|---|----------------------------|
| <b>Function</b>               | <b>Function Description / Explanation</b>  | <b>Action Category/<br/>Action Description</b>  | <b>Responsible Officer</b> |
| <b>R55C</b>                   | <p><b>Investment Activities</b></p> <p>Less than anticipated income by £21,733.8K</p> <p>Reduced income from investment activities for the year. Following a sustained period of strong investment performance in 2019, investors reacted negatively to the uncertainty that existed surrounding COVID-19 with the result that the financial markets suffered a sharp correction in quarter 1 of 2020.</p> | <p>The value of investments can be affected by fluctuations in the financial markets over the short term.</p> <p>The underlying performance of the Strategic Reserve Fund's managed funds investments is measured over a rolling three-year period to smooth out any market fluctuations over the short term, while the budget assumes that an average or smoothed level of investment performance can be achieved each year.</p> | <b>G Waterson</b>          |
| <b>R55D</b>                   | <p><b>Investment Properties</b></p> <p>Less than anticipated expenditure by £239.8K</p> <p>Due to both an underspend on property costs and more income than budgeted. Expenditure on the Investment Properties will fluctuate depending on the individual circumstances for each asset during the year.</p>  | <p>This will be reviewed when looking at future budget commitments and assumptions.</p>   | <b>H Green</b>             |
| <b>R55F</b>                   | <p><b>Local Investments</b></p> <p>More than anticipated expenditure by £561.7K</p> <p>The overspend is due to an impairment of the Council's investment in a local company.</p>   | <p>No action required.</p>  | <b>G Waterson</b>          |

**Annex 2:****Budget Action Plan**

| <b>Strategic Reserve Fund</b> |   |  |                                |
|-------------------------------|---|--|--------------------------------|
| <b>Function</b>               | <b>Function Description / Explanation</b>   | <b>Action Category/<br/>Action Description</b> | <b>Responsible<br/>Officer</b> |
| <b>R55N</b>                   | <b>Flotta Decommissioning Fund</b><br><br>Less than anticipated income by £187.4K.<br><br>A provision was established in respect of the contractual commitment during the year.                         | No action required.                            | <b>G Waterson</b>              |
| <b>R55V</b>                   | <b>Renewable Energy Investment Fund</b><br><br>Less than anticipated income by £79.4K.<br><br>Actual dividends received on Hammars Hill Energy Limited investments are lower than originally estimated. | Review the budget for 2021/22.                 | <b>G Waterson</b>              |
| <b>R55W</b>                   | <b>Movement in Reserves</b><br><br>Less than anticipated expenditure by £4,638.0K.<br><br>Mainly in respect of slippage on Strategic Projects.  | No action required.                            | <b>G Waterson</b>              |