

Item: 4

Policy and Resources Committee: 17 April 2018.

Detailed Revenue Budgets for 2018 to 2019.

Report by Head of Finance.

1. Purpose of Report

To present the detailed revenue budgets for 2018 to 2019.

2. Recommendations

The Committee is invited to note:

2.1.

That, on 22 February 2018, when setting the budget and Council Tax levels for 2018 to 2019, the Council delegated powers to the Head of Finance to revise the approved General Fund revenue budget, following confirmation of outstanding funding levels from the Scottish Government.

2.2.

That the Scottish Government revenue grant funding to the Council for financial year 2018 to 2019 has been confirmed at £74,620,000.

2.3.

That the General Fund revenue budget for financial year 2018 to 2019 has now been set at £82,022,200.

2.4.

The detailed revenue budgets for financial year 2018 to 2019, in respect of the undernoted services, attached as Annex 1 to this report:

- General Fund Services.
- Housing Revenue Account.
- Scapa Flow Oil Port.
- Miscellaneous Piers and Harbours.
- Orkney College.
- Corporate Holding Accounts.
- Strategic Reserve Fund.
- Orkney Islands Council Pension Fund.

3. Policy Aspects

When considering the budget setting issues for 2018 to 2019, 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.

4. Introduction

4.1.

On 22 February 2018, the Council set the revenue budget and Council Tax levels for 2018 to 2019.

4.2.

Accordingly, the General Fund revenue budget for financial year 2018 to 2019 was set at £81,931,200, with powers be delegated to the Head of Finance to revise the budget in respect of any change to the provisional funding level from the Scottish Government.

4.3.

The Council's agreed budget strategy has been applied to the detailed service budgets, attached as Annex 1 to this report, and will form the basis of the revenue budget monitoring statements for 2018 to 2019.

5. General Fund Services

5.1.

Since the Council agreed the General Fund Budget and set the Council Tax for 2018 to 2019, the local government allocations in the updated finance circular 4/2018 in the settlement has changed as set out in the tables below.

	Policy and Resources Committee 13 February 2018	Finance Circular 4/2018	Difference
	£	£	£
Ring-Fenced Grants	535,600	6,188,000	5,652,400
Non-Domestic Rates	9,376,000	9,376,000	0
General Revenue Funding	58,965,000	59,056,000	91,000
Total General Revenue Funding	68,876,600	74,620,000	5,743,400

	Finance Circular 4/2018
	£
Ring-Fenced Grants	
Criminal Justice	(32,400)
Pupil Equity Fund	(4,200)
Early Learning and Child Care	189,000
Ferries Funding	5,500,000
General Revenue Funding	
Discretionary Housing Payments	80,000
1 and 2 Languages	11,000
Total Difference	5,743,400

5.2.

The Council's settlement from the Scottish Government has now been confirmed in Finance Circular No 4/2018 at £74,620,000.

5.3.

Accordingly, the General Fund revenue budget for financial year 2018 to 2019 has been set at £82,022,200, an increase of £91,000 from that reported in February 2018. The changes are as follows:

	£
Policy and Resources Committee, 13 February 2018.	81,931,200
Additional Scottish Government Funding.	
Discretionary Housing Payments.	80,000
1 and 2 Languages.	11,000
General Fund Revenue Budget 2018 to 2019.	82,022,200

6. Housing Revenue Account

6.1.

The Housing Revenue Account is financed almost entirely by rents and other charges paid by Council tenants; it is not funded in any part from revenue raised through Council Tax.

6.2.

The Council is required to maintain a separate Housing Revenue Account covering income and expenditure in respect of specified houses, buildings and land. There is a legal requirement for Housing Revenue Account income and expenditure to be in balance at the end of each financial year.

6.3.

Existing commitments to Council house building will involve additional Housing Revenue Account borrowing of £261,000 during 2018 to 2019 to fund the House Build Development Programme.

6.4.

The agreed rent increase of 3.0% for 2018 to 2019 is based on the Consumer Prices Index as at 30 September 2017. This equates to an increase in the average rent figure from £82.14 to £84.60 per week, over the 48-week period that rents are charged during the year. Four weeks of the year are referred to as “Free weeks” – one at the start of each year, two over the festive break and one at the end of the year.

6.5.

The Housing Revenue Account expenditure budget for 2018 to 2019 is set at £3,721,400, an increase of £116,700 or 3.2% over the previous year’s figures.

7. Scapa Flow Oil Port

7.1.

In terms of section 67 of the Orkney County Council Act 1974, the Council maintains a separate trading account for the Scapa Flow Oil Port, so as to distinguish capital from revenue and income from expenditure.

7.2.

In line with Open Port Duties and the need to support oil port activities at Flotta, Ship to Ship operations, tanker anchoring and movements throughout the port area, the Harbour Authority requires a 24-hour, 7 day per week operation. This means that there is a requirement to incur a substantial level of expenditure to maintain this level of service. For the Oil Port, the expenditure projections assume the service level continues as in 2018 to 2019 adjusted for the Council’s budget strategy and tanker traffic.

7.3.

The income levels for the Scapa Flow Oil Port account are mainly dependent on the number of oil tankers that will load at the Flotta Terminal during the year but account is taken of diversification into Ship to Ship operations and rig and vessel mooring. The income projections on the draft revenue budgets presented to the Harbour Authority Sub-committee on 23 January 2018 were based on 49 tankers. This has now been updated to 41 tankers with an average gross tonnage of 59,000 gross tonnes (GT). This change equates to a reduction of £1,203,900 in income against the original draft revenue budget. The changes are as follows:

	£
Harbour Authority Sub-committee, 23 January 2018 - Estimated Surplus.	-2,466,100
Reduction in income for Tankers from 49 to 41.	1,203,900
Staff costs inflation increase from 2% to 3%.	4,900
Revised Scapa Flow Oil Port surplus 2018 to 2019	-1,257,300

7.4.

In terms of Section 69 (1) of the Orkney County Council Act 1974, the surplus achieved will be credited to the Strategic Reserve Fund which the Council can thereafter invest or utilise in terms of Sections 69 (2) and (3) of the Act.

8. Miscellaneous Piers and Harbours

8.1.

The Council maintains a separate trading account for Miscellaneous Piers and Harbours to distinguish it from General Fund Services and to demonstrate to harbour users that the dues paid for use of the Council's Piers and Harbours are ring-fenced for the provision of harbour services or applied to the maintenance of the piers and harbours. The main income sources for 2018 to 2019 are cruise ship revenues, Northlink Roll On Roll Off services, freight services and internal ferry services.

8.2.

The proposed Maintenance Programme has an estimated cost of £1,948,100 for financial year 2018 to 2019.

8.3.

In recognition of the ongoing maintenance requirement, it is considered prudent to set aside operating surpluses on the Miscellaneous Piers and Harbours account in a Repairs and Renewals Fund.

8.4.

Overall a budget deficit of £520,900 is anticipated after maintenance expenditure of £1,948,100 for financial year 2018 to 2019. The deficit will be met from prior year surpluses set aside in the Repairs and Renewals Fund.

9. Orkney College

9.1.

Orkney College is an academic partner in the University of the Highlands and Islands although it is incorporated under the Council.

9.2.

Orkney College aims to realise a surplus each financial year or at the very least to achieve a break-even position. This should be possible through the income received from students attending the courses along with funding from outside bodies.

9.3.

The Scottish Funding Council provides core funding for Orkney College each year and, in addition, grants are claimed from external bodies such as Highland and Islands Enterprise, European Social Funding, European Regional Development Fund, Skills Development and the Student Awards Agency for Scotland.

9.4.

The expenditure budget required for 2018 to 2019 is £4,977,200, an increase of £394,900 on the previous year. This is matched by increased income from fees and charges and grant funding.

10. Corporate Holding Accounts

10.1.

The Corporate Holding Accounts relate to the budgets for General Fund, Miscellaneous Piers and Harbours and Housing Revenue Account Repairs and Maintenance to properties, and General Fund Ground Maintenance costs.

10.2.

These budgets are fully funded from contributions received from General Fund Services, Miscellaneous Piers and Harbours and the Housing Revenue Account that require repairs, maintenance and ground maintenance works to be completed during the year.

10.3.

Contributions are made at the beginning of each financial year to ensure the budget is in place in advance of the costs being incurred.

11. Strategic Reserve Fund

11.1.

After allowing for the projected reduction in respect of the Scapa Flow surplus as detailed at section 7.3 above, the Strategic Reserve Fund budget assumes that a surplus of £14,059,500 can be generated from the following main activities:

- Managed funds investments of £12,201,000.
- Surplus of £1,257,600 on the activities of the Scapa Flow Oil Port.
- Local investments of £600,900.

11.2.

The agreed disbursements of £7,210,000 from the Strategic Reserve Fund are as follows:

- General Fund Services – £4,684,000.
- Contribution to Housing Revenue Account – £320,000.
- Contribution to replacement St Rognvald House facility – £1,200,000.
- Contribution to Strategic Projects – £1,006,000.

11.3.

The net budgeted position on the activities of the Strategic Reserve Fund is a surplus of £6,849,500 for financial year 2018 to 2019.

12. Orkney Islands Council Pension Fund

12.1.

The Council is the administering authority for the Orkney Islands Council Pension Fund.

12.2.

The principal heads of expenditure are staff costs, third party payments for the pension fund software system and professional advisers' costs.

12.3.

An actuarial valuation of the assets and liabilities of the Pension Fund was last completed as at 31 March 2014. The next valuation was due as at 31 March 2017 and was carried out during 2017 to 2018.

12.4.

The net budgeted position on the activities of the Pension Fund is a surplus of £25,501,600.

13. Financial Implications

The financial implications are detailed throughout the report.

14. Legal Aspects

There are no direct legal implications arising from the recommendations of this report.

15. Contact Officer

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16. Annex

Annex 1: Orkney Islands Council Revenue Estimates for financial year 2018 to 2019.