

Item: 5

Policy and Resources Committee: 25 February 2020.

Strategic Reserve Fund – Budget Review and Long-Term Forecast.

Report by Head of Finance.

1. Purpose of Report

To review the level of disbursements from the Strategic Reserve Fund used to support General Fund Services and other Council priorities for financial year 2020/21 onwards.

2. Recommendations

The Committee is invited to note:

2.1.

That the Strategic Reserve Fund Managed Funds investments are predicted to outperform the approved budget for financial year 2019/20, as indicated in the probable outturn column of Appendix 2 to this report.

2.2.

That a review of the Flotta Terminal Decommissioning Agreement confirmed that the Flotta Terminal Decommissioning Fund balance of £29,866,000 should be accounted for as a provision rather than as an earmarked balance.

2.3.

That the treatment of accounting for the Decommissioning Fund balance as a provision is to charge the value of the provision to the Strategic Reserve Fund in-year as an expense.

2.4.

That, after allowing for distributions of £7,136,000 during financial year 2019/20, the value of the Strategic Reserve Fund is estimated to decrease by £19,741,000 to £222,587,000 as at 31 March 2020.

2.5.

That, with existing distribution commitments of £11,577,000 for financial years 2020/21, 2021/22 and 2022/23, and with £22,050,000 allocated to support General Fund Services over the same period, the available headroom within the Strategic Reserve Fund relative to the minimum balance or “Floor” is estimated to decline from £19,805,000 to £5,270,000, or from approximately 8.7% to 2.3% of usable reserves, over the next three years.

2.6.

That, while much uncertainty remains within the global economy and therefore considerable volatility can be anticipated from investment returns over the short to medium term, the investment strategy for the Strategic Reserve Fund has been amended to improve the focus on income generation going forward and reduce the level of volatility in returns.

2.7.

That the draft long term 10-year budget forecast, attached as Appendix 3 to this report, indicates that the Strategic Reserve Fund is sustainable over this period based on an assumed level of income generation being achieved and a restricted level of disbursements.

2.8.

That a prudent approach is recommended when giving consideration to requests for additional disbursements from the Strategic Reserve Fund over the next three financial years.

It is recommended:

2.9.

That the contribution from the Strategic Reserve Fund to the General Fund for financial years 2020/21, 2021/22 and 2022/23 be set at a cumulative total of £22,050,000 over the three-year period, with the actual contributions for 2021/22 and 2022/23 to be confirmed when the budgets for those years are set.

2.10.

That a minimum balance or “Floor”, below which the value of the Strategic Reserve Fund should not fall, be set at £213,203,000 as at 1 April 2020.

2.11.

That, in line with the aspiration of setting a three-year budget, indicative figures of £219,600,000 and £226,188,000 be set as a minimum balance or “Floor”, below which the value of the Strategic Reserve Fund should not fall for financial years 2021/22 and 2022/23 respectively, subject to review annually thereafter.

2.12.

That the draft Strategic Reserve Fund budget for financial years 2020/21, 2021/22 and 2022/23, attached as Appendix 2 to this report, be approved.

2.13.

That the long-term 10-year budget forecast for the Strategic Reserve Fund, attached as Appendix 3 to this report, be approved.

3. Background

3.1.

The purpose of the Strategic Reserve Fund is to support projects which provide benefit to the Orkney community as a whole, such as the development of industrial estates, harbour infrastructure and recreational projects, while supporting economic development activity in general across the Council area. The Strategic Reserve Fund is also required to support the long-term objective of managing the implications associated with declining oil related revenues on the economy of the islands and to contribute to the decommissioning costs of the Flotta terminal at the end of its life.

3.2.

The Strategic Reserve Fund has been applied to supplement General Fund services on a restricted basis as part of a strategy, whereby the Council has pressed Scottish Government for equality of treatment in the finance settlement across the Island unitary authorities. When the Council set the budget for financial year 2019/20, it was agreed that £6,050,000 from the Strategic Reserve Fund be used as a funding source to supplement the General Fund revenue budget.

3.3.

Over-reliance on the Strategic Reserve Fund as a means of balancing the General Fund budget as part of a long-term financial strategy is not best practice, particularly given the levels of volatility that continue to impact on investment returns.

3.4.

A review of the investment strategy for the Strategic Reserve Fund managed funds reported in March 2016 concluded that, due to higher levels of volatility and risk which existed in the financial markets, there was a greater probability of an adverse outcome being realised by the Fund in terms of investment performance. In light of this, it was agreed that Strategic Reserve Fund's exposure to equities as a growth asset would be reduced through a process of diversification, as a means of lowering volatility and risk.

3.5.

More recently, a further review of the investment strategy was commissioned in light of concerns raised by the Investments Sub-committee that the Council's approach to investing the Strategic Reserve Fund managed funds was relatively conservative and that opportunities were not being maximised at a time of extreme volatility in the financial markets. The findings of this review were duly reported to the Investments Sub-committee on 28 February 2018 and can be summarised as follows:

3.5.1.

The expected returns under the current strategy is 5.4% per annum with a 1-year volatility of +/-8.8% per annum. This level of income was considered sufficient to support annual distributions from the Fund of approximately £4,000,000 per annum and still maintain the value of the Strategic Reserve Fund in real terms.

3.5.2.

Additional income generation from other activities such as investment properties and other local investments, including the Scapa Flow Oil Port, means that a higher level of distributions is affordable over the short to medium term.

3.5.3.

Distributions from the Strategic Reserve Fund have not been financed directly from the liquidation of Strategic Reserve Fund investments or income distributions, but instead through internal borrowings on the Council's loans fund as a means of managing internal cashflow balances. This has allowed the value of the Strategic Reserve Fund managed fund investments to grow from £175,000,000 on 1 April 2012 to £240,359,754 as at 31 December 2019.

3.5.4.

Both the plans for future distributions together with how these will be financed, therefore, has the potential to impact on the attitude to the level of investment risk and return and, therefore, the investment objectives of the Strategic Reserve Fund.

3.5.5.

Notwithstanding that the distribution commitments on the Strategic Reserve Fund over the short to medium terms are jointly financed by other sources of income, an income focused investment strategy was adopted in preference to a growth strategy on the basis that higher risk means more unpredictable returns over time which can impact on the affordability of disbursements going forward.

3.5.6.

Revisions to the investment strategy include further diversification away from Equities as an asset class along with the introduction of new mandates for Illiquid Debt and Secured Income, the divestment from UK Equities in favour of Global Equities with a 50:50 growth to value style bias along with Corporate Bonds switching from active to a passive management approach.

3.5.7.

The revised income focused strategy with an expected return of 5.6% per annum, and a 1-year volatility of +/-7.8% per annum, is anticipated to facilitate distributions of approximately £4,500,000 per annum before the value of the Fund starts to be eroded.

4. Budget Monitoring 2019/20

4.1.

The Strategic Reserve Fund investments have performed relatively well in financial year 2019/20 with managed fund investments expected to deliver a surplus of £15,000,000 against a £6,000,000 budget.

4.2.

The overall reported position for the Fund however is predicted to be an anticipated loss of £19,741,000, which is well behind the overall budgeted position.

4.3.

This negative position can mainly be attributed to a change in the accounting treatment for the Council's financial commitment towards the future decommissioning of the Flotta Oil Terminal. This is partly offset by the positive performance of the Council's managed funds investments and Scapa Flow Oil Port, together with slippage on planned distributions from the Strategic Reserve Fund during the financial year.

4.4.

The main factors contributing towards the probable outturn position at 31 March 2020, and as set out in the budget statement, attached as Appendix 1 to this report, are as follows:

- Investment activities – managed funds income of £15,000,000, including unrealised gains in the value of investments, which is £9,077,000 ahead of budget.
- Investment activities – other expenditure of £30,384,000, including £29,866,000 in respect the requirement to recognise the Council's financial commitment towards the future decommissioning the Flotta Oil Terminal by way of an accounting provision.
- Surplus on the Scapa Flow Oil Port of £1,736,000 which is slightly ahead of budget.
- Distributions of £7,136,000 which is £3,165,000 behind budget.

5. Review of Decommissioning Agreement and Costs

5.1.

In their 2018/19 Annual Audit Report presented to the Monitoring and Audit Committee on 26 September 2019, Audit Scotland highlighted the risk in relation to the Flotta Decommissioning Fund earmarked balance, in that the sum set aside may not be enough to meet the cost of any unexpected event. The Audit Report contained a recommendation that the Council should obtain an up to date estimate of the decommissioning costs and ensure the sum set aside to meet any unexpected events is fair and reasonable.

5.2.

Further information on the Decommissioning Agreement and costs are detailed in Appendix 1 to this report.

6. Review of the Floor

6.1.

The minimum balance or “floor” for the Strategic Reserve Fund was established at £175,000,000, as at 1 April 2012, and has been recalculated using the Retail Price Index (RPI) to maintain its capital value in real terms. The calculation is based on the official figures available from the Office for National Statistics, together with estimates from the UK Government Autumn Budget Statement and spending review, and as such are updated annually as follows:

Year.	RPI as at March.	RPI Estimate.	RPI Actual.	Updated Floor.	
01 April 2012.	240.8.			£175,000,000.	
01 April 2013.	248.7.		3.28%.	£180,741,000.	Actual.
01 April 2014.	254.8.		2.45%.	£185,174,000.	Actual.
01 April 2015.	257.1.		0.90%.	£186,846,000.	Actual.
01 April 2016.	261.1.		1.56%.	£189,753,000.	Actual.
01 April 2017.	269.3.		3.14%.	£195,707,000.	Actual.
01 April 2018.	278.2.		3.30%.	£202,166,000.	Actual.
01 April 2019.	285.1.		2.49%.	£207,195,000.	Actual.
01 April 2020.		2.90%.	n/a.	£213,203,000.	Estimate.
01 April 2021.		3.00%.	n/a.	£219,600,000.	Estimate.
01 April 2022.		3.00%.	n/a.	£226,188,000.	Estimate.

6.2.

By way of comparison, the value of the Strategic Reserve Fund usable reserves has been estimated at £222,587,000 as at 31 March 2020. This compares favourably with the minimum balance or “floor” of £207,195,000 as at 1 April 2019 and represents probable headroom of £15,392,000 for financial year 2019 to 2020. Thereafter, the headroom is forecast to decline to £5,270,000 over the three years to 31 March 2023, as the level of disbursements on the Strategic Reserve Fund exceeds the amount of income generated in real terms.

6.3.

While budget projections assume that the available headroom within the Strategic Reserve Fund will decline from £19,805,000 to £5,270,000, or from approximately 8.7% to 2.3% of usable reserves, over the three financial years from 2020 to 2023, these estimates need to be considered in the context of the uncertainty that remains within the global economy.

6.4.

As such, it is considered that much volatility can still be anticipated from the Council's investment returns over the short to medium term, and therefore a prudent approach is recommended when giving consideration to any requests for additional disbursements over this period.

6.5.

In setting a budget for financial year 2020/21, a minimum balance or "floor" for the Strategic Reserve Fund of £213,203,000 should be applied as at 1 April 2020.

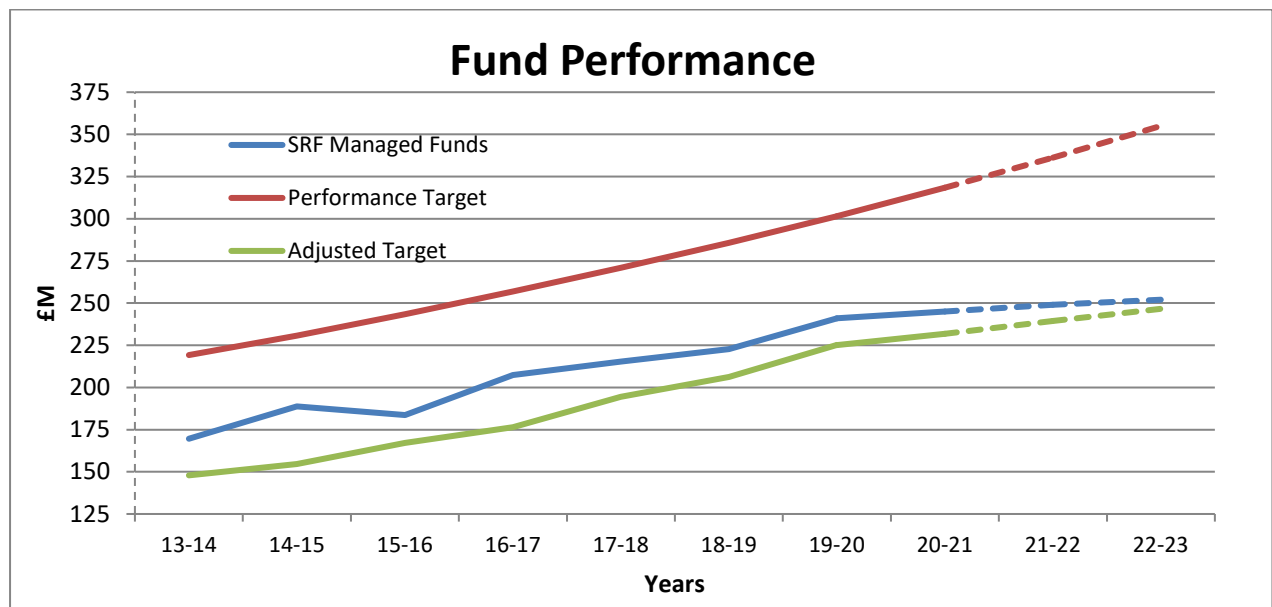
6.6.

Also, in line with setting a three-year budget, indicative figures of £219,600,000 and £226,188,000 should be set as a minimum balance or "Floor", below which the value of the Strategic Reserve Fund should not fall for financial years 2021/22 and 2022/23 respectively. These indicative figures for years two and three will be subject to an annual review as part of the Council's budget setting process.

7. Strategic Reserve Fund Performance

7.1.

Performance of the Strategic Reserve Fund managed funds is depicted in the following chart and demonstrates that the value of the Council's investments has fallen below target over the last 8 years. While performance was initially ahead of the long-term investment target of 5.0% (increased to 5.5% in 2015/16 and 5.6% in 2020/21), it is clear that, despite a significant improvement in performance in recent years, the target has not been achieved over the remaining periods.



7.2.

The main contributory factors to this apparent level of underperformance are as follows:

- £29,500,000 was brought in-house from Strategic Reserve Fund managed funds in financial year 2011/12 as part of an agreed change in investment strategy to manage cash balances in-house.
- Since 2012, a further £6,900,000 has been brought in-house from Strategic Reserve Fund managed funds, with a further estimated £31,866,000 to be drawn down over the 3-year period 2020 to 2023.

7.3.

While bringing Strategic Reserve Fund managed funds in-house for cash flow and investment strategy purposes, as noted above, would normally mean that these funds are now held in-house by the Council as cash balances, due to the level of disbursements made from the Strategic Reserve Fund over this period, these balances have since been depleted such that the Strategic Reserve Fund is now effectively a borrowing account from the Council's internal Loans Fund.

7.4.

Adjusting for the capital withdrawals, referred to at section 7.2 above, the underlying performance of the Strategic Reserve Fund managed funds has achieved the long-term investment target over the last 8 years, which is equivalent to achieving an average return of approximately 5.5% per annum over this period. This is represented by an adjusted target line in the fund performance chart at section 7.1 above.

7.5.

Over the past 10 years, up to and including 2019/20, the Strategic Reserve Fund has been used to fund the provision of Council services and contribute to various capital projects and other initiatives to the value of £71,166,000, as follows:

	£'000.
Community Development Fund.	2,000.
General Fund Services.	46,610.
Scapa Flow Oil Port losses.	8,804.
House Build Programme.	4,328.
Island Games.	20.
Strategic Projects – Renewables.	1,390.
Other initiatives.	2,213.
Total.	71,166.

7.6.

The impact that these distributions were having on the long-term sustainability of the Strategic Reserve Fund was formally recognised in 2012, when the Council established a policy to review the impact on the sustainability of the Strategic Reserve Fund when giving consideration to any future requests for financial assistance. At that time, in reviewing the investment strategy for the Strategic Reserve Fund managed funds, it was recognised that the income would not be sufficient to maintain a distribution level of £5,000,000 per annum from the Strategic Reserve Fund and maintain the real value of the Fund over time. The review however focused solely on externally managed fund investments and did not take account of the contribution that local investments and the Scapa Flow Oil Port can make to the Strategic Reserve Fund.

7.7.

Against the background of a recurring commitment to support General Fund Services by increasing the baseline contribution of £4,350,000 to £6,050,000 for financial year 2019/20 and then increasing it further to £7,350,000 in financial years 2020/21, 2021/22 and 2022/23, it is considered that it should be possible to maintain distributions from the Strategic Reserve Fund at this level over the next 3 financial years and still maintain the value of the Fund above the minimum balance or “Floor” as indicated in Appendix 2 to this report.

7.8.

There are a number of commitments on the Strategic Reserve Fund that are expected to be drawn down over the next three years, including:

- £320,000 contribution towards the House Build Programme originally planned for 2015/16.
- £9,130,000 contribution towards the replacement facility for St Rognvald House.
- £980,000 contribution towards the Island Games 2023.
- £279,000 contribution towards the North Isles Landscape Partnership Scheme.
- £868,000 contribution towards Strategic Projects (Scale Wind, Staff Resources, Grid Connection, Private Wire).

7.9.

While the existing level of net distribution commitments on the Strategic Reserve Fund, estimated at £13,084,000, £11,167,000 and £9,376,000 for financial years 2020/21, 2021/22 and 2022/23 respectively, are regarded as being sustainable over the medium term, it should be noted that any disbursements will have an adverse impact on the capacity of the Strategic Reserve Fund to generate income in the future. In simple terms, the disbursement of £33,627,000 of funds over the 3-year period translates into a loss of income generating capacity within the Fund of approximately £1,883,000 per annum, based on a long-term investment target return of 5.60%.

7.10.

The budget estimates have been prepared using a number of assumptions, not least of which is that the level of investment returns generated from the Strategic Reserve Fund managed funds can be maintained at 5.60%, but also that the activities of the Scapa Flow Oil Port are such that there is a degree of confidence in the level of surpluses to be expected over the next 3 years.

8. Long Term Budget Forecast

8.1.

In assessing the sustainability of the Strategic Reserve Fund, it is considered good practice to review the impact of the current financial arrangements over the longer term. Appendix 3 to this report provides a 10-year projection or forecast for the Funds.

8.2.

In assessing any financial projection or forecast over the longer term, it is helpful to remember that the information is only ever as good as the underlying assumptions behind the figures. Also, the longer-term financial forecast should be considered in the context that much uncertainty remains within both the UK and global economies over the short term such that the level of underlying risk of error is likely to increase significantly as the timeline of any forecast is extended out beyond the short-term.

8.3.

The forecast is based on the following assumptions using both local experience and government forecasts:

- Investment income – managed funds – 5.6%.
- Investment income – local investments – 0.0% to 5.5%.
- Inflation – Consumer Price Index – 2.0% (Retail Price Index – 3.0%).

8.4.

The main driver in terms of financial performance comes from investing activities, primarily through externally managed fund investments but also to a lesser extent through local investments. This means that there is a clear trade-off between the pursuit of investment returns and the associated risks, such that the Strategic Reserve Fund is exposed to a higher level of risk than it would be if, for example, the funds were invested in short term cash deposits.

8.5.

A review of the performance of local investments on 28 August 2019 by the Investments Sub-committee identified a need to review the governance arrangements surrounding these investments, noting that many existing arrangements were relatively long-standing arrangements that pre-dated the current Council. By contrast, externally managed fund investments are regularly reviewed,

with for example, the most recent review in February 2019 agreeing a shift in strategy towards a lower risk income focused strategy along with a commensurate reduction in risk volatility.

8.6.

The long-term forecast indicates that the Strategic Reserve Fund model is working, in that the Fund is expected to perform sufficiently well for it to remain above the minimum balance or floor over the next 10-year period. In other words, the Fund, including the diverse portfolio of investments, is anticipated to perform within the range of assumptions, as set out in section 8.3 above, over this period.

8.7.

Whilst the level of disbursements planned for Years 1 to 3 are relatively high, principally as a result of slippage on the proposed new Kirkwall care facility project, this does result in a material reduction in the available headroom over this period. This position does then improve steadily over the remainder of this period, over years 4 to 10, although it is notable that no additional funding commitments have been flagged for these 7 years. By far the largest draw on the Strategic Reserve Fund remains that of the annual funding contribution to General Fund Services being £7,350,000 per annum or £73,500,000 over the 10-year forecast period. Whilst the forecast indicates that this should be a sustainable position, the impact is considerably higher when the opportunity cost is factored in, as the loss of investment income, at 5.6% per annum compounded over 10 years, would equate to an additional £21,579,000 or a mark-up of 29.4%.

8.8.

There is a risk that the predicted level of volatility assumed in the investment strategy results in two or more consecutive years of low or negative investment returns and that would cause the “Floor” to be breached if the draw from reserves were not also revised downwards. A prudent approach is recommended when giving consideration to any requests for additional disbursements.

8.9.

If approved as a financial planning document, it is proposed that the long term 10-year budget forecast will be reviewed annually as part of the Council's budget setting process for the Strategic Reserve Fund going forward.

9. Corporate Governance

9.1.

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.

9.2.

Operation of a sustainable Strategic Reserve Fund contributes indirectly to the provision of Council services and therefore will assist in delivering the Council's priorities, as detailed in the Council Plan 2018 to 2023, by allocating resources to those areas of activity which have been highlighted as priorities as a result of public and staff engagement exercises.

10. Financial Implications

10.1.

It is recognised that a clear link needs to be maintained between the level of distributions being made by the Strategic Reserve Fund and the actual level of investment income being generated if the value of the Strategic Reserve Fund is to be maintained in real terms.

10.2.

Accordingly, the established practice that requests for additional disbursements from the Strategic Reserve Fund are supported by a full business case appraisal and are accompanied by an impact assessment prepared by the Head of Finance should continue. This should ensure that due regard is given to the associated financial implications, and in particular that the full impact that any such proposals have are quantified in terms of the sustainability of the Strategic Reserve Fund as a whole and the level of funds available for distribution in future years.

11. Legal Aspects

11.1.

Section 95 of the Local Government (Scotland) Act 1973, as amended, obliges the Council to make arrangements for the proper administration of its financial affairs.

11.2.

Section 69 (3)(e) of the Orkney County Council Act 1974 permits the Council to apply any reserves established thereunder for any purposes which in the opinion of the Council is solely in the interests of the County or its inhabitants.

11.3.

The Council must make arrangements which secure best value. An authority securing best value will be able to show that it is making effective and efficient use of its financial resources.

11.4.

Under Section 50A(4) of the Local Government (Scotland) Act 1973, the public should be excluded from the meeting in respect of any discussion relating to Appendix 1. Appendix 1 contains exempt information as defined in paragraph 6 of Part 1 of Schedule 7A of the Act.

12. Contact Officers

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13. Appendices

Appendix 1: Review of Decommissioning Agreement and Costs.

Appendix 2: Strategic Reserve Fund – Draft 3 Year Budget for financial years 2020/21, 2021/22 and 2022/23.

Appendix 3: Strategic Reserve Fund – 10 Year Long Term Budget Forecast.

Appendix 2

SRF Draft 3 year budget - 2020/23	2019/20 Budget Estimate £000's	2019/20 Probable Outturn £000's	2020/21 Budget Estimate £000's	2021/22 Budget Estimate £000's	2022/23 Budget Estimate £000's
Investment Activities - local investments	(216)	(197)	(190)	(190)	(190)
- managed funds	(5,923)	(15,000)	(13,483)	(13,546)	(13,708)
- loans fund	246	(15)	69	60	75
- other, including strategic projects	70	30,384	931	992	1,025
Property Investments	(610)	(748)	(700)	(700)	(700)
Renewable Energy	(300)	(220)	(200)	(200)	(200)
Scapa Flow Oil Port	(1,311)	(1,736)	(764)	(620)	(652)
Loan Charges	119	119	119	119	119
Other	0	18	18	18	0
Net budget surplus	(7,925)	12,605	(14,200)	(14,067)	(14,231)
	3.0%	2.5%	2.9%	3.0%	3.0%
less allocation to protect value of fund @ RPI	6,957	6,291	6,765	7,036	7,127
Balance available for disbursement	(968)	18,896	(7,435)	(7,031)	(7,104)
Disbursements:					
General Fund Services	6,050	6,050	6,317	7,867	7,866
Community Development Fund	0	0	0	0	0
Contribution to capital projects - HRA	320	0	320	0	0
Contribution to capital projects - Care Home	3,513	0	5,000	3,000	1,130
Contribution to the Island Games	0	20	300	300	380
North Isles Landscape Partnership Scheme	62	0	279	0	0
Contribution to other projects, incl. revenue strategic projects	356	1,066	868	0	0
Total Planned Disbursements	10,301	7,136	13,084	11,167	9,376
Deficit/(Surplus) on SRF (in real terms)	9,333	26,032	5,649	4,136	2,272
Deficit/(Surplus) on SRF (actual)	2,376	19,741	(1,116)	(2,900)	(4,855)
Cashflow - Opening Balance	(16,412)	1,495	(6,882)	(5,958)	(4,978)
Surplus/(Deficit) on year	(2,376)	(19,741)	1,116	2,900	4,855
Less: Non-cash - Managed Funds Income	(5,923)	(15,000)	(13,483)	(13,546)	(13,708)
Fund Transfers - Inflow/(Outflow)	8,299	(3,000)	12,367	10,646	8,853
Other Movements	0	29,346	906	962	990
Cashflow - Closing Balance	(16,412)	(6,900)	(5,976)	(4,996)	(3,988)
	2019/20 Budget Estimate £000's	2019/20 Probable Outturn £000's	2020/21 Budget Estimate £000's	2021/22 Budget Estimate £000's	2022/23 Budget Estimate £000's
SRF Balance Sheet					
Investment Properties	21,795	21,427	21,546	21,665	21,784
Local Investments	10,222	7,918	7,878	7,838	7,798
Managed Funds Investments	214,514	240,768	241,884	244,784	249,639
OIC Loans Fund Deposit/(Advance)	(16,412)	(6,882)	(5,958)	(4,978)	(3,988)
Provisions	0	(29,866)	(30,732)	(31,654)	(32,604)
Net Accruals	(465)	(93)	(93)	(93)	(93)
Net Assets	229,654	233,272	234,525	237,562	242,536
Less: Unusable Reserves	1,618	10,685	10,822	10,959	11,078
	228,036	222,587	223,703	226,603	231,458
Represented by: Useable Reserves					
Strategic Reserve Fund	177,006	203,991	204,692	207,164	211,584
Flotta Terminal Decommissioning Fund	39,431	7,402	7,617	7,845	8,080
Conservation Fund	189	191	191	191	191
Travel Fund	103	103	103	103	103
Talented Performers Fund	61	61	61	61	61
Orkney Memorial Fund	510	485	485	485	485
Talented Young Persons Fund	16	15	15	15	15
Renewable Energy Fund	8,750	8,969	9,169	9,369	9,569
Capital Receipts Reserve	1,970	1,370	1,370	1,370	1,370
	228,036	222,587	223,703	226,603	231,458
Target Minimum Balance or "Floor" for SRF	208,231	207,195	213,203	219,600	226,188
Useable Headroom	19,805	15,392	10,500	7,003	5,270

SRF Draft 10 year budget projection - 2020/30	Appendix 3										Notes
	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	
	Budget Estimate £000's	Budget Estimate £000's	Budget Estimate £000's	Budget Estimate £000's	Budget Estimate £000's	Budget Estimate £000's	Budget Estimate £000's	Budget Estimate £000's	Budget Estimate £000's	Budget Estimate £000's	
Investment Activities - local investments	(190)	(190)	(190)	(190)	(190)	(190)	(150)	(150)	(150)	(150)	1
- managed funds	(13,483)	(13,546)	(13,708)	(13,980)	(14,379)	(14,804)	(15,254)	(15,730)	(16,234)	(16,770)	2
- loans fund	69	60	75	80	59	38	5	(16)	(39)	(61)	3
- other, including strategic projects	931	992	1,025	1,056	1,088	1,120	1,154	1,189	1,224	1,261	4
Property Investments	(700)	(700)	(700)	(714)	(728)	(743)	(758)	(773)	(788)	(804)	5
Renewable Energy	(200)	(200)	(200)	(204)	(208)	(212)	(216)	(221)	(225)	(230)	6
Scapa Flow Oil Port	(764)	(620)	(652)	(684)	(716)	(748)	(780)	(812)	(844)	(876)	7
Loan Charges	119	119	119	150	150	150	150	150	150	150	8
Other	18	18	0	0	0	0	0	0	0	0	9
Net budget surplus	(14,200)	(14,067)	(14,231)	(14,486)	(14,925)	(15,388)	(15,849)	(16,363)	(16,906)	(17,480)	
	2.9%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	
less allocation to protect value of fund @ RPI	6,765	7,036	7,127	6,944	7,158	7,385	7,626	7,881	8,152	8,438	10
Balance available for disbursement (in real terms)	(7,435)	(7,031)	(7,104)	(7,542)	(7,767)	(8,003)	(8,223)	(8,482)	(8,754)	(9,042)	
Disbursements:											
General Fund Services	6,317	7,867	7,866	7,350	7,350	7,350	7,350	7,350	7,350	7,350	
Community Development Fund	0	0	0	0	0	0	0	0	0	0	
Contribution to capital projects - HRA	320	0	0	0	0	0	0	0	0	0	
Contribution to capital projects - Care Home	5,000	3,000	1,130	0	0	0	0	0	0	0	
Contribution to the Island Games	300	300	380	0	0	0	0	0	0	0	
North Isles Landscape Partnership Scheme	279	0	0	0	0	0	0	0	0	0	
Contribution to other projects, incl. revenue strategic projects	868	0	0	0	0	0	0	0	0	0	
Total Planned Disbursements	13,084	11,167	9,376	7,350	7,350	7,350	7,350	7,350	7,350	7,350	
Deficit/(Surplus) on SRF (in real terms)	5,649	4,136	2,272	(192)	(417)	(653)	(873)	(1,132)	(1,404)	(1,692)	
Deficit/(Surplus) on SRF (actual)	(1,116)	(2,900)	(4,855)	(7,136)	(7,575)	(8,038)	(8,499)	(9,013)	(9,556)	(10,130)	
SRF Useable Reserves	223,703	226,603	231,458	238,594	246,169	254,207	262,706	271,719	281,275	291,405	
Target Minimum Balance or "Floor" for SRF	213,203	219,600	226,188	232,974	239,963	247,162	254,577	262,214	270,080	278,182	11
Useable Headroom	10,500	7,003	5,270	5,620	6,206	7,045	8,129	9,505	11,195	13,223	

Key Assumptions:

- 1 Interest bearing business loans mature 26/17, IFL's and fishing quota income only thereafter. No link between capital value and rental income.
- 2 5.6% allowance for average performance of managed fund investments as per investment strategy review
- 3 2.0% CPI uplift from Year 4 for interest on revenue balances
- 4 3.0% RPI annual uplift for flotta terminal decom provision.
- 5 2.0% CPI uplift from Year 4 to net rental income i.e. rental income after allowing for property costs. No change in occupancy levels.
- 6 2.0% CPI uplift from Year 4. Retain HHEL invest at existing level. No additional renewables investments.

- 7 SFOP adjusted for loan charges; No change useful life of oil terminal or scope of oil port.
- 8 Review level of capital improvement works at Year 4
- 9 Move on FIAA written out in Year 2.
- 10 3.0% RPI annual uplift to allow the value of SRF to be maintained in real terms.
- 11 3.0% RPI annual uplift to allow the target Minimum Balance or "Floor" to be maintained in real terms.