

Minute

Policy and Resources Committee

Tuesday, 27 February 2024, 09:30.

Council Chamber, Council Offices, School Place, Kirkwall.



Present

Councillors Heather N Woodbridge, Alexander G Cowie, Graham A Bevan, Stephen G Clackson, David Dawson, P Lindsay Hall, Steven B Heddle, Rachael A King, Kristopher D Leask, W Leslie Manson, James R Moar, Raymond S Peace, John A R Scott, Gwenda M Shearer, Gillian Skuse, Jean E Stevenson, Ivan A Taylor, Mellissa-Louise Thomson, Owen Tierney and Duncan A Tullock.

Clerk

- Hazel Flett, Service Manager (Governance).

In Attendance

- Oliver D Reid, Chief Executive.
- Stephen Brown, Chief Officer, Orkney Health and Social Care Partnership.
- Karen Greaves, Corporate Director for Strategy, Performance and Business Solutions.
- Hayley Green, Corporate Director for Neighbourhood Services and Infrastructure.
- Gareth Waterson, Corporate Director for Enterprise and Sustainable Regeneration.
- James Wylie, Corporate Director for Education, Leisure and Housing.
- Gavin Mitchell, Head of Legal and Governance.
- Andrew Groundwater, Head of Human Resources and Organisational Development.
- Erik Knight, Head of Finance.
- Shonagh Merriman, Service Manager (Corporate Finance).
- Pat Robinson, Service Manager (Accounting).

Observing

- Kenny MacPherson, Head of Property, Asset Management and Facilities (for Items 1 and 2).
- Alex Rodwell, Head of Improvement and Performance.
- Glen Thomson, Service Manager (Property and Capital Projects) (for Items 1 and 2).
- Kirsty Groundwater, Communications Team Leader.

Declarations of Interest

- No declarations of interest were intimated.

Chair

- Councillor Heather N Woodbridge.

1. Adjournment

Following the preliminaries, the Leader advised that, in light of additional information received from the Scottish Government, after publication of the papers for this meeting, she proposed that the meeting be adjourned, to enable officers to update members in respect of matters relating to the proposed Council Tax freeze and associated financial implications.

The meeting was thereafter adjourned and reconvened at 10:45.

2. Capital Programme Affordability

After consideration of a report by the Head of Finance, copies of which had been circulated, and after hearing a report from the Service Manager (Corporate Finance), the Committee:

Noted:

2.1. That development of capital projects could be funded by several sources, as follows:

- Scottish Government General Capital Grant and other specific grants.
- Capital grants from other external sources.
- Capital receipts generated through the sale of assets.
- Capital contributions from internal reserves.
- Capital financed from current revenue income or surpluses.
- Borrowings from the Loans Fund.

2.2. That the annual award of General Capital Grant allowed the funding of the undernoted annual improvement programmes, totalling £3,921,000, with the remaining balance spent in the year of receipt to lower the level of borrowings required to deliver the capital programme:

- Corporate Asset Replacement – £1,351,000.
- Road Asset Replacement Programme – £950,000.
- IT Replacement Programme – £420,000.
- Plant and Vehicle Replacement Programme – £1,200,000.

2.3. That the General Capital Grant awarded for financial year 2024/25 from the Scottish Government had seen a reduction of £1,234,000 on the previous year, to £4,640,000, which reduced the affordability of the capital programme going forward.

2.4. That the loan charges budget to repay debt was baselined at £3,500,000 with effect from 1 April 2024 and must cover the cost of any General Fund borrowing to finance capital spend as well as management of the capital programme, at a cost of £200,000.

2.5. That, in addition to the sum of £200,000 charged in respect of delivery of the capital programme, a further sum of £200,000 was set aside in the Capital Project Appraisal Fund, established to provide revenue budgets for Services to develop capital project appraisals when existing revenue budgets were no longer sufficient to fund those costs.

2.6. That Services accessed the Capital Project Appraisal Fund through initial approval by the Capital Planning and Asset Management sub-group and then final approval by the Corporate Leadership Team.

2.7. That the undernoted trading accounts of the Council did not have access to the loan charges budget to repay their debt, therefore any borrowings incurred on capital projects must be paid for from within their own budgets, including payment of principal, interest and debt management fees:

- Housing Revenue Account.
- Scapa Flow Oil Port.
- Miscellaneous Piers and Harbours.
- Quarry Service.
- Strategic Reserve Fund.

2.8. That the charges detailed at paragraphs 2.4 and 2.5 above, left a net loan charges budget of £3,100,000, which equated to headroom for General Fund Services to borrow a maximum of £32,000,000 over the next five years, from 1 April 2024 to 31 March 2029.

3. General Fund Reserves Strategy

After consideration of a report by the Head of Finance, copies of which had been circulated, and after hearing a report from the Service Manager (Accounting), the Committee:

Noted:

3.1. That the Council should be clear on the purpose for holding any reserves and the protocols for their use.

3.2. The broad range of reserve levels within which local authorities might reasonably operate depending on their particular circumstances.

3.3. That, as at 31 March 2023, the Council held reserves balances, totalling £37,554,605, as detailed in section 4 of the report by the Head of Finance.

3.4. That, during the budget setting process for financial year 2023/24, it was recognised that an allocation from General Fund balances, totalling £8,843,200, would be required to fund General Fund services.

3.5. The effect of recognising the commitment detailed at paragraph 3.4 above, namely, to further reduce the non-earmarked General Fund balance from £11,638,994 to £2,795,794.

3.6. That the Council's Reserves Strategy set a target for the non-earmarked General Fund balances at 2% of net budgeted expenditure.

3.7. The purpose for holding each of the Council's earmarked reserves and the non-earmarked General Fund Balances, as set out in Appendix 1 to the report by the Head of Finance.

The Committee resolved to **recommend to the Council**:

3.8. That the non-earmarked General Fund Balance for 2024/25 be set at 2% of the net revenue budget for 2024/25, with a minimum balance of approximately £2,250,000 as a contingency for in-year pressures.

3.9. That, should the Council return an overspend position for 2023/24, any uncommitted balances held within earmarked funds should be returned to non-earmarked General Fund reserves, to meet in-year overspends and retain the 2% contingency balance for non-earmarked General Fund balances.

3.10. That powers be delegated to the Head of Finance, in consultation with the Chief Executive and Corporate Directors, to make the adjustments to reserves balances, taking account of the 2023/24 year-end position and ongoing budget pressures for 2024/25.

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

After consideration of a report by the Head of Finance, copies of which had been circulated, the Committee:

Noted:

4.1. That the Strategic Reserve Fund contributed £6,350,000 to the General Fund for financial year 2023/24.

4.2. That, on 19 December 2022, when reviewing the level of disbursements from the Strategic Reserve Fund used to support General Fund Services and other Council priorities for financial year 2023/24 onwards, indicative budgets for 2024/25 and 2025/26 of £6,350,000 were approved.

4.3. That the Strategic Reserve Fund Managed Funds investments were forecast to underperform against the approved budget for financial year 2023/24, as indicated in the probable outturn column of Appendix 1 to the report by the Head of Finance.

4.4. That, after allowing for distributions of £7,830,000 during financial year 2023/24, the value of the Strategic Reserve Fund was estimated to decrease by £7,086,000 to £222,191,000 as at 31 March 2024.

4.5. That the existing distribution commitments of £12,510,000 for financial years 2024/25 to 2026/27, and the sum of £53,000,000 proposed to be allocated to support General Fund Services over the same period, were reflected in the 3-year budget and the 10-year forecast, attached as Appendices 1 and 2 respectively to the report by the Head of Finance.

4.6. That the “floor” established at £175,000,000, at 1 April 2012 and indicated in the 10-year forecast, attached as Appendix 2 to the report by the Head of Finance, was unlikely to be regained as commitments on the Strategic Reserve Fund were unlikely to diminish.

4.7. That, while less volatility existed, uncertainty remained within the global economy and therefore instability could be anticipated from investment returns over the short to medium term.

4.8. That the strategies for local investments and externally managed fund investments continued to be reviewed regularly.

The Committee resolved to **recommend to the Council:**

4.9. That a financial contribution of up to £20,000,000 from the Strategic Reserve Fund to the General Fund be used as a planning assumption as part of the Council's budget setting process for financial year 2024/25.

4.10. That the Strategic Reserve Fund allocation to General Fund services for financial year 2024/25, amounting to £20,000,000, be notionally allocated to preventative services.

4.11. That the Strategic Reserve Fund budget for financial year 2024/25, together with indicative budgets for 2025/26 and 2026/27, attached as Appendix 1 to this Minute, be approved.

4.12. That the long-term 10-year budget forecast for the Strategic Reserve Fund, attached as Appendix 2 to this Minute, be endorsed as a financial planning document.

4.13. That a very prudent approach be taken when considering requests for future disbursements from the Strategic Reserve Fund, with the Strategic Reserve Fund being considered as a last resort funding source by Services.

5. Budget and Council Tax Level for 2024/25

After consideration of a joint report by the Chief Executive, the Corporate Director for Enterprise and Sustainable Regeneration and the Head of Finance, together with Equality Impact Assessments, copies of which had been circulated, the Committee:

Noted:

5.1. That the Scottish Government had issued grant settlement figures for local government and individual councils for financial year 2024/25, with the provisional revenue grant funding to the Council amounting to £95,596,000, which included a provisional specific grant allocation of £15,829,000 for provision of ferry services.

5.2. That the Council's funding had been reduced by a contribution to the Local Government financial settlement floor mechanism, designed to ensure a consistent minimum increase or maximum decrease in funding across all councils, of £976,000, down by £312,000 from £1,288,000 in 2023/24.

5.3. That Local Government Finance Circular 8/2023, which provided details of the provisional total Local Government revenue and capital funding for 2024/25, referred to a funding package worth over £13.9 billion and included multiple measures that made up the settlement, as detailed in section 4.2 of the joint report by the Chief Executive, the Corporate Director for Enterprise and Sustainable Regeneration and the Head of Finance.

5.4. That the settlement included funding for a Council Tax freeze for financial year 2024/25, funded to the equivalent of a 5% net increase in Council Tax.

5.5. That services had been asked to identify efficiency savings for financial year 2024/25, which were summarised in section 8 of the joint report by the Chief Executive, the Corporate Director for Enterprise and Sustainable Regeneration and the Head of Finance and amounted to £2,463,700.

5.6. That the September 2023 headline rate of Consumer Price inflation was 6.7%, down from 10.1% in September 2022.

5.7. That there was a requirement for significant and real savings to be made, in order that the Council budget could remain sustainable in the short to medium term.

5.8. That, to assist in achieving a balanced budget for 2025/26, efficiency targets had been suggested for each service, as noted in section 9.4 of the joint report by the Chief Executive, the Corporate Director for Enterprise and Sustainable Regeneration and the Head of Finance.

5.9. The Equality Impact Assessment, attached as Appendix 7 to the joint report by the Chief Executive, the Corporate Director for Enterprise and Sustainable Regeneration and the Head of Finance, relating to the overall budget proposals.

5.10. The advice, outlined in section 15 of the joint report by the Chief Executive, the Corporate Director for Enterprise and Sustainable Regeneration and the Head of Finance, regarding risks to the Council's ability to continue to meet, in a secure manner, all of its responsibilities and the expectations placed upon it.

5.11. That, as a consequence of paragraph 5.10 above, the Chief Executive may be required to submit reports to the Council in accordance with sections 4(2) and 4(3) of the Local Government and Housing Act 1989.

On the motion of Councillor Heather N Woodbridge, seconded by Councillor Alexander G Cowie, the Committee resolved:

5.12. That the public be excluded from the meeting in respect of discussion of the matters contained in Appendices 2 and 5 of the joint report by the Chief Executive, the Corporate Director for Enterprise and Sustainable Regeneration and the Head of Finance, on the grounds that it involved the disclosure of exempt information as defined in paragraphs 1, 4, 6 and 8 of Part 1 of Schedule 7A of the Local Government (Scotland) Act 1973 as amended.

Officers responded to questions from elected members on the detail contained within Appendices 2 and 5 to the joint report by the Chief Executive, the Corporate Director for Enterprise and Sustainable Regeneration and the Head of Finance regarding unavoidable service pressures and proposed efficiency savings.

Upon conclusion of discussion of the matters contained in Appendices 2 and 5 to the joint report by the Chief Executive, the Corporate Director for Enterprise and Sustainable Regeneration and the Head of Finance and, thereby, the exclusion of the public, the Committee thereafter resolved to **recommend to the Council**:

5.13. That the General Fund revenue budget for financial year 2024/25 be set at £112,424,000.

5.14. That powers be delegated to the Head of Finance, in consultation with the Corporate Director for Enterprise and Sustainable Regeneration and the Chief Executive, to revise the General Fund revenue budget for financial year 2024/25 in respect of any change to the estimated funding level referred to at paragraph 5.1 above.

5.15. That any additional funding secured for 2024/25, that was not specific to government initiatives that must be funded, be retained in the non-earmarked General Fund balance and used to reduce the exceptional draw on reserves.

5.16. That, should the Deputy First Minister and Cabinet Secretary for Finance confirm to the Council, by no later than 10 March 2024, that the funding compromise and commitments set out in her letter to CoSLA Leaders dated 21 February 2024, as they applied to Orkney Islands Council would be made available to the Council without restrictions adversely impacting on how those commitments could be applied to the Council budget, the Band D Council Tax level for financial year 2024/25 be frozen and maintained at the same level as for 2023/24.

5.17. That powers be delegated to the Chief Executive, in consultation with the Leader and Depute Leader and the Corporate Director for Enterprise and Sustainable Regeneration, to determine that the overall level of Scottish Government funding to the Council confirmed by the Deputy First Minister by 10 March 2024 was sufficient to maintain the Council Tax at 2023/24 levels and deliver a balanced budget, as set out in her letter to CoSLA Leaders outlining her compromise offer.

5.18. That, in the event of such confirmation of sufficient additional funding as detailed in the Deputy First Minister's letter not being received by the Council by 10 March 2024, the Band D Council Tax level for financial year 2024/25 be increased by 10% and be set at £1,506.13, in line with the Council's medium term financial strategy and to ensure the Council met its statutory responsibility to set a balanced budget for 2024/25.

5.19. That the Council's budget uprating assumptions, as set out in Appendix 3 to this Minute, be approved.

5.20. That, whilst recognising the need to balance the budget and bring spending into line with available funding, known unavoidable service pressures amounting to £3,264,500, attached as Appendix 4 to this Minute, be approved for inclusion in the revenue budget for 2024/25.

5.21. That the service efficiencies, summarised below, totalling £2,463,700, be approved for inclusion in the revenue budget for 2024/25:

- Reduction in employer's pension contribution rate from 17% to 15% – £959,300.
- Re-introduction of 1% reduction in staff budgets in respect of anticipated staff turnover – £815,500.
- Impact of interest rate movement in loan charge receipts – £128,000.
- Introduction of 100% surcharge on Second Homes Council Tax – £300,000.
- Other miscellaneous amounts – £260,900.

5.22. That the savings targets, split between each Directorate, as detailed in Appendix 5 to this Minute, be approved for inclusion in the revenue budgets for 2025/26 to 2027/28.

5.23. That powers be delegated to the Head of Finance, in consultation with the Corporate Director for Enterprise and Sustainable Regeneration and the Chief Executive:

- To allocate any General Fund underspend from 2023/24 to the setting of the General Fund revenue budget for 2024/25.
- To determine where any General Fund overspends from 2023/24 would be funded from within General Fund earmarked reserves balances, while ensuring that the non-earmarked General Fund reserves balance, amounting to 2% of the overall revenue budget for 2024/25 was in place.

5.24. That Corporate Directors should review and increase existing charges by a minimum of 6.7%, from 1 April 2024 if possible to do so, or as early as possible thereafter, with the following exceptions, where alternative arrangements were required or proposed:

- Building warrant and planning fees.
- Harbour charges.
- Ferry fares.
- Car park and electric vehicle charges.
- Residential care and home care.
- Very sheltered housing.
- Supported accommodation.
- Meals At Home Service
- Licensing fees.
- Ship sanitation certification.
- Marriage / civil partnership.
- Roads inspection fees.
- Trade waste charges.
- Homelessness rents.
- Selected quarry product sales.

5.25. That powers be delegated to the Head of Finance, in consultation with the Chief Executive, to determine further variations in charges during 2024/25 where it was deemed expedient to do so.

5.26. That the draw from the Strategic Reserve Fund for 2024/25 be set at £20,000,000.

5.27. That the policy of presumption against new commitments should continue to remain in force across General Fund services, with the following conditions:

- Exceptions might be considered for new commitments which were 100% funded by external bodies – proposals involving the Council in partnership funding shall require compensatory savings to be identified.
- The Council should consider undertaking new statutory duties or any case where it was considered that statutory duties were not being fulfilled, however, such duties having financial implications should first be reported to the relevant Committee for approval.

- The Council should consider new commitments where compensatory savings could be identified – any Committee considering such recommendations should, in the first instance, seek to identify savings from within its revenue budget.

5.28. That powers be delegated to the Head of Finance, in consultation with the Corporate Director for Enterprise and Sustainable Regeneration and the Chief Executive, to prepare and distribute a detailed budget incorporating all the budget adjustments agreed by the Council, and any settlement updates and/or clarifications unknown at the date of this meeting.

6. Conclusion of Meeting

At 13:23 the Chair declared the meeting concluded.

Signed: H N Woodbridge.