

## **Item: 6**

**Policy and Resources Committee: 25 February 2020.**

**Strategic Reserve Fund – Contribution to General Fund Services.**

**Proposed Notional Allocations.**

**Report by Head of Finance.**

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

To consider allocating the contribution from the Strategic Reserve Fund to specific activities and areas within General Fund Services.

### **2. Recommendations**

The Committee is invited to note:

#### **2.1.**

That, for many years, the Strategic Reserve Fund allocation to the General Fund has been used as one of the funding sources for all General Fund services rather than making a direct financial contribution towards specific service functions or items of expenditure.

#### **2.2.**

The proposal that the Strategic Reserve Fund contribution be attached to specific areas of General Fund expenditure so that the Orkney public can see more readily the benefit of the Strategic Reserve Fund and the additionality of service provision that it allows the Council to deliver.

#### **2.3.**

That, although accounting for the contribution from the Strategic Reserve Fund as a direct contribution to specific services would have negative future consequences on expenditure based budget distributions, notional allocations would avoid those negative consequences.

**It is recommended:**

#### **2.4.**

That the Strategic Reserve Fund allocation to General Fund services for financial year 2020/21 of £6,317,200 be notionally allocated as a direct funding contribution towards the service functions set out at section 4.6 to this report.

## **2.5.**

That, should a higher contribution than £6,317,200 be required from the Strategic Reserve Fund to balance the General Fund budget for financial year 2020/21, this be treated as a source of funding for General Fund services and notionally allocated to Loan Charges.

## **3. Introduction**

A baseline level of contribution from the Strategic Reserve Fund to the General Fund of £4,350,000 has been established in previous years. The recommended contribution level of £6,317,200 for 2020/21 is £1,967,200 in excess of the normal level of contribution and essentially demonstrates the funding gap in the 2020/21 revenue budget and the enormous value of the Strategic Reserve Fund in filling that gap.

## **4. Background**

### **4.1.**

The Council has been able to use the Strategic Reserve Fund for a great number of different applications over many years that fall within the broad terms of being for the benefit of the inhabitants of Orkney. Historically the Strategic Reserve Fund had been applied largely for Economic Development purposes with expenditure charged directly to the Strategic Reserve Fund.

### **4.2.**

The direct charging of expenditure to the Strategic Reserve Fund was not particularly transparent with some duplication of process and different reporting arrangements.

#### **4.2.1.**

With pressure on General Fund budgets, there was a change in practice from 2002 to 2003, as part of a medium term strategy, to support the case for additional support from the Scottish Government, with a direct contribution from the Strategic Reserve Fund to specific General Fund service areas together with consolidation of budgets and spending. This contribution from Reserves enabled the Council to move from a budget overspend position to an underspend.

#### **4.2.2.**

This practice persisted for a few years until a change in accounting requirements led to the Strategic Reserve Fund contribution being applied as a source of funds for the overall budget and no longer directly attributed to a specific budget area.

### **4.3.**

The Council held five public engagement exercises over the summer of 2018 where there were several comments that the Council should start to use the Strategic Reserve Fund rather than “keep it for a rainy day”.

#### 4.3.1.

This demonstrates that there is a general lack of appreciation that the Council has been using, and does use, the Strategic Reserve Fund and there was some surprise from those attending the engagement events at the level of support from the Strategic Reserve Fund to both capital projects and General Fund services in recent years.

#### 4.3.2.

The Strategic Reserve Fund contribution to General Fund services has enabled the Council to continue to provide many of the non-statutory services that add much to both the quality of life and cultural heritage of Orkney that have been subjected to significant budget cuts in many Council areas.

#### 4.4.

The lack of appreciation by the Orkney public of the benefit that the Strategic Reserve Fund affords in the delivery of services has led to elected members reflecting that the message on spend from the Strategic Reserve Fund could be improved if the spend was more readily identifiable and attached, particularly to those areas of budget spend that are very much discretionary but add significantly to the sense of community or cultural heritage of Orkney.

#### 4.5.

Accounting for the contribution from the Strategic Reserve Fund as a direct contribution to specific services will have negative future consequences on grant aided expenditure assessments where the reserve contribution would count as income and result in reduced government support for those services in future. This would not however prevent the Council from notionally attaching the Strategic Reserve Fund contribution to General Fund budget areas.

#### 4.6.

The table below sets out a proposed list of notional budget allocations that largely consists of discretionary and “nice to do” things that fit with the theme of benefiting the quality of life and cultural heritage of Orkney. The total suggested notional allocations to General Fund Services amounts to £6,317,200.

<b>Service.</b>	<b>Amount. £000s.</b>	<b>Total. £000s.</b>
<b>Chief Executive:</b>		
Twinning.	15.	
Loan charges.	889.	904.
<b>Orkney Health and Care:</b>		
Social Care Services Council funded budget growth	574.	
Voluntary Services – contracts.	80.	

<b>Service.</b>	<b>Amount. £000s.</b>	<b>Total. £000s.</b>
Voluntary Services – grants.	350.	
Lunch Clubs.	28.	
Small Repair grants.	45.	
Childcare Partnership.	70.	
Community Care grants.	70.	
Summer Playscheme.	15.	1,232.
<b>Education, Leisure and Housing:</b>		
Swimming pools.	223.	
Pickaquoy Centre.	926.	
Healthy Living Centres.	40.	
Outdoor Education service.	80.	
Active Schools.	75.	
Community Centres	308.	
Youth Café.	16.	
Museums.	294.	
Library service.	916.	
Culture Fund.	157.	
St Magnus Cathedral.	186.	
Grounds maintenance.	230.	
Parks and play areas.	150.	
Music provision.	30.	3,631.
<b>Development and Infrastructure:</b>		
Public Conveniences.	90.	
Economic Development grants.	400.	
Fairs, galas and community events.	10.	
Access to the Countryside.	50.	550.
<b>Total.</b>		<b>6,317.</b>

## **5. Implication for Budget Savings**

### **5.1.**

The implication for future budget savings exercises of notionally allocating the Strategic Reserve Fund contribution to specific General Fund service areas is that the contribution will be matched to those areas which are likely to be non-statutory discretionary areas of spend and would accordingly have been the natural choice of proposed saving as the Council continues to face significant budget constraints. The consequence of this will be that Services will have greatly reduced choices from which to make any savings if discretionary areas of spend are effectively protected from cuts through the local funding of those services even if this is only notionally.

### **5.2.**

The notional allocations have been set at a level that is close to but lower than the current budget provision for most of the allocations made. The saving opportunity for services will therefore be limited in those areas.

## **6. Links to Council Plan**

The proposals in this report support and contribute to improved outcomes for communities as outlined in the Council Plan strategic priority themes of Thriving Communities and Quality of Life.

## **7. Links to Local Outcomes Improvement Plan**

The proposals in this report support and contribute to improved outcomes for communities as outlined in the Local Outcomes Improvement Plan priority of Strong Communities.

## **8. Financial Implications**

### **8.1.**

The contribution from the Strategic Reserve Fund recommended to be notionally allocated against areas of General Fund spend has been set at £6,317,200.

### **8.2.**

Should the Strategic Reserve Fund contribution required to balance the General Fund budget be greater than £6,317,200 any additional contribution would be used as a source of funding and notionally allocated to Loans Charges.

## **9. Legal Aspects**

### **9.1.**

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.

### **9.2.**

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.

### **9.3.**

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.

## **10. Contact Officer**

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