

Item: 5

Policy and Resources Committee: 27 February 2024.

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 2024/25 onwards.

2. Recommendations

The Committee is invited to note:

2.1.

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

2.2.

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.

2.3.

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

2.4.

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

2.5.

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, are reflected in the 3-year budget and the 10-year forecast, attached as Appendices 1 and 2 respectively to this report.

2.6.

That the “floor” established at £175,000,000, at 1 April 2012 and indicated in the 10-year forecast, attached as Appendix 2 to this report, is unlikely to be regained as commitments on the Strategic Reserve Fund are unlikely to diminish.

2.7.

That, while less volatility exists, uncertainty remains within the global economy and therefore instability can be anticipated from investment returns over the short to medium term.

2.8.

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

It is recommended:

2.9.

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.

2.10.

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.

2.11.

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 report, be approved.

2.12.

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

2.13.

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.

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. More recently, this approach has been extended to support the delivery of income generation and efficiency saving plans.

3.3.

The current income focused strategy for the Strategic Reserve Fund managed fund investments was adopted on the basis that it offered the prospect of more predictable returns for the Strategic Reserve Fund along with a lower risk profile achieved through improved diversification.

3.4.

The ongoing 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.

3.5.

On 19 December 2022, when considering 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, the Policy and Resources Committee recommended that the Strategic Reserve Fund contribute £6,350,000 to the General Fund for financial year 2023/24 with indicative contributions for 2024/25 and 2025/26 of £6,350,000.

4. Budget Monitoring

4.1.

The Strategic Reserve Fund managed funds have performed very poorly in financial year 2023/24 and are expected to return a surplus of £7,086,000 on the year, which is £6,414,000 behind the budgeted surplus of £13,500,000. When time value of money is factored in, the overall reported position for the Fund in **real** terms is that of an anticipated deficit of £14,639,000, which is £768,000 better than the overall budgeted position for financial year 2023/24.

4.2.

The main factors contributing towards the probable outturn position at 31 March 2024, and as set out in the budget statement, attached as Appendix 1 to this report, are as follows:

- Investment activities – managed funds gain of £20,000,000, including unrealised losses in the value of investments, which is £4,687,000 behind budget.
- Distributions of £7,830,000 which is £730,000 ahead of budget.
- Consumer Price Index (CPI) Inflation was estimated to reach 10.9% by 31 March 2023, but the actual figure was 10.1% or £7,182,000 lower than the budget assumption.

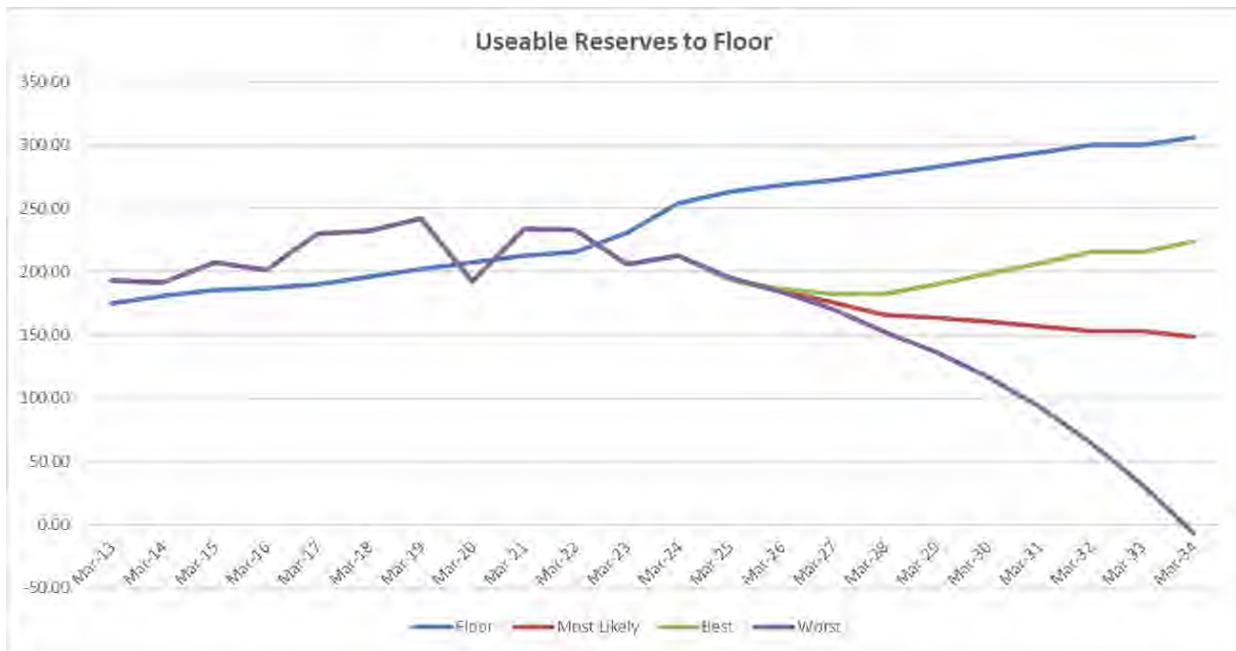
5. Review of the “Floor”

5.1.

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 Retail Price Index (RPI) to 31 March 2021 and Consumer Price Index (CPI) up until 31 March 2024, to maintain its capital value in real terms. The value of the “floor” based on these factors is £254,285,000. By recalculating the “floor” using CPI only from inception, the floor would be expected to be £236,452,000.

5.2.

The value of the Strategic Reserve Fund usable reserves has been estimated at £222,191,000 as at 31 March 2024, significantly below the “floor” no matter what inflation factor it is measured against. The gap between the floor and fund value is forecast to further increase to £89,218,000 over the three years to 31 March 2027 as the level of disbursements on the Strategic Reserve Fund continues to exceed the forecast fund growth in real terms. The following graph illustrates the interaction of the “floor” against maintaining the real terms balance of the fund, compared against worst, most likely and best outcomes:



5.3.

The market may perform better or worse than forecast, and while less market volatility is being experienced currently, uncertainty remains within the global economy and therefore instability can be anticipated from investment returns over the short to medium term. A very prudent approach is therefore recommended when considering any requests for additional disbursements from the Strategic Reserve Fund, with the Strategic Reserve Fund being considered as a last resort funding source by Services.

5.4.

In setting a budget for financial year 2024/25, it is accepted that the “floor” for the Strategic Reserve Fund has already been breached and is unlikely to be regained as commitments on the Strategic Reserve Fund are unlikely to diminish. Recognising that the Council faces a very difficult task in bringing its revenue budget into line with available resources work is ongoing to progress the Medium-Term Financial Strategy, but acknowledging the pressures on services, including staffing. As such the sum of up to £20,000,000 is recommended as a contribution from the Strategic Reserve Fund for financial year 2024/25.

5.5.

At such a high level it is difficult to see how a sustainable draw on the Strategic Reserve Fund will be achieved in the short or medium term. However, indicative General Fund contributions from the Strategic Reserve for 2025/26 and 2026/27 should be fixed at £18,000,000 and £15,000,000 respectively to tie in with the saving targets on General Fund Services, but will be subject to annual review as part of the Council's budget setting process.

5.6.

The 3-year budget and the 10-year long term plan, as set out in Appendices 1 and 2 respectively, include current 'known' information, and many factors, both internal and external, will impact on the fund projections over those periods.

6. Strategic Reserve Fund Performance

6.1.

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. The following table summarises the use of the reserve fund over the past 5 years:

	2019/20 (Actual)	2020/21 (Actual)	2021/22 (Actual)	2022/23 (Actual)	2023/24 (Prob)
	£'000s	£'000s	£'000s	£'000s	£'000s
General Fund Contributions	6,050	6,317	7,470	8,263	6,350
CDF					333
COVID-19		3,000			
Cost of Living				492	
Capital Contributions		320			
Strategic Projects	820	731	72	305	865
Island Games	20	2	6	100	125
North Isles Landscape Partnership			38	84	157
Total	6,890	10,370	7,586	9,244	7,830

6.2.

The Investment Strategy Review carried out by Hymans Robertson, considered by the Investments Sub-committee on 27 May 2021, provided assurance that the current income focused investment strategy remained appropriate for the Strategic Reserve Fund managed fund investments. While the review confirmed that expected returns in terms of the current strategy were expected to reduce from 5.6% to 5.2% per annum over a rolling three-year period, largely due to the impact of COVID-19 on the global growth forecasts, this level of income was considered sufficient to support annual distributions of approximately £6,350,000 per annum and still maintain the value of the Strategic Reserve Fund in real terms.

6.3.

Further global political and economic unrest since this 2021 review have further impacted the ability of the Strategic Reserve Fund to distribute funds, and remain sustainable, particularly in the short term.

6.4.

The forecast cashflow requirements, as detailed in Appendix 1 to this report, indicates a requirement to draw down £53,000,000 over the 3-year period 2024 to 2027. In simple terms, this level of disbursement of funds over the three-year period translates into a loss of income generating capacity within the Fund of approximately £2,756,000 per annum, based on a long-term investment target return of 5.20%.

6.5.

In addition to the General Fund contribution there are several other commitments on the Strategic Reserve Fund that are also expected to be drawn down over the next three years, including the following contributions totalling £12,510,000, but not any potential additional requests:

- £8,070,000 towards the General Fund capital programme.
- £747,000 towards the Island Games 2025.
- £2,394,000 towards Strategic Projects (Scale Wind, Staff Resources, Grid Connection, Private Wire).
- £632,000 towards Islands Growth Deal projects.
- £667,000 towards Community Development Fund projects.

6.6.

This list of commitments/disbursements only reflect current decisions. The Strategic Reserve Fund is likely to be considered as a funding source for other decisions, further reducing the balance of useable reserves.

7. Long Term Budget Forecast

7.1.

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 2 to this report provides a 10-year projection or forecast for the Fund. Work has been undertaken on various scenarios and the results of these are included in this appendix. The best outcome forms the basis of this report.

7.2.

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.

7.3.

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

- Investment income – managed funds – 5.2%.
- Investment income – local investments – 0.0% to 5.5%.
- Inflation – Consumer Price Index – 2.0%.

7.4.

The success or failure of the Strategic Reserve Fund, in terms of financial performance, comes from investing activities, primarily through externally managed fund investments but also to a lesser extent through local investments. In order to balance the investment returns and the associated risks, the strategies for local investments and externally managed fund investments are reviewed regularly. For example, the recent review in February 2019 agreeing a shift in strategy towards a more diversified income focused strategy along with a commensurate reduction in risk volatility. The next review will come early in 2024 and will have to reflect the growing need to find more liquid assets to meet the cash flow needs of the Council. More liquid investments are likely to have a lower return.

7.5.

Whilst the level of disbursements planned for Years 1 to 3 are relatively high, principally as a result of planned contributions to the General Fund revenue budgets and capital programme, this also results in a further widening of the real terms “floor” value gap over this period.

8. Notional allocations

8.1.

The Strategic Reserve Fund contribution to General Fund services has historically been attached to specific areas of General Fund expenditure in order 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.

8.2.

The Strategic Reserve Fund contribution to General Fund services has enabled the Council to continue to provide many of the non-statutory, or discretionary, services that add significantly to the sense of community, the cultural heritage and the quality of life of Orkney. Without the Strategic Reserve Fund many of these services would have been subjected to significant budget cuts, as is evident in most other Council areas.

8.3.

The draw on Strategic Reserve Fund balances now far exceeds the cost of the specific budget areas historically identified for notional allocations. In effect, the Council is now protecting some General Fund statutory services not fully funded through the Scottish Government settlement.

8.4.

However, the notional budget allocation, totalling £20,000,000, should continue to largely consist of discretionary service areas that fit with the theme of benefiting the quality of life and cultural heritage of Orkney. These functions are 'preventative services' which are central to encouraging social inclusion, participation and improving health and wellbeing. Any reduction in investment in preventative services could create a significant increase in the future demand for health and social care services.

8.5.

The implication for future budget efficiency exercises of not notionally attaching the Strategic Reserve Fund contribution to specific General Fund service areas is that those areas which are likely to be non-statutory or discretionary areas of spend are likely to be the natural choice of proposed efficiencies as the Council continues to face significant budget constraints.

9. Corporate Governance

9.1.

This report is presented in order to comply with internal governance and reporting requirements and is not for the exclusive purpose of supporting or relating to improved outcomes for communities as detailed in the Council Plan or the Local Outcomes Improvement Plan.

9.2.

However, deployment of the Council's reserves could assist with progressing the priorities of the Council as articulated in the Council Plan and therefore support and contribute to improved outcomes for communities as outlined in the Council Plan.

10. Financial Implications

10.1.

It is recognised that the level of distributions being made by the Strategic Reserve Fund exceeds the actual level of investment income being generated by the Strategic Reserve Fund. As a result, the Fund will not be maintained in real terms.

10.2.

As the balance of the Strategic Reserve Fund diminishes, returns from investments will also diminish, as will the ability to generate capital growth. Appendix 2 provides best case, most likely and worst-case scenarios.

- The worst-case scenario shows the loss of all useable reserves within the 10-year period. This draw on reserves uses a forecasting formula within Excel based on recent draws on reserves, using mathematical formula to predict future requirements – all other things remaining equal.

- The most likely scenario shows ever decreasing reserves, predicting that the draw on reserves is unlikely to reduce over the 10-year period.
- The best-case scenario involves a reduction in draw by £2,000,000 for 2025/26, a further £3,000,000 for 2026/27, and a further £4,000,000 for 2026/27. This strategy will allow the Strategic Reserve Fund distributions to return below anticipated income levels – subject to future spending decisions.

10.3.

Unless corrective action takes place now, the Council will face some grave challenges in the future. The gradual reduction of Strategic Reserve Fund contributions illustrated in Appendices 1 and 2 seeks to deliver properly managed progress towards an affordable operating model.

11. Legal Aspects

11.1.

Section 95 of the Local Government (Scotland) Act 1973 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 purpose which in the opinion of the Council is solely in the interests of the County or its inhabitants.

11.3.

In terms of Section 1 of the Local Government in Scotland Act 2003, 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.

12. Contact Officer

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13. Appendices

Appendix 1: Strategic Reserve Fund – Draft 3 Year Budget for financial years 2024/25, 2025/26 and 2026/27.

Appendix 2: Strategic Reserve Fund – 10 Year Long Term Budget Forecast.

SRF Draft 3 year budget - 2024/27	2023/24 Budget Estimate £000's	2023/24 Probable Outturn £000's	2024/25 Budget Estimate £000's	2025/26 Budget Estimate £000's	2026/27 Budget Estimate £000's
Investment Activities - local investments	(204)	(162)	(162)	(162)	(162)
- managed funds	(24,687)	(20,000)	(13,142)	(12,182)	(11,781)
- loans fund	37	965	789	639	454
- other, including strategic projects	3,856	3,863	1,591	860	697
Property Investments	(751)	(841)	(841)	(841)	(841)
Renewable Energy	(138)	(314)	(276)	(276)	(276)
Scapa Flow Oil Port	1,200	1,600	0	0	0
Loan Charges - interest and debt management	(46)	(37)	(46)	(46)	(46)
Loan Charges - CFCR	119	0	119	119	119
Other	14	10	10	10	10
Net budget surplus	(20,600)	(14,916)	(11,958)	(11,879)	(11,826)
	10.9%	10.1%	3.6%	1.8%	1.4%
less allocation to protect value of fund @ CPI	28,907	21,725	7,999	3,670	2,748
Balance available for disbursement	8,307	6,809	(3,959)	(8,209)	(9,078)
Disbursements:					
General Fund Services	6,350	6,350	20,000	18,000	15,000
Community Development Fund (CDF)	0	333	333	334	0
Contribution to capital projects - HRA	0	0	0	0	0
Contribution to capital projects - General Fund	0	0	8,070	0	0
Contribution to the Island Games	300	125	747	0	0
North Isles Landscape Partnership Scheme	0	157	0	0	0
Islands Deal	0	0	266	266	100
Contribution to other projects, incl. revenue strategic projects	450	865	1,000	1,000	394
	7,100	7,830	30,416	19,600	15,494
Deficit/(Surplus) on SRF (in real terms)	15,407	14,639	26,457	11,391	6,416
Deficit/(Surplus) on SRF (actual)	(13,500)	(7,086)	18,458	7,721	3,668
Cashflow - Opening Balance	(18,590)	(21,443)	(17,530)	(15,964)	(15,129)
Surplus/(Deficit) on year	13,500	7,086	(18,458)	(7,721)	(3,668)
Less: Non-cash - Managed Funds Income	(24,687)	(14,200)	(13,142)	(12,182)	(11,781)
Fund Transfers - Inflow/(Outflow)	11,187	7,114	31,600	19,903	15,449
Other Movements	3,807	3,913	1,566	835	672
Cashflow - Closing Balance	(14,783)	(17,530)	(15,964)	(15,129)	(14,457)
	2023/24 Budget Estimate £000's	2023/24 Probable Outturn £000's	2024/25 Budget Estimate £000's	2025/26 Budget Estimate £000's	2026/27 Budget Estimate £000's
SRF Balance Sheet					
Investment Properties	20,766	19,227	19,346	19,465	19,584
Local Investments	10,256	8,902	8,862	8,822	8,782
Managed Funds Investments	257,729	252,735	234,277	226,556	222,888
OIC Loans Fund Deposit/(Advance)	(14,783)	(17,530)	(15,964)	(15,129)	(14,457)
Provisions	(38,185)	(42,109)	(43,625)	(44,410)	(45,032)
Net Accruals	1,994	966	966	966	966
Net Assets	237,777	222,191	203,862	196,270	192,731
Less: Unusable Reserves	11,911	9,626	9,755	9,884	10,013
	225,866	212,565	194,107	186,386	182,718
Represented by: Useable Reserves					
Strategic Reserve Fund	206,552	194,654	175,699	167,587	163,553
Flotta Terminal Decline Fund	7,821	6,138	6,359	6,474	6,564
Conservation Fund	195	198	198	198	198
Travel Fund	105	107	107	107	107
Talented Performers Fund	62	63	63	63	63
Orkney Memorial Fund	462	434	434	434	434
Talented Young Persons Fund	11	9	9	9	9
Renewable Energy Fund	9,533	9,797	10,073	10,349	10,625
Capital Receipts Reserve	1,125	1,165	1,165	1,165	1,165
	225,866	212,565	194,107	186,386	182,718
Target Minimum Balance or "Floor" for SRF	248,964	254,285	263,439	268,181	271,936
Useable Headroom	(23,098)	(41,720)	(69,332)	(81,795)	(89,218)
	-10.2%	-19.6%	-35.7%	-43.9%	-48.8%

SRF Draft 10 year budget projection - 2024/34

	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget
	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Investment Activities - local investments	(162)	(162)	(162)	(150)	(150)	(150)	(150)	(150)	(150)	(150)
- managed funds	(13,142)	(12,182)	(11,781)	(12,482)	(12,554)	(12,991)	(13,444)	(13,911)	(13,911)	(14,394)
- loans fund	789	639	454	320	302	270	252	233	233	213
- other, including strategic projects	1,591	860	697	711	725	740	754	770	770	785
- Strategic Project wind farms income					(6,630)	(6,630)	(6,630)	(6,630)	(6,630)	(6,630)
Property Investments	(841)	(841)	(841)	(858)	(875)	(892)	(910)	(929)	(929)	(947)
Renewable Energy	(276)	(276)	(276)	(282)	(287)	(293)	(299)	(305)	(305)	(311)
Scapa Flow Oil Port	0	0	0	(21)	(42)	(63)	(84)	(105)	(105)	(126)
Loan Charges - interest and debt management	(46)	(46)	(46)	(46)	(46)	(46)	(46)	(46)	(46)	(46)
Loan Charges	119	119	119	119	119	119	119	119	119	119
Other	10	10	10	0	0	0	0	0	0	0
Net budget surplus	(11,958)	(11,879)	(11,826)	(12,688)	(19,438)	(19,937)	(20,438)	(20,954)	(20,954)	(21,487)
	3.6%	1.8%	1.4%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
less allocation to protect value of fund @ RPI	7,999	3,670	2,748	3,654	3,649	3,805	3,967	4,134	4,134	4,306
Balance available for disbursement (in real terms)	(3,959)	(8,209)	(9,078)	(9,034)	(15,789)	(16,132)	(16,471)	(16,820)	(16,820)	(17,181)
Disbursements:										
General Fund Services	20,000	18,000	15,000	11,300	11,526	11,757	11,992	12,231	12,231	12,476
Community Development Fund	333	334	0	0	0	0	0	0	0	0
Contribution to capital projects - HRA	0	0	0	0	0	0	0	0	0	0
Contribution to capital projects - General Fund	8,070	0	0	0	0	0	0	0	0	0
Contribution to the Island Games	747	0	0	0	0	0	0	0	0	0
North Isles Landscape Partnership Scheme	0	0	0	0	0	0	0	0	0	0
Islands Deal	266	266	100	100	100	100	100	100	100	0
Contribution to other projects, incl. revenue strategic project	1,000	1,000	394	0	0	0	0	0	0	0
Total Planned Disbursements	30,416	19,600	15,494	11,400	11,626	11,857	12,092	12,331	12,331	12,476
Deficit/(Surplus) on SRF (in real terms)	26,457	11,391	6,416	2,366	(4,163)	(4,275)	(4,379)	(4,489)	(4,489)	(4,705)
Deficit/(Surplus) on SRF (actual)	18,458	7,721	3,668	(1,288)	(7,812)	(8,080)	(8,346)	(8,623)	(8,623)	(9,011)
Cashflow - Opening Balance	(17,530)	(17,530)	(16,695)	(16,023)	(15,082)	(13,523)	(12,586)	(11,630)	(11,630)	(10,655)
Surplus/(Deficit) on year	(18,458)	(7,721)	(3,668)	1,288	7,812	8,080	8,346	8,623	8,623	9,011
Less: Non-cash - Managed Funds Income	(13,142)	(12,182)	(11,781)	(12,482)	(12,554)	(12,991)	(13,444)	(13,911)	(13,911)	(14,394)
Fund Transfers - Inflow/(Outflow)	31,600	19,903	15,449	11,194	4,742	4,911	5,098	5,288	5,288	5,383
Other Movements	1,566	835	672	941	1,559	937	956	975	975	994
Cashflow - Closing Balance	(15,964)	(16,695)	(16,023)	(15,082)	(13,523)	(12,586)	(11,630)	(10,655)	(10,655)	(9,661)
Fund Transfer Inflow	31,600	51,503	66,952	78,146	82,888	87,799	92,897	98,185	103,473	108,857
Lost Invest Income	885	2,376	3,450	4,256	4,747	5,045	5,342	5,649	5,963	6,279
										43,993

	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget
	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
SRF Balance Sheet										
Investment Properties	19,346	19,465	19,584	19,703	19,822	19,941	20,060	20,179	20,179	20,298
Local Investments	8,862	8,822	8,782	8,742	8,102	8,102	8,102	8,102	8,102	8,102
Managed Funds Investments	234,277	226,556	222,888	224,176	231,988	240,068	248,414	257,037	257,037	266,048
OIC Loans Fund Deposit/(Advance)	(15,964)	(15,129)	(14,457)	(15,082)	(13,523)	(12,586)	(11,630)	(10,655)	(10,655)	(9,661)
Provisions	(43,625)	(44,410)	(45,032)	(45,933)	(46,852)	(47,789)	(48,745)	(49,720)	(49,720)	(50,714)
Net Accruals	966	966	966	966	966	966	966	966	966	966
Net Assets	203,862	196,270	192,731	192,572	200,503	208,702	217,167	225,909	225,909	235,039
Less: Unusable Reserves	9,755	9,884	10,013	10,132	10,251	10,370	10,489	10,608	10,608	10,727
	194,107	186,386	182,718	182,440	190,252	198,332	206,678	215,301	215,301	224,312
Represented by: Useable Reserves										
Strategic Reserve Fund	175,699	167,587	163,553	162,862	170,253	177,904	185,812	193,988	193,988	202,543
Flotta Terminal Decline Fund	6,359	6,474	6,564	6,695	6,829	6,966	7,105	7,247	7,247	7,392
Conservation Fund	198	198	198	198	198	198	198	198	198	198
Travel Fund	107	107	107	107	107	107	107	107	107	107
Talented Performers Fund	63	63	63	63	63	63	63	63	63	63
Orkney Memorial Fund	434	434	434	434	434	434	434	434	434	434
Talented Young Persons Fund	9	9	9	9	9	9	9	9	9	9
Renewable Energy Fund	10,073	10,349	10,625	10,907	11,194	11,487	11,785	12,090	12,090	12,401
Capital Receipts Reserve	1,165	1,165	1,165	1,165	1,165	1,165	1,165	1,165	1,165	1,165
	194,107	186,386	182,718	182,440	190,252	198,332	206,678	215,301	215,301	224,312
Target Minimum Balance or "Floor" for SRF	263,439	268,181	271,936	277,375	282,923	288,581	294,353	300,240	300,240	306,245
Useable Headroom	(69,332)	(81,795)	(89,218)	(94,935)	(92,671)	(90,249)	(87,675)	(84,939)	(84,939)	(81,933)
	-35.7%	-35.7%	-48.8%	-52.0%	-48.7%	-45.5%	-42.4%	-39.5%	-39.5%	-36.5%

SRF Draft 10 year budget projection - 2024/34

	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget
	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Investment Activities - local investments	(162)	(162)	(162)	(150)	(150)	(150)	(150)	(150)	(150)	(150)
- managed funds	(13,142)	(12,182)	(11,677)	(12,084)	(11,624)	(11,490)	(11,328)	(11,136)	(11,136)	(10,912)
- loans fund	789	639	454	320	302	270	252	233	233	213
- other, including strategic projects	1,591	860	697	711	725	740	754	770	770	785
- Strategic Project wind farms income					(6,630)	(6,630)	(6,630)	(6,630)	(6,630)	(6,630)
Property Investments	(841)	(841)	(841)	(858)	(875)	(892)	(910)	(929)	(929)	(947)
Renewable Energy	(276)	(276)	(276)	(282)	(287)	(293)	(299)	(305)	(305)	(311)
Scapa Flow Oil Port	0	0	0	(21)	(42)	(63)	(84)	(105)	(105)	(126)
Loan Charges - interest and debt management	(46)	(46)	(46)	(46)	(46)	(46)	(46)	(46)	(46)	(46)
Loan Charges	119	119	119	119	119	119	119	119	119	119
Other	10	10	10	0	0	0	0	0	0	0
Net budget surplus	(11,958)	(11,879)	(11,722)	(12,290)	(18,508)	(18,435)	(18,322)	(18,179)	(18,179)	(18,005)
	3.6%	1.8%	1.4%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
less allocation to protect value of fund @ RPI	7,999	3,670	2,720	3,512	3,317	3,269	3,211	3,142	3,142	3,062
Balance available for disbursement (in real terms)	(3,959)	(8,209)	(9,002)	(8,778)	(15,191)	(15,166)	(15,111)	(15,037)	(15,037)	(14,943)
Disbursements:										
General Fund Services	20,000	20,000	20,000	20,400	20,808	21,224	21,649	22,082	22,082	22,523
Community Development Fund	333	334	0	0	0	0	0	0	0	0
Contribution to capital projects - HRA	0	0	0	0	0	0	0	0	0	0
Contribution to capital projects - General Fund	8,070	0	0	0	0	0	0	0	0	0
Contribution to the Island Games	747	0	0	0	0	0	0	0	0	0
North Isles Landscape Partnership Scheme	0	0	0	0	0	0	0	0	0	0
Islands Deal	266	266	100	100	100	100	100	100	100	0
Contribution to other projects, incl. revenue strategic project	1,000	1,000	394	0	0	0	0	0	0	0
Total Planned Disbursements	30,416	21,600	20,494	20,500	20,908	21,324	21,749	22,182	22,182	22,523
Deficit/(Surplus) on SRF (in real terms)	26,457	13,391	11,492	11,722	5,717	6,158	6,638	7,144	7,144	7,580
Deficit/(Surplus) on SRF (actual)	18,458	9,721	8,772	8,210	2,400	2,889	3,427	4,002	4,002	4,518
Cashflow - Opening Balance	(17,530)	(17,530)	(16,695)	(16,023)	(15,082)	(13,523)	(12,586)	(11,630)	(11,630)	(10,655)
Surplus/(Deficit) on year	(18,458)	(9,721)	(8,772)	(8,210)	(2,400)	(2,889)	(3,427)	(4,002)	(4,002)	(4,518)
Less: Non-cash - Managed Funds Income	(13,142)	(12,182)	(11,677)	(12,084)	(11,624)	(11,490)	(11,328)	(11,136)	(11,136)	(10,912)
Fund Transfers - Inflow/(Outflow)	31,600	21,903	20,449	20,294	14,024	14,379	14,755	15,139	15,139	15,430
Other Movements	1,566	835	672	941	1,559	937	956	975	975	994
Cashflow - Closing Balance	(15,964)	(16,695)	(16,023)	(15,082)	(13,523)	(12,586)	(11,630)	(10,655)	(10,655)	(9,661)
Fund Transfer Inflow	31,600	53,503	73,952	94,246	108,270	122,649	137,403	152,542	167,680	183,111
Lost Invest Income	885	2,432	3,705	4,917	5,946	6,799	7,662	8,548	9,445	10,351
										60,689

	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget
	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
SRF Balance Sheet										
Investment Properties	19,346	19,465	19,584	19,703	19,822	19,941	20,060	20,179	20,179	20,298
Local Investments	8,862	8,822	8,782	8,742	8,102	8,102	8,102	8,102	8,102	8,102
Managed Funds Investments	234,277	224,556	215,784	207,574	205,174	202,285	198,858	194,856	194,856	190,338
OIC Loans Fund Deposit/(Advance)	(15,964)	(15,129)	(14,457)	(15,082)	(13,523)	(12,586)	(11,630)	(10,655)	(10,655)	(9,661)
Provisions	(43,625)	(44,410)	(45,032)	(45,933)	(46,852)	(47,789)	(48,745)	(49,720)	(49,720)	(50,714)
Net Accruals	966	966	966	966	966	966	966	966	966	966
Net Assets	203,862	194,270	185,627	175,970	173,689	170,919	167,611	163,728	163,728	159,329
Less: Unusable Reserves	9,755	9,884	10,013	10,132	10,251	10,370	10,489	10,608	10,608	10,727
	194,107	184,386	175,614	165,838	163,438	160,549	157,122	153,120	153,120	148,602
Represented by: Useable Reserves										
Strategic Reserve Fund	175,699	165,587	156,449	146,260	143,439	140,121	136,256	131,807	131,807	126,833
Flotta Terminal Decline Fund	6,359	6,474	6,564	6,695	6,829	6,966	7,105	7,247	7,247	7,392
Conservation Fund	198	198	198	198	198	198	198	198	198	198
Travel Fund	107	107	107	107	107	107	107	107	107	107
Talented Performers Fund	63	63	63	63	63	63	63	63	63	63
Orkney Memorial Fund	434	434	434	434	434	434	434	434	434	434
Talented Young Persons Fund	9	9	9	9	9	9	9	9	9	9
Renewable Energy Fund	10,073	10,349	10,625	10,907	11,194	11,487	11,785	12,090	12,090	12,401
Capital Receipts Reserve	1,165	1,165	1,165	1,165	1,165	1,165	1,165	1,165	1,165	1,165
	194,107	184,386	175,614	165,838	163,438	160,549	157,122	153,120	153,120	148,602
Target Minimum Balance or "Floor" for SRF	263,439	268,181	271,936	277,375	282,923	288,581	294,353	300,240	300,240	306,245
Useable Headroom	(69,332)	(83,795)	(96,322)	(111,537)	(119,485)	(128,032)	(137,231)	(147,120)	(147,120)	(157,643)
	-35.7%	-35.7%	-54.8%	-67.3%	-73.1%	-79.7%	-87.3%	-96.1%	-96.1%	-106.1%

SRF Draft 10 year budget projection - 2024/34

	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget
	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Investment Activities - local investments	(162)	(162)	(162)	(162)	(162)	(162)	(162)	(162)	(162)	(162)
- managed funds	(13,142)	(12,239)	(11,652)	(10,939)	(10,005)	(9,196)	(8,174)	(6,929)	(5,449)	(3,721)
- loans fund	789	639	454	434	405	376	347	316	286	254
- other, including strategic projects	1,591	860	697	976	994	1,012	1,031	1,050	1,069	1,089
- Strategic Project wind farms income	0	0	0	0	(6,630)	(6,630)	(6,630)	(6,630)	(6,630)	(6,630)
Property Investments	(841)	(841)	(841)	(841)	(841)	(841)	(841)	(841)	(841)	(841)
Renewable Energy	(276)	(276)	(276)	(276)	(276)	(276)	(276)	(276)	(276)	(276)
Scapa Flow Oil Port	0	0	0	0	0	0	0	0	0	0
Loan Charges - interest and debt management	(46)	(46)	(46)	(46)	(46)	(46)	(46)	(46)	(46)	(46)
Loan Charges	119	119	119	119	119	119	119	119	119	119
Other	10	10	10	10	10	10	10	10	10	10
Net budget surplus	(11,958)	(11,936)	(11,697)	(10,725)	(16,432)	(15,634)	(14,622)	(13,389)	(11,920)	(10,204)
	3.6%	1.8%	1.4%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
less allocation to protect value of fund @ RPI	7,999	3,689	2,713	3,604	3,247	2,939	2,549	2,072	1,505	843
Balance available for disbursement (in real terms)	(3,959)	(8,247)	(8,984)	(7,121)	(13,185)	(12,695)	(12,073)	(11,317)	(10,415)	(9,361)
Disbursements:										
General Fund Services	18,906	21,624	24,914	28,204	31,494	34,784	38,074	41,364	44,654	47,944
Community Development Fund	333	334	0	0	0	0	0	0	0	0
Contribution to capital projects - HRA	0	0	0	0	0	0	0	0	0	0
Contribution to capital projects - General Fund	8,070	0	0	0	0	0	0	0	0	0
Contribution to the Island Games	747	0	0	0	0	0	0	0	0	0
North Isles Landscape Partnership Scheme	0	0	0	0	0	0	0	0	0	0
Islands Deal	266	266	100	100	100	100	100	100	100	100
Contribution to other projects, incl. revenue strategic project	1,000	1,000	394	394	394	394	394	394	394	394
Total Planned Disbursements	29,322	23,224	25,408	28,698	31,988	35,278	38,568	41,858	45,148	48,438
Deficit/(Surplus) on SRF (in real terms)	25,363	14,977	16,424	21,577	18,803	22,583	26,495	30,541	34,733	39,077
Deficit/(Surplus) on SRF (actual)	17,364	11,288	13,711	17,973	15,556	19,644	23,946	28,469	33,228	38,234
Cashflow - Opening Balance	(17,530)	(17,530)	(16,695)	(16,023)	(15,072)	(14,103)	(13,116)	(12,110)	(12,110)	(11,085)
Surplus/(Deficit) on year	(17,364)	(11,288)	(13,711)	(17,973)	(15,556)	(19,644)	(23,946)	(28,469)	(33,228)	(38,234)
Less: Non-cash - Managed Funds Income	(13,142)	(12,239)	(11,652)	(10,939)	(10,005)	(9,196)	(8,174)	(6,929)	(5,449)	(3,721)
Fund Transfers - Inflow/(Outflow)	30,506	23,527	25,363	28,912	25,561	28,840	32,120	35,398	38,677	41,955
Other Movements	1,566	835	672	951	969	987	1,006	1,025	1,044	1,064
Cashflow - Closing Balance	(15,964)	(16,695)	(16,023)	(15,072)	(14,103)	(13,116)	(12,110)	(11,085)	(11,066)	(10,021)
Fund Transfer Inflow	30,506	54,033	79,396	108,308	133,869	162,709	194,829	230,227	268,904	310,859
Lost Invest Income	854	2,415	3,871	5,472	7,087	8,701	10,498	12,489	14,675	17,055
										83,119

	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget
	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
SRF Balance Sheet										
Investment Properties	19,346	19,465	19,584	19,703	19,822	19,941	20,060	20,179	20,298	20,417
Local Investments	8,862	8,822	8,782	8,742	8,702	8,662	8,622	8,582	8,542	8,502
Managed Funds Investments	235,371	224,083	210,372	192,399	176,843	157,199	133,253	104,784	71,556	33,322
OIC Loans Fund Deposit/(Advance)	(15,964)	(15,129)	(14,457)	(13,506)	(12,537)	(11,550)	(10,544)	(9,519)	(8,475)	(7,411)
Provisions	(43,625)	(44,410)	(45,032)	(45,933)	(46,852)	(47,789)	(48,745)	(49,720)	(50,714)	(51,728)
Net Accruals	966	966	966	966	966	966	966	966	966	966
Net Assets	204,956	193,797	180,215	162,371	146,944	127,429	103,612	75,272	42,173	4,068
Less: Unusable Reserves	9,755	9,884	10,013	10,132	10,251	10,370	10,489	10,608	10,727	10,846
	195,201	183,913	170,202	152,239	136,693	117,059	93,123	64,664	31,446	(6,778)
Represented by: Useable Reserves										
Strategic Reserve Fund	176,793	165,114	151,037	132,657	116,691	96,634	72,273	43,386	9,737	28,921
Flotta Terminal Decline Fund	6,359	6,474	6,564	6,695	6,829	6,966	7,105	7,247	7,392	7,540
Conservation Fund	198	198	198	198	198	198	198	198	198	198
Travel Fund	107	107	107	107	107	107	107	107	107	107
Talented Performers Fund	63	63	63	63	63	63	63	63	63	63
Orkney Memorial Fund	434	434	434	434	434	434	434	434	434	434
Talented Young Persons Fund	9	9	9	9	9	9	9	9	9	9
Renewable Energy Fund	10,073	10,349	10,625	10,901	11,177	11,453	11,729	12,005	12,281	12,557
Capital Receipts Reserve	1,165	1,165	1,165	1,165	1,165	1,165	1,165	1,165	1,165	1,165
	195,201	183,913	170,202	152,229	136,673	117,029	93,083	64,614	31,386	- 6,848
Target Minimum Balance or "Floor" for SRF	263,439	268,181	271,936	277,375	282,923	288,581	294,353	300,240	300,240	306,245
Useable Headroom	(68,238)	(84,268)	(101,734)	(125,146)	(146,250)	(171,552)	(201,270)	(235,626)	(268,854)	(313,093)
	-35.0%	-35.0%	-59.8%	-82.2%	-107.0%	-146.6%	-216.1%	-364.4%	-855.0%	4619.5%