

Item: 4

Policy and Resources Committee: 25 February 2020.

Reserves and Provisions Strategy.

Report by Head of Finance.

1. Purpose of Report

To consider a strategy for managing the Council's Reserves in the context of setting the Revenue Budget for 2020/21.

2. Recommendations

The Committee is invited to note:

2.1.

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

2.2.

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

2.3.

That, as at 31 March 2019, the Council held earmarked reserves of £18,371,200.

2.4.

That, as at 31 March 2019, the Council held a non-earmarked General Fund balance of £4,787,100.

2.5.

That a review of the level of the non-earmarked General Fund balance has concluded that it would be possible to reduce the balance to 4% of the Council's net budgeted expenditure for 2020/21.

2.6.

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 this report.

It is recommended:

2.7.

That the Council's non-earmarked General Fund balance of £4,787,100 be reduced to £3,431,900 at 31 March 2020, being 4% of the Council's net budgeted expenditure for 2020/21, with the excess balance, amounting to £1,355,200, being applied to early repayment of capital debt.

2.8.

That, for financial year 2020/21, the non-earmarked General Fund balance should be retained at a minimum target level of 4% of the Council's net budgeted expenditure.

3. Background

3.1.

In accordance with the existing statutory and regulatory framework, the Head of Finance, as Responsible Financial Officer, is responsible for advising the Council on the level of Reserves it should hold and to ensure that there are clear protocols for their establishment and use. Reserves should not be held without a clear purpose.

3.2.

The CIPFA Local Authority Advisory Panel (LAAP) Bulletin 99, published in July 2014, provides guidance on the establishment and maintenance of Reserves and Balances. CIPFA and LAAP consider that local authorities should establish reserves, including the level of those reserves, based on the advice of their chief finance officers. Local authorities should make their own judgements on such matters taking into account all the relevant local circumstances.

3.3.

In assessing the appropriate level of reserves, a well-managed authority will ensure that the reserves are not only adequate but are also necessary. There is a broad range of reserves within which local authorities might reasonably operate, depending on their particular circumstances. Many councils hold usable reserves of around 2% of their annual budgeted expenditure although there are lower and higher percentage levels of reserves held. With the smallest budget of any Scottish local authority it is considered prudent to hold reserves to a higher percentage of the net budget than some larger authorities, given that the possibility exists that a catastrophic event could occur that is larger in scale than the size of the Council and cost the Council in excess of the reserves held.

3.4.

In determining medium term financial plans and preparing budgets, the Council needs to consider the establishment and maintenance of reserves in accordance with its statutory powers. Reserves can be held for three main purposes, namely:

- Working balances to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of General Reserves.
- A contingency to cushion the impact of unexpected events or emergencies – this also forms part of General Reserves.
- A means of building up funds, often referred to as Earmarked Reserves, to meet known or predicted liabilities.

3.5.

The principles that should be followed in the reserves strategy are as follows:

- The level of reserves should be sufficient to ensure that the local authority can comply with its statutory financial duty of setting a balanced annual budget.
- The level of reserves should take into account the known risks over the life of the current financial plan.
- The level of reserves should be capable of covering the estimated financial risk of the local authority, including contingent liabilities and insurance exposure risks.

3.6.

In addition to General Fund balances, earmarked or otherwise, the Council is also permitted to maintain a number of other reserves in order to comply with proper accounting practice. These include, for example, the Capital Receipts Reserve and Capital Fund, both of which are ring-fenced for capital purposes only and are utilised in the financing of the capital programme. By contrast, the Repairs and Renewals Fund, which can be used for both capital and revenue purposes, allows the Council to plan for the future replacement and repair of its existing property, plant and equipment fixed assets. The Council is also empowered to establish an Insurance Fund as a means of managing insurance risk across the range of Council activities in a cost-effective manner, including the option to self-insure.

3.7.

Establishment of provisions is covered by International Accounting Standard 37 – Provisions, Contingent Liabilities and Contingent Assets, with the objective being to ensure that appropriate recognition criteria and measurement bases are applied to provisions, contingent liabilities and contingent assets and that sufficient information is disclosed in the notes to the accounts to enable users to understand their nature, timing and amount.

3.8.

A provision is a liability of uncertain timing or amount and is recognised when:

- An entity has a present obligation (legal or constructive) as a result of a past event.
- It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.
- A reliable estimate can be made of the amount of the obligation.

3.9.

If these conditions are not met, no provision shall be recognised.

3.10.

The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

4. Existing Reserves Position

4.1.

The Audited Annual Accounts for 2018/19, presented to the Monitoring and Audit Committee on 26 September 2019, give an overview of the Reserves position as at 31 March 2019 which is summarised in the table below:

General Fund	£	Balance as at 31/03/19 £
Non-Earmarked Balance.		4,787,100.
Capital Fund.	507,800.	
Capital Receipts Reserve.	244,900.	
Repairs and Renewals Fund.	9,230,400.	
Local Works and Services Contingency Fund.	129,100.	
Workforce Management Fund.	1,000,000.	
Orkney College.	4,700.	
Training Fund.	297,300.	
Innovation Fund.	804,600.	
Renewable, Redevelopment and Regeneration Fund.	2,497,900.	
Recreation and Cultural Services Project Fund.	82,100	
Development Grants Fund.	2,039,700.	
Sustainable Communities Fund.	14,800.	
Outwith Orkney Placements Fund.	1,217,200.	
Welfare Fund.	4,100.	
Electronic Document Records Management.	61,100.	
Capital Projects Appraisal Fund.	235,500.	
Total Earmarked Reserves.		18,371,200.
Total General Fund Reserves.		23,158,300.

4.2.

The aim of the Electronic Document and Records Management System project is to deliver a corporate system for the management of electronic documents and records created or used by officers which are currently stored in personal drives, personal email accounts and in other systems such as the Council's shared drives. This is required to deliver the Records Management Plan approved by the Keeper of The Records of Scotland, in line with the Public Records (Scotland) Act 2011 and the Data Protection Act 2018.

4.3.

Orkney College is not a General Fund balance but is included in the table above to be consistent with the Council's Annual Accounts 2018 to 2019.

4.4.

The Council is in the fortunate position of having a Strategic Reserve Fund which, at 31 March 2019, had a value of £242,328,600. Utilisation of this reserve in the Council's budget setting considerations is not considered in detail in this report but is the subject of a separate report. The availability of this funding source has however been a factor in the conclusion of the review of the non-earmarked General Fund balance.

4.5.

The summary table above excludes the Council's unusable reserves which consist of the following:

- The Capital Adjustments Account.
- The Revaluation Reserve.
- The Pensions Reserve.
- The Employee Statutory Adjustment Account.
- The Financial Instruments Adjustment Account.
- The Available for Sale Financial Instruments Account.

4.6.

The unusable reserves above reflect proper accounting practice, but they are not resource-backed and are, therefore, of limited relevance in determining the Council's Reserves and budget strategies. The unusable reserves are summarised in the table below.

	Balance as at 31 March 2019.
Capital Adjustment Account.	£245,165,000.
Revaluation Reserve.	£92,614,000.
Pensions Reserve.	£(9,491,000).
Employee Statutory Adjustment Account.	£(2,173,000).
Financial Instruments Adjustment Account.	£(55,000).
Available for Sale Financial Instruments Account.	£2,921,000.
Total Unusable Reserves.	£328,981,000.

5. Proposed Level of Non-Earmarked General Fund Reserve

5.1.

Balancing the annual budget by drawing on general reserves may be viewed as a legitimate short-term option. However, it is not normally prudent for reserves to be deployed to finance recurrent expenditure. CIPFA has stated that local authorities should be particularly wary of using one-off reserves to deal with shortfalls in current funding. Where such action is to be taken, this should be made explicit, and an explanation given as to how such expenditure will be funded in the medium to long term.

5.2.

In the event that any use of General Fund Reserves is made in determining the revenue budget for 2020 to 2021, this should only be done on the basis of a sustainable strategy, which ensures that future years' revenue budgets are not dependent on the unsustainable continuing use of General Reserves.

5.3.

There is no generally recommended target level of uncommitted General Fund Reserves although a number of local authorities do have a target range of between 2% and 4% of their net revenue expenditure in the medium term. Based on the Net Revenue Budget for 2020/21 of £85,798,800, this would imply a level of uncommitted Reserves for this Council of between £1,715,900 and £3,431,900.

5.4.

The projected level of the Council's non-earmarked General Fund Reserve as at 31 March 2020 is £4,787,100, prior to any budget decisions which have an effect on the Reserves position.

5.5.

The Council's non-earmarked General Fund Reserve at 1 April 2019 represented approximately 5.7% of the Council's net budgeted expenditure for 2019/20. There is a balance that requires to be struck between the risk of an unexpected draw on the General Fund balance and the cost of carrying a cash balance to cover that risk where it is only possible to earn a low level of interest through placing funds on short term instant access deposits.

5.6.

An improved return on Council funds could be earned through reducing the level of the non-earmarked General Fund Reserve to 4% of the Council's net budgeted expenditure and utilising the surplus funding to repay capital debt where the cost of carrying debt is in excess of the short term returns earned through having cash backed reserves invested in an instant access deposit. If there are no calls on the balance before 31 March 2020, a reduction of the non-earmarked General Fund Reserve to 4% of the Council's net budgeted expenditure would realise a surplus for debt repayment of £1,355,200.

5.7.

The existence of the Strategic Reserve Fund as a potential source of funds in the event that there is an unexpected draw on the reserve does serve to mitigate the anxiety that could otherwise arise from reducing the level of the non-earmarked General Fund Reserve.

5.8.

Due to the uncertainties and risks beyond 2020/21, it would still be prudent to maintain a non-earmarked General Fund reserve of 4% of the revenue budget in the medium term. This would equate to £3,431,900 on a draft General Fund budget total of £85,798,800.

6. Establishing the Level of Earmarked Reserves

6.1.

In determining the Reserves Strategy, it is recognised that there may be constraints on the Council's capacity to raise balances in future. These constraints arise firstly from the generally tight budgetary environment anticipated over the medium term, which means that there will be limited opportunities to raise balances through local taxation. Secondly, the savings that have already been made to the revenue budget and the pressures on service budgets mean that there is a limited prospect of uncommitted balances being built up through service underspends.

6.2.

In the 2 July 2019 Local Government finance: facts and figures 2013-14 to 2019-20 briefing, The Scottish Parliament Information Centre (SPICe) reported that, between 2013/14 and 2018/19, the revenue grant to local government has fallen around 7.5% in real terms, which is far greater than the real terms reduction in Scottish

Government funding of 2.8%. However, this trend was reversed between 2018/19 and 2019/20 with the revenue allocation to local government increasing by 1% and the Scottish Government's revenue budget increasing by 0.9%. Orkney however received a revenue allocation that was a -1% change in real terms between 2018/19 and 2019/20.

6.3.

It will therefore be necessary to maintain balances at a level that reflects the difficulty likely to be experienced in reinstating them if and when they are applied.

6.4.

The outlook over the timeline for the current Scottish Parliament is also particularly challenging, with 'unprotected' parts of the Scottish budget facing real terms cuts of 13% to 16%.

6.5.

Appendix 1 to this report sets out the purpose for holding each of the Council's earmarked reserves and the non-earmarked General Fund balance, together with how and when the reserve can be used and the procedures for the reserve's management and control.

6.6.

It is considered good practice to establish clearly whether the authority to spend from the particular earmarked funds has been delegated to an officer or reserved to a Committee. Appendix 1 details the extent of delegation for each of the reserves listed.

6.7.

Once the original purpose for establishing an earmarked reserve is deemed to have been either completed, and/or otherwise overtaken by other events, then the reserve will be wound up, with any residual balance returned to the original donor reserve.

7. Corporate Governance

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. However, maintenance of adequate reserve balances contributes indirectly to the provision of Council services and therefore will assist in promoting the Council's priorities by enabling the allocation of resources to those areas of activity which have been highlighted as priorities by the Council or as a result of public and staff engagement.

8. Financial Implications

The financial implications are detailed throughout the report.

9. Legal Aspects

9.1.

Section 93 (1) of the Local Government (Scotland) Act 1973 requires the Council to maintain a General Fund.

9.2.

Paragraph 22 of Schedule 3 of the Local Government (Scotland) Act 1975 enables a local authority to establish an Insurance Fund.

9.3.

Local Authorities are empowered by Paragraph 22 of Schedule 3 of the Local Government (Scotland) Act 1975 to establish a Renewal and Repair Fund and a Capital Fund.

10. Contact Officer

Gareth Waterson, Head of Finance, extension 2103, Email
gareth.waterson@orkney.gov.uk

11. Appendix

Appendix 1: Evaluation of Individual General Fund Reserves and Balances.

Evaluation of Individual General Fund Reserves and Balances

Name of Reserve.	Non-Earmarked General Fund Balance.
Balance at 31 March 2019.	£4,787,100.
Purpose of the Reserve.	The General Fund Balance is held to provide a cushion for uneven cash flow management and to be a cushion against the impact of unexpected events or emergencies. The balance of £4,787,000 may be regarded as a high percentage of net revenue budget when compared to other councils.
How and when the Reserve can be used.	The General Fund Balance is used on a day to day basis for the purpose of the Council's cash flow management while the financial consequences of unexpected events that manifest in overall General Fund budget overspends will be charged against the balance at financial year end.
Procedures for the Reserve's management and control.	Application of the non-earmarked General Fund Balance is delegated to the Chief Executive, in consultation with the Head of Finance.
Conclusion of review.	A General Fund Balance of 5% of the net revenue budget is high relative to other councils and could be reduced. Through reducing this balance to 4% of the 2020/21 net revenue budget at the end of the 2019/20 financial year, the excess provision of £1,355,200 could be deployed to repay capital debt which has a long-term positive impact on debt servicing costs. A provision of £3,431,900 would remain for 2020/21 to cover continuing uncertainties and financial risks that exist for the Council beyond financial year 2020/21.

Name of Reserve.	Capital Fund.
Balance at 31 March 2019.	£507,800.
Purpose of the Reserve.	The fund has been established largely to ensure there is provision for investment in the replacement of critical financial systems when required.
How and when the Reserve can be used.	As a Capital Fund, the Reserve can only be used for capital purposes. The Reserve was created through contributions from the Finance Service revenue budget over many years and funding from this Reserve has been applied to the replacement of financial systems.
Procedures for the Reserve's management and control.	Application of the Capital Fund is delegated to the Chief Executive, in consultation with the Head of Finance.
Conclusion of review.	The fund is required to ensure provision exists for investment in financial systems.

Name of Reserve.	Capital Receipts Reserve.
Balance at 31 March 2019.	£244,900.
Purpose of the Reserve.	The fund has been established to account for the receipt and application of capital receipts.
How and when the Reserve can be used.	The Capital Receipts Reserve can only be used for capital purposes. This includes accounting for capital receipts arising from the disposal of fixed assets, together with commuted developer contributions arising from planning conditions on housing and infrastructure developments. The receipts are applied directly to fund capital expenditure in the current financial year or subject to funding conditions can be carried forward for application to specific capital projects in the future.
Procedures for the Reserve's management and control.	Application of the Capital Receipts Reserve is delegated to the Chief Executive, in consultation with the Head of Finance.
Conclusion of review.	The fund balance will continue be applied against capital spend.

Name of Reserve.	Repairs and Renewals Fund.
Balance at 31 March 2019.	£9,230,400. (That the legislative requirement supported by the Electronic Document and Records Management System and the additional financial requirements will be underwritten by a contribution from the Repairs and Renewal Fund up to a sum of £241,716 over the life of the three-year project).
Purpose of the Reserve.	The fund is used to manage replacement and repair of the Council's existing property, plant and equipment fixed assets.
How and when the Reserve can be used.	<p>The Repairs and Renewals Fund can be used for both revenue and capital purposes. The fund will usually be accessed following a report to the Asset Management Sub-committee or the Policy and Resources Committee identifying this fund as the source of funding for a particular repair or asset replacement. The main components of the fund include:</p> <ul style="list-style-type: none"> • Schools Investment Programme Lifecycle funds. • Pathfinder Project. • Quarries. • Plant. • Transportation Infrastructure. <p>It is also used to complement the Plant and Vehicle Replacement programme.</p>
Procedures for the Reserve's management and control.	Application of the Repairs and Renewals Fund is delegated to the Chief Executive, in consultation with the Head of Finance.
Conclusion of review.	The fund continues to be required for its established purpose, which are replacement and/or maintenance of property, plant and equipment.

Name of Reserve.	Local Works and Services Contingency Fund.
Balance at 31 March 2019.	£129,100.
Purpose of the Reserve.	The fund was established to enable Elected Members to be more reactive to issues that have arisen at ward level, but which do not feature as a priority when they are considered by Council Services against their competing priorities. The fund is a source of funding for ward level issues that can then be allocated to the appropriate Council Service where the lack of budgetary provision is the obstacle to resolving the issue.
How and when the Reserve can be used.	In order to demonstrate fairness, the fund is allocated equally between the 6 wards up to an indicative sum of £30,000, with £20,000 left for unexpected overspends. Projects can only proceed on the basis that there is a financial provision to complete them. Applications must be deliverable, legal, within policy and achievable within budget and an agreed timescale and also signed by two of the ward Members. Project forms are submitted to the Monitoring Officer who will review the legality of the proposal and, if satisfied, sign it off and submit the form to the Senior Management Team for consideration. Senior Management Team will advise the Executive Director of the appropriate Council Service to commission or carry out the requested work, with the Chief Executive having the final say on whether or not a submission is approved.
Procedures for the Reserve's management and control.	Application of the Local Works and Services Contingency Fund is delegated to the Chief Executive, in consultation with the Head of Finance.
Conclusion of review.	The fund was piloted successfully in 2015 to 2016 with the uncommitted balance carried forward into 2016/17, 2017/18, 2018/19 and 2019/20 to allow the fund to continue to operate without any further funding contributions.

Name of Reserve.	Workforce Management Fund.
Balance at 31 March 2019.	£1,000,000.
Purpose of the Reserve.	The Workforce Management Fund was established to make corporate provision for the eventuality that the Council is required to make budget savings that will involve a reduction in the workforce and for which there will be severance costs.
How and when the Reserve can be used.	<p>This corporate reserve is accessible to all General Fund services. National guidance issued by Audit Scotland on workforce management and management of early retirement in local government was given full consideration in establishing protocols for accessing this fund. The principles for the process to access funds from the Workforce Management Fund is as follows:</p> <ul style="list-style-type: none"> • An area for budgetary savings is identified through the budget setting process. • The required level of staffing reduction and potential severance costs are quantified in consultation with Human Resources and Finance. • Should the associated costs be able to be met within existing Service budget then no application to the Workforce Management Fund would be required. • Should this not be the case, a short business case should be worked up, covering the expected costs, the length of payback period and rationale for the staffing reduction. This should be captured on a standard template form that will facilitate comparison of cases. <p>The normal payback period required for the approval of requests to the Fund should be within three years. However exceptional circumstances may justify a longer payback period.</p>
Procedures for the Reserve's management and control.	Application of the Workforce Management Fund is delegated to the Chief Executive, in consultation with the Head of Finance, with the exception of proposals involving Chief Officers.
Conclusion of review.	That the Workforce Management Fund is retained for this purpose.

Name of Reserve.	Orkney College Fund.
Balance at 31 March 2019.	£4,700.
Purpose of the Reserve.	The fund is an accumulation of surpluses achieved on the Orkney College Account.
How and when the Reserve can be used.	This reserve reflects the position that the activities of Orkney College are ring-fenced and separate from General Fund services. Notwithstanding that Orkney College is required to operate within its means, the reserve principally allows for operating surpluses to be carried forward and where necessary any overspends to be absorbed by Orkney College from within. Prior to the College returning a surplus in 2013 the cumulative deficits on the College account were written off against Education Service underspends as part of a planned approach.
Procedures for the Reserve's management and control	Application of the Orkney College Fund is delegated to the Executive Director of Education, Leisure and Housing, in consultation with the Head of Finance.
Conclusion of review.	The Orkney College Fund is likely to be fully utilised in financial year 2019 to 2020.

Name of Reserve.	Training Fund.
Balance at 31 March 2019.	£297,300.
Purpose of the Reserve.	This fund was initially created in financial year 2006 to 2007 through a transfer of the Corporate Training budget underspend of £39,000. Successive year on year underspends since then have resulted in the current balance.
How and when the Reserve can be used.	The fund can only be applied for agreed corporate training activities, which cannot be covered by either individual service training budgets or the corporate training budget.
Procedures for the Reserve's management and control.	Application of the Training Fund is delegated to the Executive Director of Corporate Services, in consultation with the Head of Finance.
Conclusion of review.	This fund has been identified as a funding source for training related service pressure bids during the budget setting exercise over recent years.

Name of Reserve.	Innovation Fund.
Balance at 31 March 2019.	£804,600.
Purpose of the Reserve.	The former Spend to Save Development Fund was re-designated as the Innovation Fund to better reflect the types of funding allocations made. The fund is used to fund projects which should have a proven 'save' which can be adjusted in future revenue budgets.
How and when the Reserve can be used.	<p>There are established criteria for projects to be funded from the Innovation Fund which must fall within the following three distinct categories:</p> <ul style="list-style-type: none"> • Spend to Save – where projects deliver savings to the baseline budget. • Preventative – where projects deliver savings in future Council spending not currently budgeted for and mitigate future services pressures. • Systems Development – where projects deliver improvements to existing systems and electronic platforms leading to efficiencies and time-releasing savings. <p>The payback period for projects within the three categories is as follows:</p> <ul style="list-style-type: none"> • Spend to Save and Preventative – up to 7 years. • Systems Development – up to 5 years. <p>The qualifying project cost for applications to the Innovation Fund is set at £5,000.</p>
Procedures for the Reserve's management and control.	Application of the Innovation Fund is delegated to the Chief Executive, in consultation with the Head of Finance.
Conclusion of review.	The fund balance is committed in full to Council priority projects.

Name of Reserve.	Renewables, Redevelopment and Regeneration Fund.
Balance at 31 March 2019.	£2,497,900.
Purpose of the Reserve	The fund was established as an investment fund by ring fencing £8,000,000 of General Fund reserves. The General Fund Reserves had been bolstered by the incorporation of the Relevant Services Contingency Fund balance which had its origins in non-domestic rates payments made by operators of the Flotta Terminal during a period of industrial de-rating.
How and when the Reserve can be used.	The fund has been applied to a variety of infrastructure projects including the Commercial Hotel, Stromness Pierhead Regeneration, MV Hoy Head lengthening, wind developments, Student Housing, serviced sites at the former Black Building and installation of the caisson at the Barriers, with commitments made to the Kirkwall Conservation Area Renewal Scheme and the Townscape Heritage Initiative. Other commitments include the planned renovations to Garden House to accommodate Voluntary Action Orkney, work associated with the designation of Special Protection Areas in Orkney Waters, Our Islands Our Future, work on tidal, wind, private wire schemes and the Lyness decommissioning proposal.
Procedures for the Reserve's management and control.	Approval of the fund being used as a funding source for projects is referred to the Policy and Resources Committee with a recommendation to Council.
Conclusion of review.	The fund balance has been spent or committed in full to Council priority projects.

Name of Reserve.	Recreation and Cultural Services Project Fund.
Balance at 31 March 2019.	£82,100.
Purpose of the Reserve.	The fund was originally established by setting aside £200,000 from the Education, Leisure and Recreation Service revenue budget. This initial sum was a contingency sum for self-insurance of the Ness Battery whilst it was being renovated. This balance was subsequently increased with contributions of £25,000 for costs associated with the Olympic Torch, a further £50,000 set aside for World War 1 commemorations and £25,000 for the Commonwealth Games Queen's Baton relay.
How and when the Reserve can be used.	On completion of works to renovate the Ness Battery the property was added to the Council's list of insured property. The cost of the Olympic Torch event was met from the service revenue budget whilst the Queen's Baton relay was contained within the sum set aside. The project to upgrade the play area at Summerdale Drive, Kirkwall (now completed) was agreed on the basis that it could be covered by the underspend on the service budget in 2013 to 2014 with any slippage covered from this fund. The balance of the fund has been earmarked to underwrite the Active Life membership card scheme for the initial two-year trial period.
Procedures for the Reserve's management and control.	Application of the Recreation and Cultural Services Project Fund is delegated to the Executive Director of Education, Leisure and Housing, in consultation with the Head of Finance.
Conclusion of review.	The fund, which was initially established for specific contingencies by contributions from the Education revenue budget, was not required for that purpose but has since been usefully applied to meet other service priorities.

Name of Reserve.	Economic Development Grants Fund.
Balance at 31 March 2019.	£2,039,700.
Purpose of the Reserve.	This fund was established to ensure that commitments made by the Development and Infrastructure Committee to award economic development grants in prior years can be met in full when they are paid. The value of the fund represents the full value of the grant awards that have yet to be drawn down.
How and when the Reserve can be used.	This reserve can only be applied to meet the cost of economic development grants paid out in the year when the commitment has been made in an earlier year.
Procedures for the Reserve's management and control.	Application of the Development Grants Fund is delegated to the Head of Finance.
Conclusion of review.	<p>The full value of the fund is required to meet outstanding prior year commitments if they are all drawn down.</p> <p>The Economic Development Grants Fund has been assessed as representing a potential financial liability or commitment made by the Council in awarding grant contributions to applicants for economic development assistance. While the status of each individual grant offer needs to be kept under review, the extent of any financial liability to the Council should be recognised and fully provided for.</p>

Name of Reserve.	Sustainable Communities Fund.
Balance at 31 March 2019.	£14,800.
Purpose of the Reserve.	Working with Communities is one of the Council's values in the Council Plan 2018 to 2023 and provision for the Sustainable Communities project was established in the 2013 to 2014 revenue budget with a one-off service growth provision of £40,000. The project was late in getting started and this led to the establishment of a fund to carry the balance forward to ensure the project could be completed. Further budgets were provided in the subsequent three financial years up to and including 2016 to 2017. Any underspends or overspends at the end of each financial year have been carried forward into the fund to ensure the project can be completed.
How and when the Reserve can be used.	This fund was established to enable the carry forward of the unused budget provision and will be applied against expenditure on the Sustainable Communities project.
Procedures for the Reserve's management and control.	Application of the Sustainable Communities Fund is delegated to the Executive Director of Development and Infrastructure, in consultation with the Head of Finance.
Conclusion of review.	Delivery of the expected outcomes from the Sustainable Communities project will necessitate carrying forward the fund balance to enable it to be spent on the project.

Name of Reserve	Outwith Orkney Placements Fund
Balance at 31 March 2019.	£1,217,200.
Purpose of the Reserve.	This fund has been established from General Fund underspends to meet the anticipated costs of placements for looked after children. There were an unprecedented number of outwith Orkney placements during 2013 to 2014 and it was apparent that this spending pressure would continue until alternative routes for meeting the needs of these individuals were established.
How and when the Reserve can be used.	The reserve is used to supplement the Social Care revenue budget and reduce the overspend position on the looked after children budget.
Procedures for the Reserve's management and control.	Application of the Outwith Orkney Placements Fund is delegated to the Chief Executive, in consultation with the Head of Finance.
Conclusion of review.	The number of looked after children and complex packages of care for adults continue to place significant demand and spending pressure on the Social Care revenue budget such that the full value of the Outwith Orkney Placements Fund will be required. Further consideration requires to be given to this arrangement as part of the Council's budget setting process, including an assessment of the ongoing service pressure over the medium term together with arrangements to replenish this fund.

Name of Reserve	Welfare Fund
Balance at 31 March 2019.	£4,100.
Purpose of the Reserve.	This fund was established as a new provision required by Scottish Government for 2013 to 2014. Underspends on the revenue budget since then have been carried forward each year, following approval by the Scottish Government.
How and when the Reserve can be used.	The fund balance may be applied against welfare reform expenditure incurred in 2019 to 2020.
Procedures for the Reserve's management and control	Application of the Welfare Fund is delegated to the Executive Director of Corporate Services, in consultation with the Head of Finance.
Conclusion of review.	This fund was created at the request of Scottish Government to enable a carry forward of a small sum made available to the Council at the end of each financial year until fully spent.

Name of Reserve.	Office 365/Electronic Document Records Management System Fund.
Balance at 31 March 2019.	£61,100.
Purpose of the Reserve.	This reserve was originally established as a Portal Development Fund but, upon that project being overtaken by the Electronic Document Records Management System, the remaining balance has been transferred. The General Data Protection Regulation, which came into force on 25 May 2018, imposes a number of obligations on the Council. Introduction of an Electronic Document Records Management System will support compliance by the Council with its statutory obligations.
How and when the Reserve can be used.	The fund balance will be applied against expenditure incurred in 2019 to 2020 on an Electronic Document Records Management System.
Procedures for the Reserve's management and control.	Application of the Office 365/Electronic Document Records Management System Fund is delegated to the Executive Director of Corporate Services, in consultation with the Head of Finance.
Conclusion of review.	Introduction of an Electronic Document Records Management System will necessitate carrying forward the fund balance to enable it to be spent on the project.

Name of Reserve.	Capital Projects Appraisal Fund.
Balance at 31 March 2019.	£235,500.
Purpose of the Reserve.	To facilitate the development of capital project appraisals (CPA) for General Fund Services.
How and when the Reserve can be used.	The reserve will be used to establish ring-fenced project specific budgets, funded from within the annual loan charges revenue budget for General Fund Services, for the purpose of developing individual capital project appraisals. A review of the CPA process identified the lack of a service specific resource for this purpose as a weakness. It is anticipated that all requests to establish a CPA budget would normally be considered by the Capital Planning and Asset Management Working Group (CPAM) and Senior Management Team (SMT) in the first instance.
Procedures for the Reserve's management and control.	Application of the Capital Projects Appraisal Fund is delegated to the Chief Executive, in consultation with the Head of Finance.
Conclusion of review.	It is evident that a significant gap exists at present between the aspirations of the Council to adapt to better meet the needs of clients, and in-house capacity to plan for investment in infrastructure over the medium and longer term. To assist with the development of CPAs a need exists to set aside resources for this purpose over the short term. It is however anticipated that this timing difference will disappear as the Council focusses more resources on forward planning and better align resources to workload going forward.

Name of Reserve.	Crown Estate Fund.
Balance at 31 March 2019.	£0.
Purpose of the Reserve.	The fund will be established from any unspent allocation of Crown Estate funding that has been transferred to the Council by the Scottish Government to ensure there is provision for a longer-term allocation strategy. To be established and to ensure transparency of the use of the funding.
How and when the Reserve can be used.	<p>There is established long-term allocation strategy for coastal benefit in Orkney criteria for projects to be funded from the Crown Estates Fund which must support the following principles:</p> <ul style="list-style-type: none"> • Sustainable development and management of coastal and marine resources. • Maintain a healthy, clean and safe coastal and marine environment. • Growth and job creation in the coastal and marine economy. • Strategic coastal and marine planning, partnership working and good governance to enable sustainable development and resource management. • Investment in the infrastructure required for coastal communities across all of Orkney to thrive. • Empower coastal communities across all of Orkney to deliver projects to realise sustainable social, economic and environmental benefits. • Improvements in the long-term productivity of the coastal and marine economy by promoting investment in innovation, education and skills. • Transition to a low carbon economy. • Measures that mitigate the effects of climate change, adapt to climate change and build greater resilience to the effects of climate change. • Research, knowledge and data to unlock sustainable development and resource management benefits. • Enable best practice to manage and make use of coastal and marine resources. • Cultural and social wellbeing of local communities including the maintenance and enhancement of quality of life.

Procedures for the Reserve's management and control.	Approval of the fund being used as a funding source for projects is referred to the Policy and Resources Committee with a recommendation to Council.
Conclusion of review.	That the Crown Estate Fund is established for this purpose.