

ORKNEY
ISLANDS COUNCIL

Medium Term Resource Strategy

2017/2018 to 2021/2022

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1. Executive Summary

1.1. This is the Council's Medium Term Resource Strategy (MTRS) which sets out how resources will be used over the medium term period 2017/2018 to 2021/2022. It also has linkages to the Council's Workforce Planning, Asset Management, and Digital Strategy documents.

1.2. The Council, along with other local authorities, has faced unprecedented reductions in Government funding since 2011. In addition, service pressures and increasing demand for services, particularly from the most vulnerable, has meant the Council has already had to make significant budget savings in response to the Government's austerity measures.

1.3. The continuing requirement and scale of budget savings, coming on top of the £10.6m already delivered since 2011, presents an increasing challenge for the Council. It is also the case that there is greater financial uncertainty over the medium term. The latest local government financial settlement covers the period to 2017/2018 only.

1.4. Funding beyond 2017/2018 is not clear and the Council has had to rely on forecasting estimates of Government Department Expenditure Limits (DEL) which represent spending estimates for the whole public sector, not just local government. Although there is still a great deal of uncertainty, the Council, like all other councils, must be prudent and make estimates for the future, planning in order to set balanced budgets over the next few years, and shape services according to the funding available. Overall it is now estimated that the Council may need to close a funding gap of £12m over the financial years 2017/2018 to 2021/2022. It must be emphasised that this is an estimate, and this could clearly change over time. Measures to bridge this funding gap would be over and above budget savings already identified and delivered.

1.5. The Council will ensure that it maintains support to priority front-line services, and it will seek to prioritise those services that are most needed. The Council recognises that the better informed people are about their Council and the services provided, the more satisfied they are likely to be about the organisation and its activities. Some of the information received through the Budget Simulator exercise carried out in October 2016 was used to set the 2017/2018 budget, with this information continuing to feature over the medium term.

1.6. The Council will continue to review the services it delivers, and the way that it delivers them, through the Change Review Framework and the application of the key elements of the MTRS. This will ensure that reducing resources are used to maximum effect, and allow the Council to continue to deliver new and better ways of working and invest in ways to improve the efficiency of services provided. It is evident however that the continuing reductions in funding and increases in demand will have an inevitable impact on both the nature and scope of services that the Council is able to deliver. The Council is committed to managing the process of change to its services effectively.

1.7. The Council's approach to financial planning over the medium term will include investment in economic growth and income generation. The Council recognises that economic growth benefits the residents and businesses in Orkney and also the finances of the Council. The Council will retain its vision for the future which will assist in maintaining medium term financial sustainability for the Council and the wider Orkney economy.

2. Governance

2.1. The Council's overarching financial management arrangements are governed primarily by two statutory duties. These are the statutory duty to "make arrangements for the proper administration of their financial affairs and shall secure that the proper officer of the authority has responsibility for the administration of those affairs" (imposed by Section 95 of the Local Government (Scotland) Act 1973). The proper officer in terms of Orkney Islands Council is the Head of Finance. The second statutory duty is to secure best value, as set out in section 1 of the Local Government in Scotland Act 2003.

2.2. Section 3 of the Council's Financial Regulations provides guidelines for officers and elected members in relation to the Council's Financial Planning arrangements.

2.3. The budget setting process involves elected members, typically through a series of Members' seminars, to both inform and allow scrutiny and challenge of the draft proposals being presented. This challenge process allows officers to reformulate proposals moving forward prior to seeking formal approval from the Council and delivers an ongoing reconfiguration of budgets in line with Council priorities.

3. Council Priorities

3.1. The Council approved its Corporate Plan 2013/2018 on 12 March 2013, and this was then the subject of a mid-term review, and updated as the Council Delivery Plan in December 2015.

3.2. The Council's Delivery Plan sets out what the Council considers to be the main areas of work, or priorities, to support Orkney and its people up to 2017/2018. With an overall mission statement of "Working together for a better Orkney", the plan sets out the targets that are planned to be delivered across agreed priority areas:

- Care and support for those who need it.
- Promote successful, thriving communities.
- Housing to meet the needs of Orkney's people.
- A Low Carbon Orkney - Renewables, Energy and Opportunity.
- Orkney's Economic Development.
- Orkney's Transport Networks.
- What we need to do.

3.3. This Medium Term Resource Strategy seeks to complement the Council Plan, setting out a framework to ensure the Council lives within its means and targets available resources to priority areas.

4. Purpose of the Medium Term Resource Strategy (MTRS)

4.1. It is good practice to develop a long term financial strategy, so that resources may be aligned with Council priorities over the longer term. This longer term strategy will be formulated during 2017/2018 and build on the assumptions made over the medium term.

4.2. Over a period of time a variety of policies have been developed to provide the resource framework within which the Council operates. The purpose of developing a MTRS is to bring these policies together into an overarching statement of how the Council intends to manage its financial affairs, and to approach the substantial financial challenges facing it in the future. It recognises the difficult financial climate in local government and the wider economy, but also strives to assist the Council in achieving its corporate objectives and political aspirations through key strategic initiatives such as Our Islands our Future (OIOF).

4.3. The MTRS serves as a planning document for the use of resources over the medium-term period 2017/2018 to 2021/2022. It is a useful tool for planning purposes rather than a definitive statement of resourcing for the next five years. It also has linkages to the Council's Workforce Planning, Asset Management, and Digital Strategy documents.

4.4. Whilst the principal financial focus is on maintaining General Fund services and their associated revenue budgets, linkages are made in relation to the Council's Capital Programme and Non-General Fund Services such as the Housing Revenue Account and the Harbour Accounts, where appropriate.

5. Principles and Benefits of the MTRS

5.1. Taking a longer term view of the Council's finances over a period of five years allows Members to understand the role that each annual budget setting exercise has in contributing to the overall strategy of securing a financially sustainable Council.

5.2. Improved financial planning and financial management of the Council's revenue and capital resources means that services have a longer timescale to plan for future changes in budget levels, as they can see what is likely to happen to budgets over the next five years.

5.3. It allows for the clear alignment of resources to the Council's spending priorities. The priorities of the Council will feed into the allocation of revenue and capital resources for each service over the period of the Strategy and will be focused on the Council priorities set out in the Council Plan.

5.4. Ensuring that resources are aligned to priorities will ensure that the Council maximises the use of resources at its disposal.

5.5. The strategy is founded on the following principles:

- Resources will be redirected within the Council in accordance with a clear strategy based on Risk, Council Priorities, Funding and Performance levels;
- Ongoing reassessment and reconfiguration will determine the sustainable level of expenditure that can be incurred on services over each of the next five years;
- Sustainable use of General Fund balances and strategic reserves in order to manage the timing of baseline savings;
- Sustainable use of General Fund balances and strategic reserves in order to invest in income generating opportunities which will help bridge the identified funding gap for each of the next five financial years;

- Phased introduction of identified Change Programme savings in order to help bridge the identified funding gap; and
- A maximum level of capital expenditure that can be incurred each year, recognising that any expenditure over and above what can be funded from General Capital Grant, designated reserves or capital receipts will need to be financed through borrowing, which will in turn create an ongoing revenue cost pressure.

5.6. In setting the budget for 2017/2018, budget principles were agreed in advance of approving the budget and these are shown in Appendix 1. Many of the strategic and general principles will apply equally over the medium term.

6. National Context

6.1. The Fraser of Allander Institute (FAI) reported in September 2016 that local government had faced a particularly challenging settlement in 2016/2017. With the Scottish resource budget falling by 1.5% in real terms, when combined with spending on health increasing above inflation, large cuts were inevitable in other areas. In the end, the revenue grant to councils was cut by around 5% in real terms between 2015/2016 and 2016/2017. Once the Scottish Government's policy commitments are considered, unprotected areas of the Scottish Budget will face significant real terms cuts. Councils are part of the 'unprotected' element of the Scottish Budget. Having faced real terms cuts since 2010/2011 of around 11% on a like-for-like basis, the room to manoeuvre within councils is limited.

6.2. The FAI report predicted that with an extended period of fiscal consolidation now anticipated following the vote to leave the European Union, the outlook for 'unprotected' parts of the Scottish budget is of real term cuts of 13-16% over the course of this parliament. On an annualised basis, this would imply an average cut of 3.5% to 4.1% between 2016/2017 and 2020/2021 – or a cut of around £1 billion to the local government resource grant over the course of the parliament.

6.3. Following the Scotland Act 2012 and Scotland Act 2016, a number of tax revenues are being devolved and assigned to the Scottish budget as part of a new fiscal framework. With devolved taxes now contributing a significant and increasing share of the Scottish Budget economic growth in Scotland is now crucial to the revenue the Government is able to raise from the devolved taxes.

6.4. On 15 December 2016 the Scottish Government published its latest draft Budget report. The report covers the years up to 2019/2020 at the aggregate level but only up to 2017/2018 at a detailed level. General Revenue Grant (GRG) support fell by 3.8% and Non Domestic Rates Income (NDRI) fell by 5.9%, in cash terms. This is a combined fall of £424m in relation to the two largest elements of the overall Local Government budget.

	2016/2017.	2017/2018.	Change.		2017/2018.	Change.	
Local Government.	Budget.	(cash).	(cash).	%.	(real).	(real).	%.
General Revenue Grant .	6,819.4.	6,557.8.	-261.6.	-3.8%.	6,453.9.	-355.5	-5.2%.
Non-Domestic Rates.	2,768.5.	2,605.8.	-162.7.	-5.9%.	2,568.5.	-200.	-7.2%.
Support for Capital.	506.5.	623.1.	116.6.	23.0%.	614.2.	107.7.	21.3%.
Specific Resource Grants.	92.5.	211.0.	118.5.	128.1%.	208.0.	115.5.	124.8%.
Specific Capital Grants.	126.2.	133.4.	7.2.	5.7%.	131.5.	5.3.	4.2%.
Total .	10,313.1.	10,131.1.	-182.0.	-1.8%.	9,986.1.	-327.0	-3.2%.

6.5. The Scottish Government has subsequently amended the Budget settlement for 2017/2018. The main changes are an additional £220m, divided between Scottish Enterprise (£35m), Police reform (£25m) and Local Government (£160m made up of £130m extra revenue funding and £30m extra capital funding).

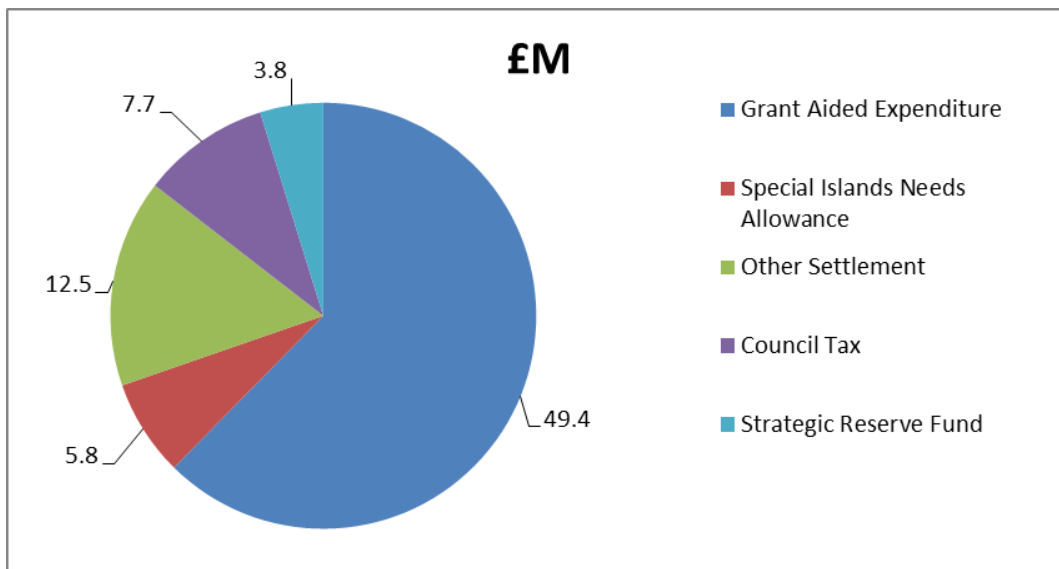
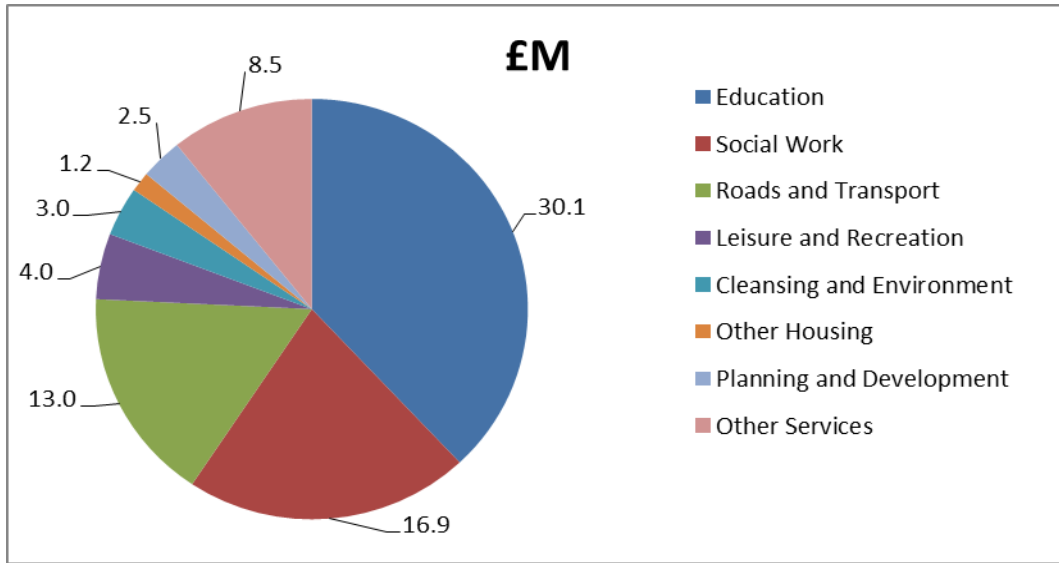
6.6. The additional funding has improved the 2017/2018 financial position, however, it is not yet clear if this will be baselined or treated as one-off funding.

7. Orkney Context

7.1. Within Orkney, the funding reduction, together with the need to accommodate service pressures, has seen the delivery of efficiency savings totalling £10.619m over the last six years across the Council's General Fund (GF) services as follows:

Period.	Savings.	Period.	Savings.
2011/2012.	£4.272m.	2014/2015.	£1.336m.
2012/2013.	£1.976m.	2015/2016.	£0.540m.
2013/2014.	£1.135m.	2016/2017.	£1.360m.

7.2. The 2016/2017 GF budget of £79.163m is allocated across the following services:



7.4. Grant Aided Expenditure (GAE), Special Islands Needs Allowance (SINA) and other Settlement total £67.701m and make up the Scottish Government grant. This represents 85.5% of total funding. The actual payment of Scottish Government grant comes in the form of two distinct elements:

- Non Domestic Rates Income (NDRI) = £9.869m (14.6%).
- Gross Revenue Grant (GRG) = £57.832m (85.4%).

7.5. Gross Revenue Grant (GRG) is the block grant paid by the Scottish Government to local authorities to support their assessed spending need and represents the balancing figure between this assessed need and the income raised locally through NDRI and Council Tax. In Orkney these funding sources are supplemented by a baseline contribution from the Strategic Reserve Fund of £3.760m which is likely to be increased in 2017/2018.

7.6. GRG is paid out to Councils on a weekly basis, with NDRI collected locally from local businesses. Any shortfall in NDRI income collected during the year is supplemented by an additional contribution from the national rates pool up to the distributable amount originally specified in the financial settlement. Similarly any surplus NDRI collected locally is paid back to the Scottish Government at the end of the year.

7.7. The total of NDRI plus GRG is guaranteed by the Scottish Government.

8. Community Engagement

8.1. The Council's Communications Strategy recognises that the better informed people are about their Council and the services it provides, the more satisfied they are likely to be about the organisation and its activities.

8.2. The Orkney Partnership's Strategy for Communication and Community Engagement sets out who our stakeholders are, what we want to say and how this will be done. The Community Empowerment (Scotland) Act 2015 places specific consultation and engagement duties on public sector bodies, including consultation on the Local Outcomes Improvement Plan.

8.3. In terms of the shape of future service budgets, the Council has recently undertaken an extensive public engagement exercise, "Balance the OIC Budget", with a very good response rate to what was a sensitive and complicated area for the public to consider, with 375 individual submissions. This represented 2.1% of the electorate and compares well with other areas across the UK.

8.4 The choices made by the public were represented by an "Average Change %" to the Original Budget figures. The results showed willingness to:

- Increase Income Generation levels (Charging, Council Tax and Use of Reserves).
- Protect services where we have a statutory duty, particularly Social Care.

9. Medium Term Budget Pressures

9.1. Whilst uncertainty exists around the scale of the anticipated funding reductions over the medium term, a planning assumption of annual reductions of 1.5% to 2.5% had been recommended by the Improvement Service which would equate to annual reductions of between £1.01m and £1.69m in Orkney's government grant. The uncertainty has been increased as a result of additional revenue funding for Local Government of £130m announced for 2017/18 as part of a last minute deal by the Scottish Government as they seek to secure support for the Scottish budget in the Parliamentary process. This additional funding was in reality just a smaller reduction rather than an increase in funding. It is not yet known if this additional funding will be base lined, so planning for a reduction is still recommended.

9.2. An essential part of the annual budget process is the identification of increases in service demand over and above current service budgets. There are also inflationary pressures which have to be taken into account. For modelling purposes, the value of service pressures to build into future projections is very important. Since 2011/2012, a

total of £9.29m has been added to the baseline budget across the Council's General Fund services as follows:

Year.	Inflation (£m).	Growth (£m).	Total (£m).
2011/2012.	0.842.	0.263.	1.105.
2012/2013.	1.485.	0.976.	2.461.
2013/2014.	0.621.	0.117.	0.738.
2014/2015.	0.635.	1.040.	1.675.
2015/2016.	1.084.	0.812.	1.896.
2016/2017.	0.154.	1.261.	1.415.

9.3. Inflation is measured by the Consumer Price Index and fell below zero to -0.1% in April 2015. Inflation rates are at historically low levels, however the devaluation of sterling following the referendum on membership of the European Union has resulted in imported goods and services costing more; the September 2016 headline rate of CPI inflation was 1.0% and had increased to 1.6% by December 2016.

9.4. In terms of cost pressures, the key financial risk areas facing the Council over the medium term are summarised below:

- Scottish Government funding reductions.
- Pay awards.
- Energy prices.
- Ageing Population.
- Increasing Levels of Need.
- Shifting the Balance of Care.
- Welfare Reform.

9.5. Given the ongoing financial pressures, Appendix 1 provides a guiding general budget principle that it should be assumed that services should fund their own service pressures, wherever possible.

10. Treasury Management

10.1. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

10.2. The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing needs of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve

arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

10.3. The Council agrees a Treasury Management Strategy annually as one of a suite of financial governance documents. The Treasury Management Strategy details who the Council can invest with and the maximum amount that can be invested. These limits are based on credit ratings supplied by independent credit rating agencies.

10.4. Although financial markets have stabilised since the banking crisis of 2008 a significant degree of uncertainty remains.

10.5. The Local Government Investment (Scotland) Regulations 2010 came into force with effect from 1 April 2010, and permits local authorities to make investments subject to them gaining the consent of Scottish Ministers. Finance circular 5/2010 subsequently set out the terms of that consent, and requires local authorities to “have regard to” the ‘Prudential Code for Capital Finance in Local Authorities’ and the Treasury Management in the Public Services: Code of Practice and Cross-sectorial Guidance Notes’ when managing their investments.

10.6. The Council aims to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of the Council is low in order to give priority to security of its investments. This is in keeping with the nature of the Strategic Reserve Fund, which is to provide for the benefit of Orkney and its inhabitants, whilst having regard to the Fund’s long term commitments in terms of the terminal decline and decommissioning of the Flotta Oil Terminal in the future.

11. Capital Programme

11.1. Capital investment priorities are based upon Corporate Asset Management Planning principles. CIPFA’s (Chartered Institute of Public Finance and Accountancy) Prudential Code for Capital Finance provides flexibility in determining capital investment strategy and ensures spending plans are affordable, prudent and sustainable. The Code requires councils to take account of asset management and option appraisal factors in order to comply with Best Value.

11.2. Revenue implications of the Capital Programme should be incorporated into future years’ revenue budgets in order to fully integrate the revenue and capital budget processes. This is particularly important with a diminishing level of loan charges support the Council receives from Scottish Government.

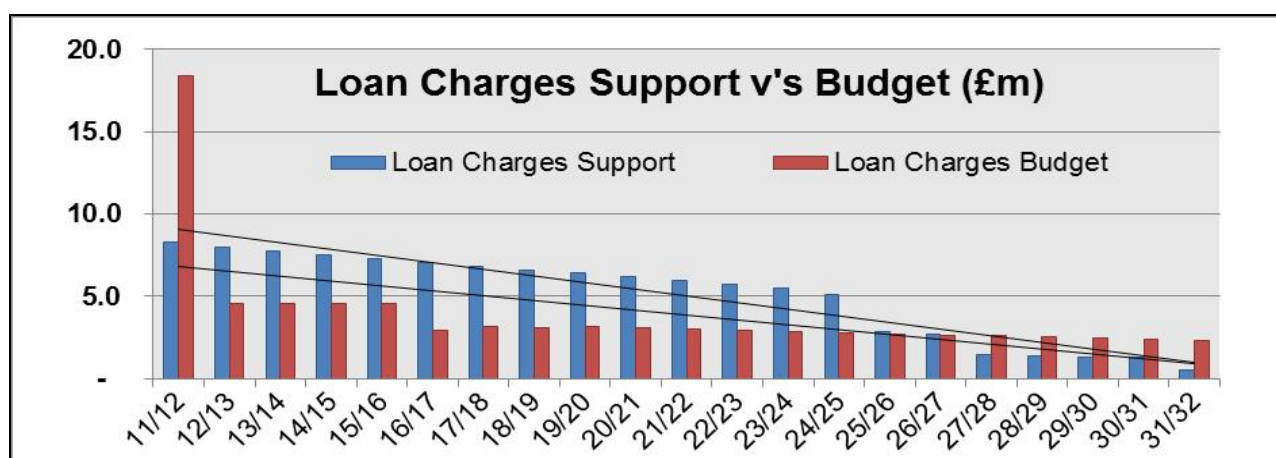
11.3. The Capital Project Appraisal (CPA) process forms an integral part of the corporate asset management planning process.

11.4. In order to support the integration of asset management planning and investment decisions, a management framework structure has been established. This framework ensures that asset management planning is dealt with at a sufficiently senior level. The Senior Management Team, acting in its capacity as an Officers’ Capital Working Group, is chaired by the Chief Executive. The group provides an oversight of the management of corporate assets within Orkney Islands Council and a decision-making gateway to ensure

that management decisions are undertaken in a corporate manner. It is supported by a Capital Planning and Asset Management Strategy Group.

11.5. When the Council takes on additional borrowing to fund capital expenditure it has to be sure that it can afford to meet the principal and interest repayment costs. This cost is not charged to individual services and is managed as a corporate cost.

11.6. The connection between the General Fund Capital Programme and the loan charges revenue budget will become increasingly important over the next 10 years as the loan charges support the Council receives from the Government diminishes. The early repayment of debt in 2011/2012 took a significant amount of pressure off the projected loan charges budget requirement. There is still a shortfall predicted in 2027/2028, however, if the Council is able to limit additional borrowing over the next few years it should be possible to bring the support and loan charges into line by 2027/2028.



12. Housing Revenue Account

12.1. The Housing Revenue Account (HRA) expenditure budget for 2016/2017 is estimated at £3.502m, a decrease of £0.487m or 12.2% over 2015/2016 figures. HRA is financed almost entirely by rents and other charges paid by Council tenants and cannot be funded in any way from the General Fund and revenue raised through the Council Tax.

12.2. The Council is required to maintain a separate HRA covering income and expenditure in respect of specified houses, buildings and land. There is a legal requirement for HRA income and expenditure to be in balance at the end of each financial year.

12.3. Existing commitments to Council house building through the capital programme will result in additional HRA borrowing of £0.908m during 2017/18 to fund the continued House Build Development Programme. The cost of financing this additional borrowing will see loan charges on the HRA increase from £1.414m to £1.509m or £0.095m, an increase of 6.7% for 2017/18.

12.4. Prior to the commencement of the house build programme the Council had some of the lowest Council house rents in Scotland. The policy for funding the build programme of increasing rent by Consumer Prices Index (CPI) + 1.5% has seen the rents rise to the point where in 2015/2016 the rents were the fourth highest in Scotland.

13. Scapa Flow Oil Port

13.1. The Council maintains a separate trading account for Scapa Flow Oil Port in terms of Section 67 of the Orkney County Council Act 1974 which requires the Council to keep separate accounts in respect of the harbour undertaking so as to distinguish capital from revenue and income from expenditure.

13.2. The Flotta Oil Terminal operator Repsol Sinopec Resources UK Limited still requires a 24 hour, seven day per week Harbour operation to facilitate tanker movements. From the point of view of the Council, this means that there is a requirement to continue to incur a high level of expenditure to maintain this level of service. The expenditure projections assume the service level continues as in 2015/2016 adjusted for the Council's budget strategy and an increase in tanker traffic.

13.3. The income levels for the Scapa Flow Oil Port account are dependent on the estimate of the number of oil tankers that will load at the Flotta Terminal during the year. Repsol Sinopec Resources has provided estimates of tanker numbers, which indicate a significant increase in the number of tankers over the calendar years 2016 to 2018 as oil from the Golden Eagle field has boosted production from February 2015. The income projections for 2016 were based on a conservative view of the tanker predictions of 44 tankers for the year whilst 50 actually berthed. The projected number of tankers for 2017 is 50 and for 2018 48 tankers are projected.

13.4. On 3 March 2015, the Council resolved that the Executive Director of Development and Infrastructure, in consultation with the Head of Finance and the Solicitor to the Council, should set charges for tanker operations associated with the Scapa Flow Oil Port operations which covered the full costs of delivering marine services and towage services and a reasonable profit for the next five years to 31 March 2020.

13.5. Losses totalling £19.1m were incurred between 2004/2005 and 2014/2015, mainly through reductions in tanker activity. These losses were a direct cost to the Strategic Reserve Fund and therefore have had an impact on the level of funding that is available for investment and the level of annual contribution which is available to the General Fund. The oil port returned to profitability in 2015/16 and a budget surplus of £2.302m is anticipated for Scapa Flow Oil Port for financial year 2016/2017. Based on projected tanker activity, the oil port should be profitable over at least the next two to three years.

14. Miscellaneous Piers and Harbours

14.1. The Council maintains a separate trading account for Miscellaneous Piers and Harbours (MPH) to distinguish it from the General Fund services. This is to demonstrate to harbour users that the dues paid for using of the Council's piers and harbours is ring-fenced for the provision of harbour services or applied to the maintenance of the piers and harbours. Overall a budget surplus of £0.806m is anticipated for the MPH Account for financial year 2016/2017.

14.2. The income projections for the account are based on a similar level of trade to previous years with the application of the increased charges in line with the budget strategy, whilst the expenditure projections assume the service level continues as in 2015/2016.

14.3. It is expected that the MPH account activity will continue to generate sufficient income over the MTRS period to account for the necessary repairs and maintenance schedules which will be required, ensuring that works to retain lifeline ferry infrastructure is secured on at least a cost neutral basis to the Council. There may also be further opportunities to invest in infrastructure and operational assets in order to maximise income generation.

15. Orkney College

15.1. Unlike most other colleges of further and higher education, Orkney College (OC) remains part of Orkney Islands Council. The expenditure budget required for OC in 2016/2017 is £4.531m, a decrease of £0.166m on the previous year.

15.2. OC is an academic partner in the University of the Highlands and Islands although it is incorporated under the Council.

15.3. The Scottish Funding Council provides core funding for OC each year and in addition grants are claimed from outside bodies such as Highland and Islands Enterprise, European Social Funding, European Regional Development Fund, Skills Development and the Student Awards Agency for Scotland.

15.4. OC aims to realise a surplus each financial year or at the very least to achieve a break-even position and should be possible through the income received from students attending the courses along with funding from outside bodies.

16. Strategic Reserve Fund (SRF)

16.1. The Council considered the SRF revenue budget at the time the Council Tax and the overall General Fund budget were debated in February 2016. The approved contributions from the SRF are set out below:

Contribution to.	£m.
General Fund Services.	3.760.
Contribution to HRA.	1.037.

16.2. In light of the expected budget surplus for the Scapa Flow Oil Port, as set out in Section 13 above, there will be a budgeted contribution to the Strategic Reserve Fund from the Scapa Flow Oil Port of £2.302m for financial year 2016/2017.

16.3. The contribution to the General Fund from the SRF is treated as a funding source and allows the Council to supplement the funding received from the Scottish Government and the taxes raised locally from Non Domestic Rates and Council Tax.

17. Orkney Islands Council Pension Fund

17.1. The Council is the administering authority for the Orkney Islands Council Pension Fund. As with all other service areas, a revenue budget has been prepared and approved.

17.2. The main expenditure items are staff costs, third party payments for the pension fund software system and professional adviser's costs.

17.3. An actuarial valuation of the assets and liabilities of the Pension Fund as at 31 March 2014 and in every third year afterwards is a requirement of the Administration regulations.

18. Reserves Strategy

18.1. 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.

18.2. CIPFA considers 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.

18.3. 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:

- 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.

18.4. The principles that have been followed in establishing the reserves strategy are:

- The level of reserves should be sufficient to ensure that the local authority can comply with its statutory financial duties 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.

18.5. The Statement of Accounts for 2015/2016 give an overview of the Reserves position as at 31 March 2016 and is summarised below:

General Fund.	£m.
Non-Earmarked Balance.	5.267.
Total Earmarked Reserves.	21.231.
Total General Fund Reserves.	26.498.

18.6. The Council also has Harbour Reserves which at 31 March 2016 had a value of £207.8m, consisting of the Strategic Reserve Fund and Miscellaneous Piers and Harbour Funds.

18.7. 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 commented that local authorities should be particularly wary about using one-off reserves to deal with shortfalls in current funding.

18.8. 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% to 4% of their net revenue expenditure in the medium term. With the smallest budget of any Scottish local authority it is considered prudent to hold reserves to a higher % of the net budget than larger authorities because 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.

18.9. Due to the continuing uncertainties and risks beyond 2016/2017 it is considered prudent to maintain non-earmarked General Fund reserve in excess of 4% of the revenue budget in the medium term. The current £5.267m balance is approximately 7% of the net revenue budget.

18.10. In determining the Reserves Strategy it was 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 the social care budget in particular means that there is a limited prospect of uncommitted balances being built up through service underspends.

18.11. The Council also faces significant challenges over the medium term, with continued reductions in funding and increasing demand for many of its services. Although the financial projections presented in section 22 are not confirmed they give an indication that the impact on local government will be significant. 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.

18.12. In addition to the prospect of reduced government funding, the Council continues to face increasing demand for many of its services and faces financial risks across a number of service areas. It is for these unanticipated eventualities that the Council holds a General Fund reserve.

18.13. In relation to the sustainability of the SRF, a minimum balance or "floor" was established in April 2012 of £175m, with this value recalculated year on year using RPI to maintain its value in real terms.

19. Workforce Strategy

19.1. Staffing costs account for more than 60% of the Council's net revenue expenditure and therefore a reduction in staffing numbers will need to be planned for and managed over the medium term. With a requirement to maintain teacher staffing ratios, any reduction will have to focus on non-teaching posts.

19.2. A Workforce Management Fund has been established as a corporate provision to assist with costs associated with redundancy and early retirements should the Council be required to make budget savings that will involve reductions in the workforce. As part of the Change Review on Staff and Workforce Planning, updates to the redundancy and early retirement policies were approved by the Council in October 2016.

19.3. The Council has put in place Workforce Plans across each of its services, as well as an overarching Council Workforce Plan. These include looking at workforce related service pressures, learning and development needs, and scenario planning.

19.4. The scenario planning uses the Worst, Best and Likely case financial scenarios outlined in these workforce planning documents for the Council over the next 5 years, thereby providing a clear link between workforce planning and the MTRS assumptions.

19.5. The Workforce Plans therefore provide a roadmap for future choices on the deployment of Council staffing and what impact this may have on its services.

19.6. In addition to the Workforce Plans, the Council has a Human Resources Strategy 2014 to 2018 which provides strategies to have the right people in the right place with the right skills to deliver the Council's priorities. In doing so it identifies three key areas to meet this aim:

19.6.1. Reshaping the workforce through:

- Developing entry-level jobs, career paths and succession planning.
- Equipping managers to deal with change and support employees through it.
- More flexible working, career breaks, early retirement, voluntary redundancy.
- Redeployment and transition training.
- Work with schools and Orkney College to promote careers in priority areas.

19.6.2. Flexibility and exploring new ways of working including:

- Home, remote and mobile working.
- Streamlining HR processes, and improved ICT systems.
- Flexibility and adaptability in job descriptions and person specification.

19.6.3. Enhancing capacity and improving performance by:

- Developing leadership at all levels through the Leadership and Management Development Framework.
- Effective communication and engagement in the process of change and improvement.
- Building capacity through learning, coaching and knowledge transfer.
- Focusing on maximising employee attendance.

- Embedding a high performance culture through effective ERD scheme and associated development plans.

20. Asset Management Strategy

20.1. Governance for Asset Management within the Council is through Asset Management Sub-Committee, a sub-committee of Policy and Resources. The key strategic document which sets out how we will manage our assets is the Corporate Asset Management Plan 2013-2018, which is itself supported by a subset of plans relating to different categories of assets:

- Fleet and Plant Asset Management Plan 2013/2018.
- Property Asset Management Plan 2016/2018.
- ICT Asset Management Plan 2016/2020.

20.2. Development of further plans is underway and these will be co-ordinated through the Capital Planning and Asset Management Strategy Group referred to in Section 11.4.

20.3. A Change Review to look at the management of Property Assets was commissioned in June 2016. The Change Review assessed all property and land assets held on the General Fund and, following discussions with Officers across all services, recommended 53 assets for disposal to Council in December 2016. The Change review has a target to save £0.678m by 2019/2020. If all assets on the current list are actually disposed of then that target will be exceeded by £0.174m. However, it is recognised that some of these assets are highly sensitive, and others are unlikely to be very popular when advertised for sale or general disposal. This work is reported through Asset Management Sub-Committee.

21. Digital Strategy

21.1. The Council is developing a Digital Strategy. This is a short, strategic document that sets out the vision for delivery of services digitally in both the short and medium to long term. The approach that is being taken is to promote **Digital First**, not Digital by Default. This is in recognition of the fact that not all our service users will want to, or be able to, engage just through Digital channels. The working assumption is that this percentage will reduce over time, but traditional communication channels will be required for the life of the MTRS as a minimum.

21.2. A Change Review looking at Modernising IT was commissioned in September 2016. The savings target for this review is £0.532m by 2021/22, with the basis for these savings coming from a reduction in posts through the gradual automation and digitisation of services, and the streamlining of some of the tasks carried out across all services. It is expected, however, that this review will deliver cost savings through a reduction in ICT systems, software and hardware, which will also contribute towards this savings target. This is not yet quantified, but will be identified during the course of the Change Review.

22. Indicative Budget Forecasts 2017/2018 to 2021/2022

22.1. With much political and economic uncertainty around both the scale and timing of any funding reductions, it is not possible to provide a definitive savings target over the medium term. There is, however, sufficient information available to set out the possible Worst Case, Best Case and Likely Case position up to 2021/2022. The detailed results of these three scenarios are shown in Appendix 2, with a summary of the results as follows:

Scenario.	Funding Gap.	Compared to Budget.
	£m.	%.
Worst Case.	16.0.	20%.
Best Case.	8.0.	10%.
Likely Case.	12.0.	15%.

22.2. The results show that a likely funding gap of £12.0m or 15% of the 2016/2017 General Fund budget could be required over the 5-year period to 2021/2022.

22.3. With savings in excess of £10m already delivered since 2011/2012, it is accepted that the previous incremental approach to finding service savings is at an end. Options available to bridge the funding gap are as follows:

- Change Programme savings.
- Service budget reductions.
- Additional external funding.
- Additional income generation.
- Council tax increases.
- Capacity building within communities.
- Increased use of reserves and balances.

23. Change Programme Savings

23.1 In April 2016, the Council approved the Change Review Framework and the associated Change Review Schedule. This schedule set out a series of 6 cross-service reviews to be undertaken during the initial Phase 1. The second phase will look at front-line service delivery, beginning with the review of the Education service through CR07, Orkney's Learning Landscape. It is planned that savings targets totalling £4.0m will be applied in a phased manner over a number of years, with an estimate of the timing of their introduction shown below.

	Total.	2017-2018.	2018-2019.	2019-2020.	2020-2021.	2021-2022.
Change Review.	£m.	£m.	£m.	£m.	£m.	£m.
Property Asset Management.	0.7.	0.1.	0.1.	0.1.	0.2.	0.2.
Procurement.	0.3.	0.1.	0.1.	0.1.	0.0.	0.0.
Staff and Workforce Planning.	0.3.	0.0.	0.2.	0.1.	0.0.	0.0.
Fees and Charges.	0.2.	0.1.	0.1.	0.0.	0.0.	0.0.
Outsourcing and Partnerships.	0.6.	0.1.	0.1.	0.2.	0.2.	0.0.
Modernising IT and Digital.	0.5.	0.0.	0.1.	0.1.	0.1.	0.2.
Orkney's Learning Landscape.	1.4.	0.0.	0.2.	0.3.	0.4.	0.5.
	4.0.	0.4.	0.9.	0.9.	0.9.	0.9.

23.2. There will be a need for services to continue to find savings and efficiencies in addition to those derived from the Change Programme, however, Change Reviews will increasingly become the focus for delivering baseline budget savings.

23.3. The Council will continue to build on the scenario planning activities already carried out through Workforce Planning and the Budget Simulator exercise. The implementation of changes to current service levels will in part be linked to these extensive pieces of work already carried and will continue to feature in meeting budget targets over the medium term.

24. Service Budget Reductions

24.1. In order to deliver a fairer, more systematic approach to the allocation of financial resources across the Council, it is necessary to analyse its key resource information so that future service budgets better reflect the relative importance of such information.

24.2. Four key elements should be used to assist in decision-making about the future allocation of resources:

- Risk (including statutory, reputational and political).
- Council Priorities.
- Budget to Funding.
- Performance.

24.3. Risk is seen as a significant element, as some services must be delivered by law. However, significant discretion over the level of service exists across many Council services, with some services having more scope than others to reduce current service levels before services reach a critical level in terms of capacity to deliver even a basic level of service or fail to meet their statutory obligations.

24.5. Council Priorities are very important in shaping local services to local needs. In a climate of significantly reducing resources however, the flexibility to redirect resources away from other statutory requirements and the funding allocated to particular services

reduces. Local flexibility is increased by the ability of the Council to draw on an annual Strategic Reserve Fund contribution.

24.6. Budget to Funding is also an important element, as the level of funding provided should be closely linked to how much is spent on a particular service area, however, factors such as demography and other funding pressures also need to be considered. Councils have discretion to reallocate funding based on their local priorities and this is reflected in the current allocation of budget within the Council which has evolved over many years through political choice during the budget setting processes.

24.7. Performance levels must continue to deliver the best possible services with the resources available and look for continuous improvement wherever possible. The ability to achieve high performance may reduce, however, as funding levels reduce. The group of external scrutiny bodies (Local Area Network) continues to assess the services provided by the Council as a low risk and this is based on performance levels which are generally “good”.

24.8. With reduced funding levels and a mix of performance across Council services, there could be a need to redirect resources from areas of very high performance to areas where performance needs to improve. It is also important not to create a culture in which poor performance is considered the norm and is rewarded.

24.9 The Council has recently undertaken an extensive public engagement exercise, “Balance the OIC Budget”, and this will be integrated with existing processes to assist the budget setting process from 2017/2018 onwards, as budgets are reconfigured in line with local priorities and reducing funding levels.

25. Additional External Funding

25.1. The Council will continue to make the case for additional external funding wherever possible in order to reduce the net cost of Council services. Whilst not the prime focus for the Our Islands Our Future (OIOF) campaign, additional funding opportunities which will benefit all of the island groups may be made available through this process.

25.2. There is still some prospect of additional revenue funding of up to £3.5m and capital funding for future ferry replacement being realised through the Fair Funding Review of Inter Island Transportation that is currently underway with Transport Scotland, although this is far from certain at this stage. Longer term, there will be an ongoing dialogue with Scottish Government to ensure fair funding for provision of lifeline transportation services in Orkney to a standard equal to services elsewhere in Scotland which will require further increase in Scottish Government support to the associated revenue and capital budgets.

26. Additional Income Generation

26.1. The Council has budgeted to achieve income of £1.7m from fees and charges levied on external customers in 2016/2017. The Council has an approved Charging and Concessions Policy which provides a clear framework to monitor and review service charging, with a comprehensive Charges Register available on the Council website.

26.2. The Corporate Charging Working Group was established to review charging policy and consider changes to existing charges and the introduction of new service charges. It has a key role to play as the Council looks to increase the level of income generated through charging in order to reduce the need for service reductions. The Change Review on Fees and Charges will see the introduction of new and increased charges from 2017/2018 onwards, with the expectation that this will continue to feature over the medium term.

26.3. In addition to this, the Council has the ability to utilise its reserves and balances to invest in projects and initiatives to generate ongoing investment income, with such investments being assessed on a rate of return basis. An example of this is Project Orkney which has identified additional income generation opportunities through investment in renewable energy.

27. Council Tax Increases

27.1. The Council Tax has been frozen since 2007/2008, with financial sanctions being in place to deter any increases. These sanctions have been lifted in 2017/2018, with a capped increase of up to 3% being permitted for 2017/2018. The additional annual income from a 3% increase in Council Tax is estimated at £0.242m.

27.2. Additional income will also be generated through changes in the upper Council Tax band multipliers. The multiplier changes were originally proposed by Government as a way of raising £100m nationally for an Attainment Fund that would be redistributed towards Early Years education provision. The Government has now stated that they will fund the Attainment Fund from resources available to them at a national level and that Councils can retain fully the additional income raised through the multiplier changes. The additional annual income from the multiplier changes is estimated at £0.174m.

27.3. The total additional income from Council Tax changes would equate to £0.416m for 2017/2018.

28. Capacity Building within Communities

28.1. The Community Empowerment (Scotland) Act 2015 introduces a range of opportunities for communities to become more engaged and involved in the delivery of local services. For example, communities can request property asset transfers to take direct responsibility for Council properties for community purposes. Communities can also make participation requests where it is felt that the voices of certain communities are not being heard. Community Asset Transfers are seen as a positive means of empowering communities to adopt local services to the benefit of all.

28.2. The significant demographic pressures which public bodies face over the next 20 years are particularly acute in Orkney. Increased community, third sector and voluntary participation will be necessary in order to provide for the increased demand for services that will materialise. This will require re-prioritisation of resources in order to provide more integrated and outcome-focussed services which will ensure that the reducing public resources available will deliver the value the Council seeks through its partnering arrangements.

28.3. The Improvement Service was commissioned to assist the Council with the Change Review on Outsourcing and Partnerships in June 2016. As part of the recommendations approved by the Council in December 2016, was agreement that whilst the Council's Empowering Community pilots have progressed on a relatively low resource base, a more strategic approach in building capacity linked to asset and service transfer should be explored. Any investment in the community should be guided by four principles:

28.3.1. Capacity should not be developed to simply mirror what the Council already does.

28.3.2. The whole range of existing community and third sector partners should be partners in development, not recipients of it.

28.3.3. Investments require returns and these should be about improved outcomes and reduced pressure on the core public budget.

28.3.4. The approach should embrace voluntary effort as well as "not for profit" service delivery.

29. Increased Use of Reserves and Balances

29.1. The pressure to draw more from reserves to preserve services and jobs is recognised. With positive Strategic Reserve Fund (SRF) investments returns and headroom above the Council's agreed investment floor valuation, it is possible to adopt a higher risk strategy and increase the draw on reserves. It should be recognised, however, that significant uncertainty remains in the wider economy and that as recently as 2015/2016 an investment loss of £8m was made against a budgeted surplus of £10m.

29.2. Appendix 3 illustrates that an additional contribution of £17.8m over five years would be required in order to manage the baseline budget reductions required to bridge the likely £12.0m funding gap. This would allow a smoothing of the annual baseline savings targets rising from £0.8m in 2017/2018 to £3.0m in 2021/2022.

29.3. This level of additional contribution sourced from the SRF will clearly impact on the headroom in the SRF floor which is currently estimated at £30m. Investment returns and oil port surpluses being realised at projected levels will also have a significant bearing on whether the headroom is retained over the next five years. Appendix 3 does, however, show that based on current known variables, using an additional £17.8m of reserves over the next five years would still see headroom of £25m retained by 2021/2022.

29.4. The Council has General Fund reserves of £26.5m consisting of unallocated General Fund reserves of £5.3m, a Repairs and Renewals Fund of £9.0m and earmarked General Fund reserves of £12.3m. As part of the annual budget setting process these reserves are reviewed to assess the appropriateness of maintaining each of these earmarked balances. Balances that lack underpinning plans for deployment should not be maintained without such a plan being put in place for their use. Any residual funds identified through this review process will be redirected before any additional contributions are made from the SRF.

30. Financial Risk Management

30.1. Medium term financial projections set out in the Section 22 contain assumptions which in turn bring risks and uncertainties. Changes in these assumptions can have a material effect on the outcome. The projections make assumptions in three broad categories:

- Issues known about or which are reasonably foreseen which create upward cost pressure e.g. pay pressure; indexation; known policy change commitments; etc.
- Issues which can be anticipated as areas of budget risk but where the extent of the risk is uncertain e.g. the cost of the ageing population; waste tonnages; etc.
- Issues which could create cost pressures but are speculative at this stage e.g. national insurance; superannuation; energy prices; etc.

30.2. Some factors have a significant bearing on the end result, and the assumptions made on the most material items are set out below. The Council is working closely with community planning partners to address the following four pillars of public sector reform set out by the Scottish Government in September 2011 in its response to the recommendations of the Commission on Future Public Service Delivery:

- A decisive shift towards prevention.
- Greater integration of public services at local level driven by better partnership collaboration and effective delivery.
- Greater investment in people who deliver services through enhanced workforce development and effective leadership.
- A sharp focus on improving performance through greater transparency, innovation and use of digital technology.

31. Conclusions

31.1. The MTRS has been prepared against a background of significant reductions and changes in grant funding and increasing costs of service pressures, particularly from the most vulnerable. These factors could jeopardise the Council's sustainable financial position unless baseline budget savings continue to be delivered alongside the delivery of the Council's corporate priorities.

31.2. The MTRS covers a five year period for which Government spending plans have yet to be finalised. Funding beyond 2017/2018 is still uncertain although indications are that austerity measures are likely to continue throughout the period of the plan.

31.3. The MTRS identifies a "Likely" funding gap of £12.0m from 2017/2018 to 2021/2022. This funding gap is on top of budget savings of £10.6m that have already been delivered by this Council since 2011/2012.

31.4. The MTRS supports the requirement to continue the programme of Change Reviews and associated activities in order to identify savings which will feed into the budget setting process and help towards bridging the funding gap in a phased manner over the next five years. In order to do so, there is likely to be a need to use significantly more reserves than the current annual contribution of £3.8m. The ongoing sustainability of the SRF is

fundamentally important to the future delivery of services in Orkney and therefore any contributions will continue to be made on this basis.

31.5. Although the financial context is increasingly challenging, the Council has a track record of identifying and delivering significant savings and achieving budget out-turn within the approved budget supported by a framework of effective financial planning. This approach will need to continue to ensure that a sustainable medium term financial position can be maintained.

31.6. The Senior Management Team will review the strategy in conjunction with the annual revenue budget setting process. The strategy will be reviewed annually to ensure that the strategy continues to be aligned to overall Council objectives and priorities and that the Council continues to be able to set a balanced budget year on year.

Appendix 1 Budget Principles 2017/2018

The following strategic, general and specific principles are to be followed as far as practically possible and used as a guide for setting the Council's revenue budget for 2017/2018:

Strategic Principles

The budget should be framed to achieve the aspirations and commitments set out in the Council Plan and the Local Outcomes Improvement Plan and explain in broad terms how this will be done and what impact it will have.

The budget should give cognisance to the uniqueness of Orkney and the cultural and heritage values of the community.

The budget should ensure that joint resource planning with Community Planning Partners is undertaken and the implications of this are reflected in the draft budget proposals for the Council.

The budget should support delivery of the Directorate Service Plans.

The budget should ensure that capacity is in place to support implementation of existing Change Programme initiatives to maximise the financial savings, service outcomes and benefits from these initiatives.

General Principles

It should be assumed that, given the financial imperative, the cumulative value of small savings is recognised and that services should fund their own service pressures, wherever possible.

The outcome of the budget process should enable the Council to set a balanced revenue budget for 2017/2018 which places the Council's finances on a sustainable footing for the medium term.

The Council will set an affordable, prudent and sustainable capital programme with limited provision made to fund development of capital project appraisals.

The Council will maximise the revenue budget savings which can be achieved from efficiency programmes and service redesign, in order to reduce bureaucracy and restrict any reduction in service quality for customers to that which is unavoidable due to financial pressures.

Savings applied should, where possible, be progressive to protect the most vulnerable.

The budget will protect as far as possible spending and activity which is clearly preventative in nature.

The Council will ensure financial capacity exists for projects and proposals of an invest to save nature.

Given the lack of capacity across all services, the Council will ensure that sufficient resources are in place so that implementation of savings from Change Programme activities can continue to be identified and delivered in 2017/2018 and beyond.

It is assumed that an element of Change Programme savings will be implemented from 2017/2018 onwards.

The budget will be based on a medium term outlook with regard to delivery of budget savings and identification of savings programmes and options

Specific Principles

The Council will increase Council Tax by 3% or more, if permitted to do so by the Scottish Government.

An increase in fees and charges to reflect the reduction in general revenue grant and inability to increase revenue through Council Tax will be preferable to even greater cuts in services.

Any residual funds identified through a review of General Fund earmarked balances should be redirected before any additional contributions are made from the Strategic Reserve Fund.

If necessary, an increased draw will be made on the Strategic Reserve Fund in order to minimise the impact on front-line service delivery bearing in mind the need to maintain the long term value of the fund.

A sum, up to the value of £2m, may be re-provisioned, from the Revenue Loans Charges budget for 2017/2018, to other General Fund services to offset reductions in the level of General Revenue Grant.

Initiation of vacancy management arrangements to deliver savings through holding vacant posts unfilled and a process to evaluate retention of all vacant posts.

The practice of overtime working will be restricted in line with the Staff and Workforce Planning review.

Property cost budgets will be realigned to take account of increases in non-domestic rates that have not been budgeted for in recent years;

Heads of Service will build on the extensive work carried out by the Change Programme and consult further with staff to gather ideas for savings or efficiencies that can be made from 2017/2018 onwards.

Appendix 2 Financial Modelling 2017/2018 to 2021/2022

	5 year.	2017/ 2018.	2018/ 2019.	2019/ 2020.	2020/ 2021.	2020/ 2022.
Worst Case.	£m.	£m.	£m.	£m.	£m.	£m.
Funding Reduction.	8.4.	1.1	2.0	2.0	1.7	1.6
Service Pressures.	8.1.	2.9	0.7	1.5	1.5	1.5
Previous One-Offs.	5.8.	1.5	4.3	0.0	0.0	0.0
	22.3.	5.5	7.0	3.5	3.2	3.1
Part-Funded by:						
Council Tax Increases.	2.0.	0.4	0.4	0.4	0.4	0.4
Loan Charges.	1.2.	1.2	0.0	0.0	0.0	0.0
Additional Reserves.	3.1.	3.1	0.0	0.0	0.0	0.0
	6.3.	4.7	0.4	0.4	0.4	0.4
Funding Gap.	16.0.	0.8	6.6	3.1	2.8	2.7

	5 year.	2017/ 2018.	2018/ 2019.	2019/ 2020.	2020/ 2021.	2020/ 2022.
Best Case.	£m.	£m.	£m.	£m.	£m.	£m.
Funding Reduction.	3.2.	1.1.	0.9.	0.7.	0.5.	0.0.
Service Pressures.	5.3.	2.9.	0.0.	0.8.	0.8.	0.8.
Previous One-Offs.	5.8.	1.5.	4.3.	0.0.	0.0.	0.0.
	14.3.	5.5.	5.2.	1.5.	1.3.	0.8.
Part-Funded by:						
Council Tax Increases.	2.0.	0.4.	0.4.	0.4.	0.4.	0.4.
Loan Charges.	1.2.	1.2.	0.0.	0.0.	0.0.	0.0.
Additional Reserves.	3.1.	3.1.	0.0.	0.0.	0.0.	0.0.
	6.3.	4.7.	0.4.	0.4.	0.4.	0.4.
Funding Gap.	8.0.	0.8.	4.8.	1.1.	0.9.	0.4.

	5 year.		2017/ 2018.	2018/ 2019.	2019/ 2020.	2020/ 2021.	2020/ 2022.
Likely Case.	£m.		£m.	£m.	£m.	£m.	£m.
Funding Reduction.	6.1.		1.1.	1.5.	1.5.	1.0.	1.0.
Service Pressures.	6.4.		2.9.	0.5.	1.0.	1.0.	1.0.
Previous One-Offs.	5.8.		1.5.	4.3.	0.0.	0.0.	0.0.
	18.3.		5.5.	6.3.	2.5.	2.0.	2.0.
Part-Funded by:							
Council Tax Increases.	2.0.		0.4.	0.4.	0.4.	0.4.	0.4.
Loan Charges.	1.2.		1.2.	0.0.	0.0.	0.0.	0.0.
Additional Reserves.	3.1.		3.1.	0.0.	0.0.	0.0.	0.0.
	6.3.		4.7.	0.4.	0.4.	0.4.	0.4.
Funding Gap.	12.0.		0.8.	5.9.	2.1	1.6.	1.6.

Appendix 3 Financial Strategy 2017/2018 to 2021/2022

	5 year.	2017/ 2018.	2018/ 2019.	2019/ 2020.	2020/ 2021.	2020/ 2022.
Likely Case - SRF applied.	£m.	£m.	£m.	£m.	£m.	£m.
Funding Reduction.	6.1.	1.1.	1.5.	1.5.	1.0.	1.0.
Service Pressures.	6.4.	2.9.	0.5.	1.0.	1.0.	1.0.
Previous One-Offs.	18.3.	1.5.	4.3.	4.4.	4.5.	3.6.
	30.8.	5.5.	6.3.	6.9.	6.5.	5.6.
Part-Funded by:						
Council Tax Increases.	2.0.	0.4.	0.4.	0.4.	0.4.	0.4.
Loan Charges.	1.2.	1.2.	0.0.	0.0.	0.0.	0.0.
Additional Reserves.	17.8.	3.1.	4.4.	4.5.	3.6.	2.2.
	21.0.	4.7.	4.8.	4.9.	4.0.	2.6.
Baseline Savings Required.	9.8.	0.8.	1.5.	2.0.	2.5.	3.0.
Note:						
Total baseline Savings of £9.8m plus £2.2m additional reserves required in 2021/22 will be treated as a previous one-off in 2022/2023, which equates to the total £12m baseline funding gap.						

		2017/ 2018.	2018/ 2019.	2019/ 2020.	2020/ 2021.	2020/ 2022.
Strategic Reserve Fund.		£m.	£m.	£m.	£m.	£m.
SRF Local Investments.		18.0.	18.0.	18.0.	18.0.	18.0.
SRF Managed Funds.		202.3.	209.3.	215.7.	213.4.	221.2.
Investment Strategy.	5.5%.	11.1.	11.5.	11.9.	11.7.	12.2.
Local Investments Income.		1.0.	1.0.	1.0.	1.0.	1.0.
Oil Port Surpluses.		2.6.	2.6.	2.6.	2.6.	2.6.
		235.0.	242.4.	249.2.	246.7.	255.0.
Draw on Reserves:						
Baseline Contribution.	19.5.	3.9.	3.9.	3.9.	3.9.	3.9.
Additional Contribution.	17.8.	3.1.	4.4.	4.5.	3.6.	2.2.
Capital Programme.	9.4.	0.3.	0.0.	9.1.	0.0.	0.0.
CDF.	1.1.	0.4.	0.4.	0.3.	0.0.	0.0.
Reserves.		7.7.	8.7.	17.8.	7.5.	6.1.
Closing Balance.		227.3.	233.7.	231.4.	239.2.	248.9.
RPI.		3.4%.	3.6%.	3.2%.	3.0%.	3.0%.
Floor.		197.6.	204.7.	211.3.	217.6.	224.1.
Headroom.		29.7.	29.0.	20.1.	21.6.	24.8.

