

Minute

Policy and Resources Committee

Tuesday, 25 February 2020, 10:30.

Council Chamber, Council Offices, School Place, Kirkwall.



Present

Councillors James W Stockan, W Leslie Manson, Stephen G Clackson, Alexander G Cowie, Robin W Crichton, David Dawson, Andrew Drever, Steven B Heddle, J Harvey Johnston, Rachael A King, John T Richards, Stephen Sankey, John A R Scott, Gwenda M Shearer, Graham L Sinclair, Owen Tierney, Duncan A Tullock and Kevin F Woodbridge.

Clerk

- John W Mundell, Interim Chief Executive.

In Attendance

- Gavin Barr, Executive Director of Development and Infrastructure.
- Gillian Morrison, Executive Director of Corporate Services.
- Sally Shaw, Chief Officer/Executive Director, Orkney Health and Care.
- James Wylie, Executive Director of Education, Leisure and Housing.
- Gareth Waterson, Head of Finance.
- Gavin Mitchell, Head of Legal Services.
- Ian Rushbrook, Capital Programme Manager (for Items 5 to 7).
- Luke Fraser, Team Leader (Policy and Planning).
- Hazel Flett, Senior Committees Officer.

Observing

- Brian Archibald, Head of Marine Services, Engineering and Transportation (for Items 1 to 4).
- Hayley Green, Head of IT and Facilities.
- Andrew Groundwater, Head of HR and Performance.
- Pat Robinson, Chief Finance Officer, Orkney Health and Care (for Items 1 to 5).
- Colin Kemp, Corporate Finance Senior Manager.
- Paul Kemp, Strategic Finance Manager.
- Avril Litts, Accounting Manager (Strategic Finance).
- David Hartley, Communications Team Leader.

Apologies

- Councillor Norman R Craigie.
- Councillor Barbara Foulkes.

Not Present

- Councillor Magnus O Thomson.

Declarations of Interest

- No declarations of interest were intimated.

Chair

- Councillor James W Stockan.

1. Disclosure of Exempt Information

The Committee noted the proposal that the public be excluded from the meeting for consideration of Appendix 1 of Item 3 and Annexes 6, 10 and 11 of Item 5, as the business to be discussed involved the potential disclosure of exempt information of the classes described in the relevant paragraphs of Part 1 of Schedule 7A of the Local Government (Scotland) Act 1973 as amended.

2. Reserves and Provisions Strategy

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

Noted:

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 had 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 the report by the Head of Finance.

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

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.

2.9. That a Crown Estate Fund be established from any unspent allocation of Crown Estate net revenue funding transferred to the Council by the Scottish Government, with application of the balance reserved to the Policy and Resources Committee.

3. Strategic Reserve Fund – Budget Review and Long Term Forecast

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

Noted:

3.1. That the Strategic Reserve Fund Managed Funds investments were predicted to outperform the approved budget for financial year 2019/20, as indicated in the probable outturn column of Appendix 2 to the report by the Head of Finance.

3.2. That a review of the Flotta Terminal Decommissioning Agreement confirmed that the Flotta Terminal Decommissioning Fund balance of £29,866,000 should be accounted for as a provision rather than as an earmarked balance.

3.3. That the treatment of accounting for the Decommissioning Fund balance as a provision was to charge the value of the provision to the Strategic Reserve Fund in-year as an expense.

3.4. That, after allowing for distributions of £7,136,000 during financial year 2019/20, the value of the Strategic Reserve Fund was estimated to decrease by £19,741,000 to £222,587,000 as at 31 March 2020.

3.5. That, with existing distribution commitments of £11,577,000 for financial years 2020/21, 2021/22 and 2022/23, and with £22,050,000 allocated to support General Fund Services over the same period, the available headroom within the Strategic Reserve Fund relative to the minimum balance or "Floor" was estimated to decline from £19,805,000 to £5,270,000, or from approximately 8.7% to 2.3% of usable reserves, over the next three years.

3.6. That, while much uncertainty remained within the global economy and therefore considerable volatility could be anticipated from investment returns over the short to medium term, the investment strategy for the Strategic Reserve Fund had been amended to improve the focus on income generation going forward and reduce the level of volatility in returns.

3.7. That the draft long term 10-year budget forecast, attached as Appendix 3 to the report by the Head of Finance, indicated that the Strategic Reserve Fund was sustainable over that period based on an assumed level of income generation being achieved and a restricted level of disbursements.

3.8. That a prudent approach was recommended when giving consideration to requests for additional disbursements from the Strategic Reserve Fund over the next three financial years.

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

3.9. That the contribution from the Strategic Reserve Fund to the General Fund for financial years 2020/21, 2021/22 and 2022/23 be set at a cumulative total of £22,050,000 over the three-year period, with the actual contributions for 2021/22 and 2022/23 to be confirmed when the budgets for those years were set.

3.10. That a minimum balance or “Floor”, below which the value of the Strategic Reserve Fund should not fall, be set at £213,203,000 as at 1 April 2020.

3.11. That, in line with the aspiration of setting a three-year budget, indicative figures of £219,600,000 and £226,188,000 be set as a minimum balance or “Floor”, below which the value of the Strategic Reserve Fund should not fall, for financial years 2021/22 and 2022/23 respectively, subject to review annually thereafter.

3.12. That the draft Strategic Reserve Fund budgets for financial years 2020/21, 2021/22 and 2022/23, attached as Appendix 1 to this Minute, be approved.

3.13. That the long-term 10-year budget forecast for the Strategic Reserve Fund, attached as Appendix 2 to this Minute, be approved.

4. Strategic Reserve Fund – Contribution to General Fund Services

Proposed Notional Allocations

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

Noted:

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

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

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

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

4.4. That the Strategic Reserve Fund allocation to General Fund services for financial year 2020/21 of £6,317,200 be notionally allocated as a direct funding contribution towards the service functions set out in Appendix 3 to this Minute.

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

5. Budget and Council Tax Levels for 2020 to 2021

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

Noted:

5.1. The cumulative funding gap identified in the Council's Long-Term Financial Plan, for the period 2020/21 to 2021/22 of £9,805,000, which the Council was seeking to address through its strategic approach to budgeting, as detailed in section 3 of the joint report by the Chief Executive and the Head of Finance.

5.2. That the Scottish Government had issued grant settlement figures for local government and individual councils for financial year 2020/21, with the provisional revenue grant funding to the Council amounting to £77,516,000, which included a provisional specific grant allocation for ferry services of £5,500,000.

5.3. That the Council's request to the Scottish Government in respect of funding for ferry services for 2020/21 was £7,000,000.

5.4. That Local Government Finance Circular 1/2020, which provided details of the provisional total Local Government revenue and capital funding for 2020/21, referred to a package of measures that made up the settlement, including:

- £100 million to be allocated to Integration Authorities that was to be additional to, and not substitutonal to, each Council's 2019/20 recurring budgets for social care services.
- £201 million of revenue funding and £121.1 million of capital funding to support the expansion of early learning and childcare.
- Baselining of the £90 million added at Stage 1 of the Budget Bill for 2019/20.
- £88 million continued funding to maintain the pupil:teacher ratio nationally and secure places for probationers.
- £156 million provision for teachers' pay and £97 million for teachers' pensions.
- £5.3 million for implementation of the Barclay report (review of non-domestic rates) recommendations.
- £50 million for a new capital challenge fund for Heat Networks Early Adopters.

5.5. That no specific sanctions had been indicated by the Scottish Government in respect of the settlement offer for financial year 2020/21.

5.6. That the three-year funding settlement for local government from financial year 2020/21, announced as part of the settlement in February 2019, had not materialised.

5.7. That the settlement afforded the flexibility for the Council to increase Council Tax for financial year 2020/21, with a 4.84% cap on any increase in the level of Council Tax, which was equivalent to an increase in real terms of 3%.

5.8. That, on 26 November 2019, the Policy and Resources Committee recommended a range of low risk budget savings for 2020/21 amounting to £267,600.

5.9. The identified efficiency savings for financial year 2020/21, totalling £774,200, that were additional to the savings already approved at paragraph 5.8 above, covering risk levels assessed as low to very high, as detailed in Annex 10 to the joint report by the Chief Executive and the Head of Finance, which, if approved, would result in a reduction of 5.5 full-time equivalent (FTE) posts, with 1.0 FTE vacant and 4.5 FTE occupied.

5.10. The Equality Impact Assessments, attached as Annexes 8 to 10 to the joint report by the Chief Executive and the Head of Finance, relating to the overall budget proposals and savings assessed as low, medium, high and very high risk.

5.11. The advice, outlined in section 16 of the joint report by the Chief Executive and the Head of Finance, regarding risks to the Council's ability to continue to meet, in a secure manner, all its responsibilities and the expectations placed upon it.

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

Councillor James W Stockan, seconded by Councillor W Leslie Manson, moved that the revenue budget and Council Tax level for 2020/21, as proposed by officers, be approved.

Councillor Stephen G Clackson, seconded by Councillor John T Richards, moved an amendment that the revenue budget and Council Tax level for 2020/21, as proposed by officers, be approved, with the following exception:

- Executive Directors should review and increase existing charges by a minimum of 3% and by no more than 3.5% without prior approval through the relevant Committee, from 1 April 2020, if possible to do so, or as early as possible thereafter, with the exceptions, as listed, where alternative arrangements were required or proposed.

The result of a recorded vote was as follows:

For the Amendment:

Councillors Stephen G Clackson, Alexander G Cowie, John T Richards, Stephen Sankey, John A R Scott, Owen Tierney and Kevin F Woodbridge (7).

For the Motion:

Councillors Robin W Crichton, David Dawson, Andrew Drever, Steven B Heddle, J Harvey Johnston, Rachael A King, W Leslie Manson, Gwenda M Shearer, Graham L Sinclair, James W Stockan and Duncan A Tullock (11).

The motion was carried.

Councillor Stephen Sankey, seconded by Councillor Robin W Crichton, moved a further amendment, notice of which had been given, that the revenue budget and Council Tax level for 2020/21, as proposed by officers, be approved, with the following exception:

- Efficiency saving RDDI11, Closure of St Margaret's Hope Recycling Centre, should be removed from the list of efficiency savings for 2020/21, with the resultant cost of £13,000 to be met from General Fund balances.

The result of a recorded vote was as follows:

For the Amendment:

Councillors Stephen G Clackson, Alexander G Cowie, Robin W Crichton, David Dawson, Steven B Heddle, J Harvey Johnston, John T Richards, Stephen Sankey, John A R Scott, Gwenda M Shearer, Owen Tierney and Kevin F Woodbridge (12).

For the Motion:

Councillors Andrew Drever, Rachael A King, W Leslie Manson, Graham L Sinclair, James W Stockan and Duncan A Tullock (6).

The amendment was carried and became the motion.

Councillor Owen Tierney, seconded by Councillor J Harvey Johnston, moved a further amendment, notice of which had been given, that the revenue budget and Council Tax level for 2020/21, as proposed in terms of the previous amendment by Councillor Stephen Sankey, be approved, with the following exception:

- Efficiency saving RDDI10, Closure of Cursiter Recycling Centre, should be removed from the list of efficiency savings for 2020/21, with the resultant cost of £6,000 to be met from General Fund balances.

The result of a recorded vote was as follows:

For the Amendment:

Councillors Stephen G Clackson, Alexander G Cowie, David Dawson, Steven B Heddle, J Harvey Johnston, Stephen Sankey, John A R Scott, Gwenda M Shearer, Owen Tierney and Kevin F Woodbridge (10).

For the Motion:

Councillors Robin W Crichton, Andrew Drever, Rachael A King, W Leslie Manson, John T Richards, Graham L Sinclair, James W Stockan and Duncan A Tullock (8).

The amendment was carried.

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

5.13. That the General Fund revenue budget for financial year 2020/21 be set at £85,798,800.

5.14. That powers be delegated to the Head of Finance, in consultation with the Chief Executive, to revise the General Fund revenue budget for financial year 2020/21 in respect of any change to the estimated funding level referred to at paragraph 5.2 above.

5.15. That any reduction in the specific grant allocation for ferry services, referred to at paragraph 5.2 above, be subject to further consideration in due course, if required.

5.16. That the Band D Council Tax level for financial year 2020/21 be set at £1,208.48, being a real term increase of 3% on the Band D Council Tax level for financial year 2019/20 of £1,152.69.

5.17. That the Council's budget uprating assumptions, as set out in Appendix 4 to this Minute, including a 1% uplift for the Third Sector, at an overall estimated cost across the General Fund of £2,813,000, be approved.

5.18. That, on account of the need to balance the budget and bring spending into line with available funding, no baseline service pressures be approved for inclusion in the revenue budget for financial year 2020/21.

5.19. That efficiency savings totalling £755,200, covering risk levels assessed as low to very high, as detailed in Appendix 5 to this Minute, be approved and applied for financial year 2020/21, summarised by service as follows:

- Chief Executive's Service – £32,100.
- Corporate Services – £15,000.
- Development and Infrastructure – £444,200.
- Education, Leisure and Housing – £120,200.
- Orkney Health and Care – £143,700.

5.20. That the cost of the following savings in 2020/21, totalling £48,000, be funded from the Crown Estate net revenue allocation for 2019/20:

- Road Closures for Events and Festivals – £5,000.
- Winter Free 1 Hour Parking – £24,000.
- Development and Marine Planning – £14,000.
- Archaeology Workforce Planning – £5,000.

5.21. That powers be delegated to the Head of Finance to allocate any General Fund underspend from financial year 2019/20 to the following provisions:

- £179,709 secured through a successful Non-Domestic Rates appeal, to the Innovation Fund to help towards the cost of undertaking transformational change projects.
- Any remaining underspends to the repayment of capital debt.

5.22. That the General Fund contingency established when setting the revenue budget for financial year 2019/20 be applied as a funding source in setting the General Fund revenue budget for 2020/21.

5.23. That any further efficiency savings realised, or additional funding secured that was not specific to government initiatives that must be funded, be retained in a General Fund contingency.

5.24. That Executive Directors should review and increase existing charges by a minimum of 3%, from 1 April 2020, if possible to do so, or as early as possible thereafter, with the following exceptions, where alternative arrangements were required or proposed:

- Building warrant and planning fees.
- Harbour charges.
- Ferry fares.
- Car park charges.
- Residential care and home care.
- Very sheltered housing.
- Supported accommodation.
- Licensing fees.
- Ship sanitation certification.
- Marriage/civil partnership.
- Roads inspection fees.
- Trade waste charge.
- Homelessness rents.

5.25. That, should the confirmed allocation of fairer ferry funding be less than £5,500,000, ferry fares be increased by 3%, with ferry fares frozen should the allocation be confirmed as £5,500,000 or more.

5.26. That the contribution from the Strategic Reserve Fund used as a funding source be set at a cumulative maximum of £22,050,000 over the three year period 2020/21 to 2022/23.

5.27. That the draw from the Strategic Reserve Fund for 2020/21 be set at £6,317,200, with the actual contributions for financial years 2021/22 and 2022/23 confirmed when the budgets for those years were set.

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

5.29. That the policies of the presumption against new commitments and the moratorium on staff establishment increases should continue to remain in force across General Fund services, with the following conditions:

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

- The Council should consider new commitments where compensatory savings could be identified – any Committee considering such recommendations should, in the first instance, seek to identify savings from within its revenue budget.
- Any restructuring exercises of Council services must be cost neutral at worst for Council General Fund services.

5.30. That powers be delegated to the Head of Finance, as Section 95 Officer, in consultation with the Chief Executive, to prepare and distribute a detailed budget incorporating all of the budget adjustments agreed by the Council.

Please refer to the Minute of the General Meeting of the Council held on 3 March 2020.

6. House Build Programme

After consideration of a report by the Executive Director of Education, Leisure and Housing, copies of which had been circulated, and after hearing a report from the Team Leader (Policy and Planning), the Committee:

Noted:

6.1. That current Scottish Government funding available in respect of affordable housing provision ran until March 2021 and the Scottish Government had applied pressure on the Council to maximise use of the available funding over the next financial year.

6.2. That, in order to maximise use of available funding, four projects utilising Council owned land were being developed, as follows:

- Four one-bedroom properties at Watersfield, Kirkwall.
- Two two-bedroom properties at Repeater Road, Kirkwall.
- Two two-bedroom properties at MacDonald Park, St Margaret's Hope.
- Eight one-bedroom properties at Garson, Stromness.

6.3. That, in addition to the four Council-led projects, it was proposed that the Council seek a number of design and build contracts, of between two and six-unit housing projects, in Kirkwall, Stromness, Finstown and St Mary's.

6.4. That, on 5 February 2020, the Education, Leisure and Housing Committee recommended that, as an exception to the Capital Project Appraisal process, in order to maximise time limited Scottish Government grant funding, the Executive Director of Education, Leisure and Housing should submit, to the Policy and Resources Committee, Stage 2 Capital Project Appraisals in respect of various proposed house build projects.

6.5. The proposal that the total cost of the proposed house build projects, referred to at paragraph 6.4 above, estimated at £5,784,500, be funded as follows:

- Scottish Government grant – £2,780,000.
- Housing Revenue Account – £3,004,500.

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

6.6. That the Stage 2 Capital Project Appraisals in respect of the undernoted proposed house build projects, attached as Appendices 6 to 10 of this report, be approved:

- Watersfield, Kirkwall.
- Repeater Road, Kirkwall.
- MacDonald Park, St Margaret's Hope.
- Garson, Stromness.
- Design and build contracts for up to 20 social housing units in Kirkwall, Stromness, Finstown and St Mary's.

6.7. That, as an exception to process, in that the risk of losing Scottish Government funding was high, the house build projects, referred to at paragraph 6.6 above, be added to the capital programme for 2020/21 onwards, at a gross capital cost of £5,784,500, to be funded as follows:

- Scottish Government grant – £2,780,000.
- Housing Revenue Account – £3,004,500.

7. Conclusion of Meeting

At 12:50 the Chair declared the meeting concluded.

Signed: James W Stockan.