

Item: 4

Policy and Resources Committee: 23 February 2023.

General Fund Reserves Strategy.

Report by Head of Finance.

1. Purpose of Report

To consider a strategy for managing the Council's General Fund Reserves in the context of setting the Revenue Budget for 2023/24.

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 2022, the Council held reserves balances, totalling £44,273,000, as detailed in section 4 of this report.

2.4.

That, during the budget setting process for financial year 2022/23, it was recognised that an allocation from General Fund balances, totalling £4,120,900, would be required to fund specific purposes, as follows:

- £255,000 towards the running costs of Willow Tree Nursery.
- £2,621,100 to cover the budgeted deficit for financial year 2022/23.
- £500,000 to cover the cost of the site transfer for the new Integrated Waste Facility.
- £626,400 towards the funding gap for Islands Deal projects, specifically the Creative Islands Wellbeing and Orkney Research and Innovation Campus projects (subject to mid-year review of budget pressures in 2022/23).
- £93,500 for staffing backfill.
- £25,000 for COP26 advertising.

2.5.

The effect of recognising the commitments detailed at paragraph 2.4 above, namely to further reduce the non-earmarked General Fund balance from £10,043,700 to £5,922,800.

2.6.

That, although the Council's Reserves Strategy set a target for the non-earmarked General Fund balances at 3% of net budgeted expenditure, in financial year 2021/22 it was felt prudent to carry forward a higher percentage to provide the additional flexibility required to manage economic pressures going forward.

2.7.

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.

2.8.

That, where the link between the purpose and use of earmarked reserves is no longer considered appropriate, especially within the current financial climate, the residual fund balance should be returned to non-earmarked balances.

2.9.

That the Head of Finance, in consultation with Services, has undertaken a review of all known earmarked services, in order to maximise non-earmarked balances with a view to balancing the General Fund revenue budget for 2023/24, with the outcome detailed in Appendix 3 to this report.

It is recommended:

2.10.

That the non-earmarked General Fund Balance for 2023/24 be set at 2% of the net revenue budget for 2023/24, with a minimum balance of approximately £2,000,000 as a contingency for in-year pressures.

2.11.

That the proposed re-provisioning of General Fund earmarked reserves, totalling £10,631,250, to General Fund non-earmarked reserves, summarised in Appendix 2 to this report, be approved.

2.12.

That powers be delegated to the Head of Finance to make the adjustments to balances, identified at paragraph 2.11 above, taking account of the 2022/23 year end position and ongoing budget pressures for 2024/25.

3. Background

3.1.

In accordance with the existing statutory and regulatory framework, the Head of Finance 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 such as a global pandemic 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.

4. Existing Reserves Position

4.1.

The audited Annual Accounts for 2021/22, presented to the Monitoring and Audit Committee on 17 November 2022, gave an overview of the Reserves position as at 31 March 2022 which is summarised in the table below. The Orkney College balance of £480,800 included in the Council's Statutory Accounts is excluded from the table as it is not a General Fund Balance.

General Fund	£	Balance as at 31/03/22
		£
Non-Earmarked Balance.		10,043,700.
Capital Fund.		507,800.
Capital Receipts Reserve.		836,900.
Repairs and Renewals Fund.		9,150,000.
Local Works and Services Contingency Fund.	111,800.	
Workforce Management and Management Support Fund.	1,587,000.	
Renewable, Redevelopment and Regeneration Fund.	9,937,800.	
Recreation and Cultural Services Project Fund.	65,200.	
Development Grants Fund.	1,656,100.	
Outwith Orkney Placements Fund.	1,000,000.	
Capital Projects Appraisal Fund.	737,400.	
Crown Estate Fund.	1,897,200.	
Redeterminations Flexibility Fund.	1,931,300.	
Business Support Fund.	2,795,500.	
Integration Joint Board General Fund Balances.	500,000.	
Sustainable and Green Transport Fund.	82,900.	
Islands Deal Fund.	1,432,400.	
Total Earmarked Reserves.		23,734,600.
Total General Fund Reserves.		44,273,000.

4.2.

The Council is also in the fortunate position of having a Strategic Reserve Fund which, as at 31 March 2022, had a value of £233,035,000. Utilisation of this reserve in the Council's budget setting considerations was considered by the Policy and Resources Committee on 19 December 2022.

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 2023/24, 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 2023/24 of approximately £100,000,000, this would imply a level of uncommitted Reserves for the Council of between £2,000,000 and £4,000,000.

5.4.

Prior to the closure of the 2021/22 financial accounts, the Council recognised the changing financial outlook for 2022/23, and beyond, and made a contribution of £3,359,000 to the General Fund non-earmarked balance, which was carried forward into 2022/23, the idea being to give the Council additional flexibility in dealing with the financial challenges presented. The contribution was possible due to an underspend, predominately as a result of slippage on the capital programme, that was set aside rather than used for acceleration of loan repayments.

5.5.

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. The pandemic has been an extreme example of the adverse situation that can arise. The Council could however operate with a slightly lower level of General Fund Reserve than it has held in recent years and can take some comfort that it could, if required, re-provision some of the earmarked balances if required to do so.

5.6.

The Council's non-earmarked General Fund Reserve of £10,043,700 at 31 March 2022 represented approximately 11.0% of the Council's net budgeted expenditure for 2021/22, however a further £4,120,900 has been committed to the undernoted projects, bringing the available balance down to £5,922,800 or 6.4% of the Council's annual running costs for the General Fund:

- £255,000 towards the running costs of Willow Tree Nursery.
- £2,621,100 to cover the budgeted deficit for financial year 2022/23.
- £500,000 to cover the cost of the site transfer for the new Integrated Waste Facility.
- £626,400 towards the funding gap for Islands Deal projects, specifically the Creative Islands Wellbeing and Orkney Research and Innovation Campus projects (subject to mid-year review of budget pressures in 2022-23).
- £93,500 for staffing backfill.
- £25,000 for COP26 advertising.

5.7.

At 2% of the net Revenue Budget for financial year 2023/24 the General Fund Reserve would be set at approximately £2,000,000, leaving the balance of non-earmarked reserves available for reallocation towards setting a balanced General Fund Budget for 2023/24.

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.

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.

6.3.

The outlook in the medium term is particularly challenging, with the public sector facing a prolonged period of constraint in spending as the United Kingdom recovers from the economic shock caused by Brexit, the pandemic, the war in Ukraine, and the soaring cost of living.

6.4.

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.

6.5.

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 referred to a specific committee. Appendix 1 details the extent of delegation for each of the reserves listed.

6.6.

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.

6.7.

Similarly, if the link between the purpose for amounts within earmarked balances is no longer appropriate, especially within the current financial climate, the funds should be returned to non-earmarked reserves. Appendix 1 lists all the individual general fund reserves and balances, for each there is a conclusion of initial high-level review.

6.8.

Appendix 2 shows the summary of the detailed review carried out by the Head of Finance, in consultation with relevant services. The outcome of the review is that £10,631,249 of General Fund earmarked reserves has been deemed suitable to return to General Fund non-earmarked reserves, in line with the principles set out in sections 6.6 and 6.7 above.

6.9.

Appendix 3 to this report provides the detail of the review and contains information which is considered to be exempt from publication.

6.10.

Should the Committee accept the recommendations of the review, Standing Orders will require to be suspended, given that the Sustainable and Green Transport Fund was established within the last 12 months.

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.

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.

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.

9.3.

Under Section 50A(4) of the Local Government (Scotland) Act 1973, the public should be excluded from the meeting in respect of any discussion relating to Appendix 3. Appendix 3 contains exempt information as defined in paragraphs 1 and 6 of Part 1 of Schedule 7A of the Act.

10. Contact Officer

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11. Appendices

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

Appendix 2: Review of General Fund earmarked Reserves and Balances Summary.

Appendix 3: Detailed review of General Fund earmarked Reserves and Balances.

Evaluation of Individual General Fund Reserves and Balances

Name of Reserve.	Non-Earmarked General Fund Balance.
Balance at 31 March 2022.	£10,043,700.
Purpose of the Reserve.	<p>The General Fund Balance is held to provide a cushion for uneven cash flow management and against the impact of unexpected events or emergencies. The balance of £10,043,700 may be regarded as a high fund value when compared to other councils, however, as part of the budget setting process for financial year 2022/23 a further £4,120,900 was committed from this balance to fund specific purposes meaning the actual balance is £5,922,800.</p> <p>It was felt prudent to increase the General Fund balance at the end of financial year 2021/22 by £3,359,000 to provide the additional flexibility to manage economic pressures going forward. This was achieved by utilising the underspend on the loan charges budget resulting from slippage on the delivery of the capital programme, rather than using the underspend to accelerate debt repayments.</p>
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 fund 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 6.4% of the net revenue budget is high relative to other councils and could be reduced with the comfort that if required the Council could revisit the purpose of holding some of the earmarked balances. A 3% balance is the level the Council has previously agreed as a prudent level for General Fund reserve.

Name of Reserve.	Capital Fund.
Balance at 31 March 2022.	£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. On 22 February 2022, Policy and Resources Committee recommended that the Capital Funds and Capital Receipts Reserve balances, amounting to £1,459,285, be applied against spend on the capital programme in 2021/22 onwards.
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 balance will continue be applied against capital spend.

Name of Reserve.	Capital Receipts Reserve.
Balance at 31 March 2022.	£836,900.
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 2022.	£9,150,000.
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 main components of the fund include:</p> <ul style="list-style-type: none"> • Schools Investment Programme Lifecycle funds. • Pathfinder Project • Quarry Plant Replacement. • Roads Improvement Programme. • Burial ground headstone remediation. <p>Within the balance, there is ~£600,000 of "General Fund Services" and ~£200,000 of "Transport Infrastructure Fund" where the purpose for the reserve has never occurred.</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 is replacement and/or maintenance of property, plant and equipment. Where link between purpose and use has been broken, the funds should be returned to non-earmarked reserves.

Name of Reserve.	Local Works and Services Contingency Fund.
Balance at 31 March 2022.	£111,800.
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 Corporate Leadership Team for consideration. Corporate Leadership Team will advise the Corporate 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. On 21 December 2021, when considering the allocation of one-off funding towards a series of projects considered to provide excellent recovery prospects from the COVID-19 pandemic, the Policy and Resources Committee recommended a top up to this fund of £240,000, which is currently sitting in the RRR Fund (see below).
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.	Uncommitted balances are carried forward into future years to allow the fund to continue to operate without any further funding contributions. Given no clear use of this fund balance is identified, this should be returned to non-earmarked funds.

Name of Reserve.	Workforce Management and Management Support Fund.
Balance at 31 March 2022.	£1,587,000.
Purpose of the Reserve.	<p>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.</p> <p>On 23 February 2021, the Policy and Resources Committee recommended that the Workforce Management Fund be redesignated the Workforce Management and Management Support Fund, with the purpose of the reserve expanded to include provision of temporary additional capacity and management support at senior management level and/or support for existing vacancies and absences.</p>
How and when the Reserve can be used.	<p>This corporate reserve is accessible to all General Fund services.</p> <p>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.</p> <p>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> <p>As the Management Support Fund, the fund is fully allocated for the following purposes:</p> <ul style="list-style-type: none"> • APSE consultants cost for Waste.

	<ul style="list-style-type: none"> • Graduate Trainee and Apprentices salary costs for 2.5 years (per Phase 2 of restructure). • Project Initiation Documents (PIDS). • Investors in People.
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.
Conclusion of review.	<p>That this Fund continues to be required for its established purpose.</p> <p>Balances to be reviewed and, where link between purpose and use has been broken, example amounts earmarked for PIDS that are not progressing, the funds should reprovisioned and returned to non-earmarked funds.</p> <p>In addition, as an oversight of the Our People Our Plan proposals, no budget was created to fund the development of the Corporate Leadership Programme. Therefore £50,000 is proposed to be earmarked for development of a Corporate Leadership Programme.</p>

Name of Reserve.	Renewables, Redevelopment and Regeneration Fund.
Balance at 31 March 2022.	£9,937,800.
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.	<p>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, installation of the caisson at the Barriers, the Kirkwall Conservation Area Renewal Scheme and the Townscape Heritage Initiative.</p> <p>The fund was previously fully committed, however the ability to meet the cost of demolition of the former Papdale Halls of Residence through General Capital Grant freed up funding in this fund and allowed the £1,424,000 contribution to the Coronavirus Business Hardship Support Fund.</p> <p>The fund was used to carry forward COVID-19 funding of £8,240,000, as recommended by Policy and Resources Committee on 21 December 2021. Services are actively planning, creating grant schemes, etc. to spend these funds.</p>
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.	<p>That the Renewables, Redevelopment and Regeneration Fund continues to be required for its established purpose.</p> <p>Given the Cost of Living Crisis currently being experienced, it may be more appropriate to re-provision part of the £8,240,000 to meet any scheme the Council might offer this winter.</p> <p>Other balances to be reviewed and where link between purpose and use has been broken, the funds should be returned to non-earmarked reserves.</p>

Name of Reserve.	Economic Development Grants Fund.
Balance at 31 March 2022.	£1,656,100.
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 Economic 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> <p>The grants should be reviewed to establish whether the need exists for current commitments, and steps should be taken to update procedures to time-limit grant draw down. Un-used amounts should be re-provisioned as non-earmarked reserves.</p>

Name of Reserve	Outwith Orkney Placements Fund
Balance at 31 March 2022.	£1,000,000.
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 2013/14 and it was apparent that this spending pressure would continue until alternative routes for meeting the needs of those individuals were established.
How and when the Reserve can be used.	The reserve is used to supplement the Social Care and Education revenue budgets 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.	<p>The number of looked after children and complex packages of care for adults continues to place significant demand and spending pressure on the Social Care and Education revenue budgets such that the full value of the Outwith Orkney Placements Fund will be required.</p> <p>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.</p> <p>That the Outwith Orkney Placements Fund continues to be required for its established purpose.</p>

Name of Reserve.	Capital Projects Appraisal Fund.
Balance at 31 March 2022.	£737,400.
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 Corporate Leadership Team (CLT) in the first instance.
Procedures for the Reserve's management and control.	Application of the Capital Projects Appraisal Fund is delegated to the Head of Finance.
Conclusion of review.	It is evident that a significant gap exists 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 2022.	£1,897,200.
Purpose of the Reserve.	The fund was established from an unspent allocation of Crown Estate net revenue funding that has been transferred to the Council by the Scottish Government to ensure there is provision for a longer-term allocation strategy.
How and when the Reserve can be used.	<p>On 19 December 2019, the Council established guiding principles for deployment of the Fund, together with the long-term allocation strategy for coastal community benefit in Orkney. Projects to be funded from the Crown Estate Fund 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.

	<p>The balance of the fund in 2019/20 was used as a contribution to the Coronavirus Business Hardship Support Fund (£5,000,000 opening balance) that was established in 2020/21 but has since been supplemented by a second allocation of Crown Estate net revenue funding of £1,043,000.</p> <p>On 21 June 2022, the Policy and Resources Committee recommended establishment of the Crown Estate Economic Development Fund and the Crown Estate Community Led Development Fund, using 50% of the balance of the Crown Estate Fund plus 50% of the annual allocations going forward.</p>
<p>Procedures for the Reserve's management and control.</p>	<p>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.</p> <p>Determination of applications for funding from the Crown Estate Economic Development Fund is delegated to the Corporate Director for Enterprise and Sustainable Regeneration, in consultation with the Leader, Depute Leader, Chair and Vice Chair of the Development and Infrastructure Committee.</p> <p>Determination of applications for funding from the Crown Estate Community Led Development Fund is delegated to the Corporate Director for Enterprise and Sustainable Regeneration, in consultation with the Leader, Depute Leader, Chair and Vice Chair of the Development and Infrastructure Committee, together with the Chair of the Orkney Local Action Group, established to deliver the 2014-20 LEADER Programme.</p>
<p>Conclusion of review.</p>	<p>That the Crown Estate Fund continues to be required for its established purpose.</p> <p>Marine Scotland has tried their best to "ring fence" this funding and asked the Council to report on how it is being spent on coastal communities. By targeting things the Council already finances would free up other reserve allocations and/or budgets for other General Fund purposes.</p>

Name of Reserve.	Business Hardship Support Fund.
Balance at 31 March 2022.	£2,795,500.
Purpose of the Reserve.	To assist local businesses to survive the economic downturn that has arisen as a result of the Coronavirus Pandemic.
How and when the Reserve can be used.	The £5M Coronavirus Business Hardship Support Fund was established by the Council on 16 April 2020 to be used for Business Hardship Support Grants and Business Loans. The fund has provided grants to businesses that have been ineligible for Government funding, top up grants on many Government schemes and business loans. It will also provide funding for the local business economic recovery group.
Procedures for the Reserve's management and control.	Application of the Coronavirus Business Hardship Support Fund is delegated to the Chief Executive, in consultation with the Leader, the Chair and Vice Chair of the Development and Infrastructure Committee, the Corporate Director for Enterprise and Sustainable Regeneration and the Head of Finance.
Conclusion of review.	That the Business Hardship Support Fund continues to be required for its established purpose, but the funding should be time limited and on lapsing, the balance should be returned non-earmarked General Fund Balances

Name of Reserve.	Redeterminations Flexibility Fund.
Balance at 31 March 2022.	£1,931,300.
Purpose of the Reserve.	To enable the carry forward of funding received as redetermination in the last few days of March 2021 and 2022.
How and when the Reserve can be used.	<p>The Scottish Government settlements in 2021 and 2022 included last minute allocations of funding which, given the timing, were impossible to spend in the financial years awarded. This fund offered flexibility to carry forward settlement funding between financial years.</p> <p>This flexibility should only be allowed for one financial year. At 31 March 2022, there was ~£1,000,000 carried forward from 31 March 2021 which was still unspent.</p>
Procedures for the Reserve's management and control.	Application of the Redeterminations Fund is delegated to the Chief Executive, in consultation with the Head of Finance.
Conclusion of review.	<p>That the Redeterminations Fund continues to be required for its established purpose.</p> <p>Where link between purpose and use has been broken, the funds should be returned to non-earmarked reserves.</p>

Name of Reserve.	Integration Joint Board General Fund Balances.
Balance at 31 March 2022.	£500,000.
Purpose of the Reserve.	<p>On 22 February 2022, when considering the budget and Council Tax levels for 2022/23, the Policy and Resources Committee recommended that powers be delegated to the Head of Finance, in consultation with the Chief Executive, to allocate any General Fund underspend from 2021/22 to the following provisions:</p> <ul style="list-style-type: none"> • To establish an Integration Joint Board Resources Fund of up to £500,000. • Outwith Orkney Placements – to top up the fund as provision for unplanned placements outwith Orkney for individuals at risk. • To the repayment of capital debt. <p>This fund was established at 31 March 2022, created from underspends to fund the first year of the management restructure costs for Orkney Health and Care (OHAC). Given the discussions over a National Care Service, it was felt prudent to retain OHAC balances within the Council, rather than within the Integration Joint Board.</p>
How and when the Reserve can be used.	<p>To fund the 2022/23 staff costs associated with Phase 2 of the corporate restructure. To carry forward Council balances for OHAC purposes.</p>
Procedures for the Reserve's management and control.	Application of the funding set aside in the Integration Joint Board Resources Fund is delegated to the Chief Executive, in consultation with the Head of Finance.
Conclusion of review.	Fund will be fully used during 2022/23. If no further allocations, fund should be removed.

Name of Reserve.	Sustainable and Green Transport Fund.
Balance at 31 March 2022.	£82,900.
Purpose of the Reserve.	To enable the carry forward of bus passenger fare income to be used for sustainable and green transport initiatives.
How and when the Reserve can be used.	<p>On 1 March 2022, the Policy and Resources Committee recommended that passenger fare income from subsidised public bus routes be utilised to establish this Fund, specifically for sustainable transport initiatives, including active travel, as a means to off-set existing transport CO2 emissions and to invest in sustainable and green transport solutions for the future.</p> <p>A proportion of the passenger fare income was to be retained to meet the cost of the review of contract rates for public bus services, capped at a maximum of 3% per annum, beyond the 1% inflationary uplift to budgets.</p>
Procedures for the Reserve's management and control.	Application of the funding set aside in the Sustainable and Green Transport Fund is delegated to the Corporate Director for Enterprise and Sustainable Regeneration, in consultation with the Head of Finance.
Conclusion of review.	<p>That the Sustainable and Green Transport Fund continues to be required for its established purpose.</p> <p>However, given current economic conditions the ongoing operation of this Fund should be reconsidered, and any balances returned to General Fund non-earmarked reserves.</p>

Name of Reserve.	Islands Deal Fund.
Balance at 31 March 2022.	£1,432,400.
Purpose of the Reserve.	To set aside funds for the requirement for Orkney Islands Council to match fund the Orkney projects that will form part of the Islands Growth Deal.
How and when the Reserve can be used.	<p>As part of the Islands Growth Deal the Council has to find £18,400,000 of match funding in addition to the external leverage required. The funding requirement specifically relates to the Orkney Research and Innovation Campus, the Futures Fuels Hub and the Creative Islands Wellbeing project.</p> <p>On 22 February 2022, the Policy and Resources Committee recommended that revenue balances, amounting to £1,432,385, be reprovioned in an Islands Deal Fund and utilised towards the match funding requirement on Islands Deal projects.</p>
Procedures for the Reserve's management and control.	Application of the Islands Deal Fund is referred to the Policy and Resources Committee with a recommendation to Council.
Conclusion of review.	That the Islands Deal Fund continues to be required for its established purpose.

Name of Reserve.	Recreation and Cultural Services Project Fund
Balance at 31 March 2022.	£65,200.
Purpose of the Reserve.	The fund was initially established for specific contingencies that were not required and has since been applied to meet other service priorities.
How and when the Reserve can be used.	Service request drawdown from the fund from time to time.
Procedures for the Reserve's management and control.	Applications are delegated to the Head of Finance.
Conclusion of review.	That the Fund continues to be required for its established purpose. However, given the current economic climate the balance of the Fund should be returned to non-earmarked balances.

Appendix 2.

Review of General Fund Earmarked Reserves and Balances Summary

Service	Fund	Sum of Earmarked amount £	Sum of Return to non-earmarked £
ELH	Business Hardship Support Fund	106,600.00	(30,000.00)
	Crown Estates Fund	467,782.00	0.00
	General Fund	255,000.00	0.00
	Recreation & Cultural Projects Fund	65,220.02	59,113.20
	Redeterminations Flexibility Fund	469,410.07	0.00
	Repairs & Renewals Fund	4,548,400.22	0.00
	RRR Fund	1,700,000.00	660,000.00
	Workforce Management Fund	160,000.00	20,000.00
ELH Total		7,772,412.31	709,113.20
ESR	Business Hardship Support Fund	2,688,853.00	1,245,788.00
	CPA Fund	737,379.68	0.00
	Crown Estates Fund	1,236,525.16	0.00
	Economic Development Grants Fund	1,656,130.77	203,944.00
	General Fund	9,170,241.26	4,549,241.26
	Redeterminations Flexibility Fund	1,130,000.00	482,000.00
	Repairs & Renewals Fund	1,057,172.51	600,000.00
	RRR Fund	2,613,129.53	784,398.53
	Sustainable and Green Transport Fund	82,926.00	15,426.00
	Workforce Management Fund	60,000.00	60,000.00
ESR Total		20,432,357.91	7,940,797.79
NSI	Crown Estates Fund	192,888.09	0.00
	General Fund	618,500.00	118,500.00
	Local Works & Services Fund	25,000.00	0.00
	Redeterminations Flexibility Fund	19,000.00	19,000.00
	Repairs & Renewals Fund	3,544,391.20	487,732.59
	RRR Fund	5,084,708.68	608,162.68
	Workforce Management Fund	200,000.00	144,500.00
NSI Total		9,684,487.97	1,377,895.27
OHAC	Redeterminations Flexibility Fund	54,000.00	29,000.00
	RRR Fund	300,000.00	60,000.00
	Workforce Management Fund	65,000.00	65,000.00
OHAC Total		419,000.00	154,000.00
SPBS	Local Works & Services Fund	86,847.12	86,847.12
	Redeterminations Flexibility Fund	258,695.50	166,095.50
	RRR Fund	240,000.00	240,000.00
	Workforce Management Fund	1,105,000.00	(43,500.00)
SPBS Total		1,690,542.62	449,442.62
Grand Total		39,998,800.81	10,631,248.88

Glossary

ELH – Education, Leisure and Housing.

ESR – Enterprise and Sustainable Regeneration.

NSI – Neighbourhood Services and Infrastructure.

OHAC – Orkney Health and Care.

SPBS – Strategy, Performance and Business Solutions.

CPA – Capital Project Appraisal.

RRR Fund – Renewables, Redevelopment and Regeneration Fund.