

# Item: 5

**Policy and Resources Committee: 23 February 2021.**

**Strategic Reserve Fund – Budget Review and Long-Term Forecast.**

**Report by Head of Finance.**

## **1. Purpose of Report**

To review the level of disbursements from the Strategic Reserve Fund used to support General Fund Services and other Council priorities for financial year 2021/22 onwards.

## **2. Recommendations**

The Committee is invited to note:

### **2.1.**

That the Strategic Reserve Fund Managed Funds investments are predicted to outperform the approved budget for financial year 2020/21, as indicated in the probable outturn column of Appendix 1 to this report.

### **2.2.**

That, after allowing for distributions of £10,317,000 during financial year 2020/21, the value of the Strategic Reserve Fund is estimated to increase by £33,959,000 to £226,371,000 as at 31 March 2021.

### **2.3.**

That, with existing distribution commitments of £9,734,000 for financial years 2021/22, 2022/23 and 2023/24, and with £22,083,000 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” is estimated to decline from £13,726,000 to £7,170,000, or from approximately 6.1% to 3.1% of usable reserves, over the next three years.

### **2.4.**

That, while much uncertainty remains within the global economy and therefore considerable volatility can be anticipated from investment returns over the short to medium term, the Strategic Reserve Fund managed funds investments were restructured during 2020 as the revised investment strategy was implemented to improve the focus on income generation going forward and reduce the level of volatility in returns.

## **2.5.**

That the draft long term 10-year budget forecast, attached as Appendix 2 to this report, indicates that the Strategic Reserve Fund is sustainable over this period based on an assumed level of income generation being achieved and a restricted level of disbursements.

## **2.6.**

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

## **2.7.**

That the financial commitment from the Strategic Reserve Fund to the General Fund for financial years 2020/21, 2021/22 and 2022/23 was set as a cumulative total of £22,050,000 over the three-year period.

## **2.8.**

That, based on an actual confirmed contribution of £6,317,000 for financial year 2020/21, and a proposed financial contribution of £7,470,000 for 2021/22, a residual balance of £8,263,000 would still be available for 2022/23.

**It is recommended:**

## **2.9.**

That the financial contribution from the Strategic Reserve Fund to the General Fund for financial year 2021/22, and forming part of the three-year cumulative commitment referred to at paragraph 2.7 above, be set at £7,470,000.

## **2.10.**

That the minimum balance or “Floor”, below which the value of the Strategic Reserve Fund should not fall, be set at £215,622,000 as at 1 April 2021.

## **2.11.**

That the Strategic Reserve Fund “Floor” of £175,000,000 be inflated using the Consumer Price Index (CPI) rather than the Retail Price Index (RPI) from 2021/22 onwards.

## **2.12.**

That, in line with the aspiration of setting a three-year budget, indicative figures of £218,856,000 and £224,546,000 be set as the minimum balance or “Floor”, below which the value of the Strategic Reserve Fund should not fall for financial years 2022/23 and 2023/24 respectively, subject to review annually thereafter.

### **2.13.**

That the Strategic Reserve Fund budget for financial year 2021/22, together with indicative budgets for 2022/23 and 2023/24, attached as Appendix 1 to this report, be approved.

### **2.14.**

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

## **3. Background**

### **3.1.**

The purpose of the Strategic Reserve Fund is to support projects which provide benefit to the Orkney community as a whole, such as the development of industrial estates, harbour infrastructure and recreational projects, while supporting economic development activity in general across the Council area. The Strategic Reserve Fund is also required to support the long-term objective of managing the implications associated with declining oil related revenues on the economy of the islands and to contribute to the decommissioning costs of the Flotta terminal at the end of its life.

### **3.2.**

The Strategic Reserve Fund has been applied to supplement General Fund services on a restricted basis as part of a strategy, whereby the Council has pressed Scottish Government for equality of treatment in the finance settlement across the Island unitary authorities. When the Council set the budget for financial year 2020/21, it was agreed that £6,317,000 from the Strategic Reserve Fund be used as a funding source to supplement the General Fund revenue budget.

### **3.3.**

Over-reliance on the Strategic Reserve Fund as a means of balancing the General Fund budget as part of a long-term financial strategy is not best practice, particularly given the levels of volatility that continue to impact on investment returns.

### **3.4.**

A review of the investment strategy for the Strategic Reserve Fund managed funds reported in March 2016 concluded that, due to higher levels of volatility and risk which existed in the financial markets, there was a greater probability of an adverse outcome being realised by the Fund in terms of investment performance. In light of this, it was agreed that Strategic Reserve Fund's exposure to equities as a growth asset would be reduced through a process of diversification, as a means of lowering volatility and risk.

### **3.5.**

More recently, a further review of the investment strategy was commissioned in light of concerns raised by the Investments Sub-committee that the Council's approach to investing the Strategic Reserve Fund managed funds was relatively conservative and that opportunities were not being maximised at a time of extreme volatility in the financial markets. The findings of this review were duly reported to the Investments Sub-committee on 28 February 2019 and can be summarised as follows:

#### **3.5.1.**

The expected returns under the 2016 investment strategy were 5.4% per annum with a 1-year volatility of +/-8.8% per annum. At that time, this level of income was considered sufficient to support annual distributions from the Fund of approximately £4,000,000 per annum and still maintain the value of the Strategic Reserve Fund in real terms.

#### **3.5.2.**

Additional income generation from other activities such as investment properties and other local investments, including the Scapa Flow Oil Port, meant that a higher level of distributions were affordable over the short to medium term.

#### **3.5.3.**

Distributions from the Strategic Reserve Fund were not financed directly from the liquidation of Strategic Reserve Fund investments or income distributions, but instead through internal borrowings on the Council's loans fund as a means of managing internal cashflow balances. This allowed the value of the Strategic Reserve Fund managed fund investments to grow from £175,000,000 on 1 April 2012 to £253,500,000 as at 31 December 2020.

#### **3.5.4.**

Both the plans for future distributions together with how these will be financed, therefore, had the potential to impact on the attitude to the level of investment risk and return and, therefore, the investment objectives of the Strategic Reserve Fund.

#### **3.5.5.**

Notwithstanding that the distribution commitments on the Strategic Reserve Fund over the short to medium terms were jointly financed by other sources of income, an income focused investment strategy was adopted in preference to a growth strategy on the basis that higher risk meant more unpredictable returns over time which could impact on the affordability of disbursements going forward.

#### **3.5.6.**

Further revisions to the investment strategy agreed in 2019 included further diversification away from Equities as an asset class along with the introduction of new mandates for Illiquid Debt and Secured Income; the divestment from UK Equities in favour of Global Equities with a 50:50 growth to value style bias along with Corporate Bonds switching from active to a passive management approach.

### **3.5.7.**

The revised income focused strategy with an expected return of 5.6% per annum, and a 1-year volatility of +/-7.8% per annum, was anticipated to facilitate distributions of approximately £4,500,000 per annum before the value of the Fund starts to be eroded.

## **4. Budget Monitoring 2020/21**

### **4.1.**

The Strategic Reserve Fund investments have performed extremely well in financial year 2020/21 but this includes a bounce-back in the market value of the investments which dropped by £29,800,000 in the final quarter of financial year 2019/20 as a result of the market fluctuations surrounding the COVID-19 pandemic. Distributions from the Fund are also expected to be well down on the year with, for example, £5,000,000 attributed to the need to reprofile key projects in the capital programme, while this has been offset in part by the need to make an unplanned contribution of £3,000,000 to establish a Coronavirus Business Hardship Support Fund during the year.

### **4.2.**

The overall reported position for the Fund is an anticipated surplus of £28,675,000, which is well ahead of the overall budgeted position for financial year 2020/21.

### **4.3.**

The main factors contributing towards the probable outturn position at 31 March 2021, and as set out in the budget statement, attached as Appendix 1 to this report, are as follows:

- Investment activities – managed funds income of £41,500,000, including unrealised gains in the value of investments, which is £28,017,000 ahead of budget.
- Surplus on the Scapa Flow Oil Port of £1,692,000 which is £928,000 ahead of budget.
- Distributions of £10,317,000 which is £2,767,000 behind budget.

## **5. Review of the Floor**

### **5.1.**

The minimum balance or “Floor” for the Strategic Reserve Fund was established at £175,000,000, as at 1 April 2012, and has been recalculated using the Retail Price Index (RPI) to maintain its capital value in real terms. The calculation is based on the official figures available from the Office for National Statistics, together with estimates from the UK Government Autumn Budget Statement and spending review, and as such are updated annually as follows:

Year.	RPI as at March.	RPI Estimate.	RPI Actual.	Updated Floor.	
01 April 2012.	240.8.			£175,000,000.	
01 April 2013.	248.7.		3.28%.	£180,741,000.	Actual.
01 April 2014.	254.8.		2.45%.	£185,174,000.	Actual.
01 April 2015.	257.1.		0.90%.	£186,846,000.	Actual.
01 April 2016.	261.1.		1.56%.	£189,753,000.	Actual.
01 April 2017.	269.3.		3.14%.	£195,707,000.	Actual.
01 April 2018.	278.2.		3.30%.	£202,166,000.	Actual.
01 April 2019.	285.1.		2.44%.	£207,195,000.	Actual.
01 April 2020.	292.6.		2.63%.	£212,645,000.	Actual.
01 April 2021.		1.40%.	n/a.	£215,622,000.	Estimate.
01 April 2022.		1.50%.	n/a.	£218,856,000.	Estimate.
01 April 2023.		2.60%.	n/a.	£224,546,000.	Estimate.

## 5.2.

By way of comparison, the value of the Strategic Reserve Fund usable reserves has been estimated at £226,371,000 as at 31 March 2021. This compares favourably with the minimum balance or “Floor” of £212,645,000 as at 1 April 2020 and represents probable headroom of £13,726,000 for financial year 2020/21. Thereafter, the headroom is forecast to decline to £7,170,000 over the three years to 31 March 2024, as the level of disbursements on the Strategic Reserve Fund exceeds the amount of income generated in real terms.

## 5.3.

While budget projections assume that the available headroom within the Strategic Reserve Fund will decline from £13,726,000 to £7,170,000, or from approximately 6.1% to 3.1% of usable reserves, over the three financial years from 2021 to 2024, these estimates need to be considered in the context of the uncertainty that remains within the global economy.

## 5.4.

As such, it is considered that much volatility can still be anticipated from the Council’s investment returns over the short to medium term, and therefore a prudent approach is recommended when giving consideration to any requests for additional disbursements over this period.

## 5.5.

In setting a budget for financial year 2021/22, it is proposed that a minimum balance or “Floor” for the Strategic Reserve Fund of £215,622,000 should be applied as at 1 April 2021.

## 5.6.

Also, indicative figures of £218,856,000 and £224,546,000 should be set as a minimum balance or “Floor”, below which the value of the Strategic Reserve Fund should not fall for financial years 2022/23 and 2023/24 respectively. The indicative figures for years two and three will be subject to annual review as part of the Council’s budget setting process.

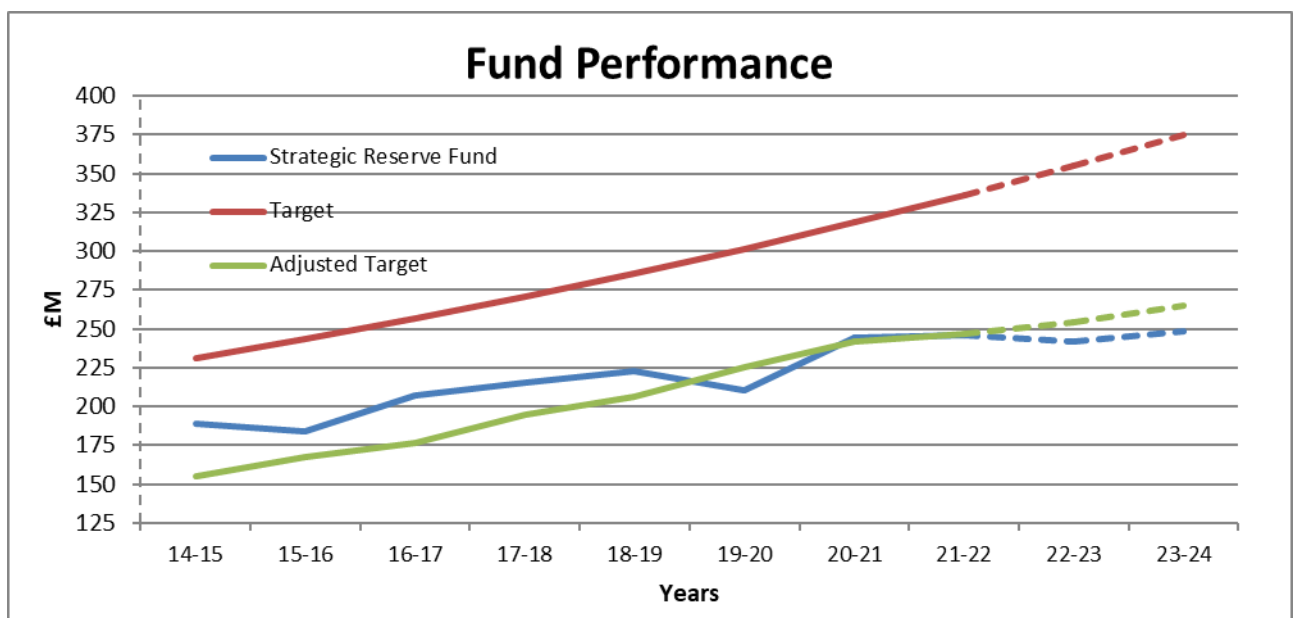
## 5.7.

With the Consumer Price Index (CPI) now the generally accepted measure of inflation in the United Kingdom, it is proposed that the Strategic Reserve Fund “Floor” should, in future, be calculated with CPI inflation rather than RPI.

# 6. Strategic Reserve Fund Performance

## 6.1.

Performance of the Strategic Reserve Fund managed funds is depicted in the following chart which indicates that, while performance was initially ahead of the long-term investment target of 5.0% (increased to 5.5% in 2015/16 and 5.6% in 2020/21), this may no longer be the case.



## **6.2.**

The main contributory factors to this apparent level of underperformance relative to target are as follows:

- The target performance line originates from a base year starting position of 2003.
- £36,000,000 of managed funds investments were liquidated over a five-year period from 2004 to 2008 to assist with cashflow requirements.
- £29,500,000 was brought in-house from managed funds investments in financial year 2011/12 as part of an agreed change in investment strategy to manage cash balances in-house.
- Since 2012, a further £6,700,000 has been brought in-house from managed funds investments, along with a forecast cashflow requirement estimated at £30,000,000 to be drawn down over the 3-year period 2021 to 2024.

## **6.3.**

While bringing Strategic Reserve Fund managed funds in-house for cash flow and investment strategy purposes, as noted above, would normally mean that these funds are now held in-house by the Council as cash balances, due to the level of disbursements made from the Strategic Reserve Fund over this period, these balances have since been depleted such that the Strategic Reserve Fund is now effectively a borrowing account from the Council's internal Loans Fund.

## **6.4.**

Adjusting for the capital withdrawals, referred to at section 6.2 above, the underlying performance of the Strategic Reserve Fund managed funds has achieved the long-term investment target in six out of the last seven years, with only financial year 2019/20 falling short. This was due to a sharp correction in the financial markets which saw the value of investments fall significantly in the first quarter of 2020 due to rising concerns over the impact that the spread of the COVID-19 pandemic could have on the global economy. This position has since recovered during 2020/21, such that managed funds investments are expected to end the financial year marginally ahead of target. This is equivalent to achieving an average return of approximately 5.5% per annum over this period and is represented by an adjusted target line in the fund performance chart at section 6.1 above. This position is not however predicted to be sustained going forward, as the planned level of commitments is expected to exceed income levels which, in turn, are forecast to be adversely impacted by ongoing uncertainties and concerns over growth levels in the global economy.

## **6.5.**

Over the past 10 years, up to and including 2020/21, the Strategic Reserve Fund has been used to fund the provision of Council services and contribute to various capital projects and other initiatives to the value of £75,087,000, as follows:



	<b>£'000.</b>
Community Development Fund	3,208.
General Fund Services	48,477.
Scapa Flow Oil Port losses	7,537.
Capital programme contributions	5,657.
House Build Programme	4,648.
Island Games	30.
Strategic Projects – Renewables	1,781.
Other initiatives	749.
Coronavirus Business Hardship Support Fund	3,000.
<b>Total</b>	<b>75,087.</b>

## **6.6.**

The impact that these distributions were having on the long-term sustainability of the Strategic Reserve Fund was formally recognised in 2012, when the Council established a policy to review the sustainability of the Strategic Reserve Fund when giving consideration to any future requests for financial assistance. At that time, in reviewing the investment strategy for the Strategic Reserve Fund managed funds, it was recognised that the income would not be sufficient to maintain a distribution level of £5,000,000 per annum from the Strategic Reserve Fund and maintain the real value of the Fund over time. The review however focused solely on externally managed fund investments and did not take account of the contribution that local investments and the Scapa Flow Oil Port can make to the Strategic Reserve Fund.

## **6.7.**

Against the background of a recurring commitment to support General Fund Services by increasing the baseline contribution of £6,050,000 to £6,317,000 for financial year 2020/21 and then increasing it further to £7,470,000 in financial year 2021/22 and £8,263,000 in 2022/23, before dropping back to £6,350,000 in 2023/24 and onwards, it is considered that it should be possible to maintain distributions from the Strategic Reserve Fund at these levels and still maintain the value of the Fund above the minimum balance or “Floor” as indicated in Appendix 2 to this report.

## **6.8.**

There are a number of commitments on the Strategic Reserve Fund that are expected to be drawn down over the next three years, including:

- £8,070,000 contribution towards the General Fund capital Programme.
- £970,000 contribution towards the Island Games 2023.
- £246,000 contribution towards the North Isles Landscape Partnership Scheme.
- £448,000 contribution towards Strategic Projects (Scale Wind, Staff Resources, Grid Connection, Private Wire).

## **6.9.**

While the existing level of net distribution commitments on the Strategic Reserve Fund, estimated at £12,464,000, £12,633,000 and £6,720,000 for financial years 2021/22, 2022/23 and 2023/24 respectively, are regarded as being sustainable over the medium term, it should be noted that any disbursements will have an adverse impact on the capacity of the Strategic Reserve Fund to generate income in the future. In simple terms, the disbursement of £31,817,000 of funds over the three-year period translates into a loss of income generating capacity within the Fund of approximately £1,782,000 per annum, based on a long-term investment target return of 5.60%.

## **6.10.**

The budget estimates have been prepared using a number of assumptions, not least of which is that the level of investment returns generated from the Strategic Reserve Fund managed funds can be maintained at 5.60% per annum, but also that the activities of the Scapa Flow Oil Port are such that there is a degree of confidence in the level of surpluses to be expected over the next three years.

# **7. Long Term Budget Forecast**

## **7.1.**

In assessing the sustainability of the Strategic Reserve Fund, it is considered good practice to review the impact of the current financial arrangements over the longer term. Appendix 2 to this report provides a 10-year projection or forecast for the Fund.

## **7.2.**

In assessing any financial projection or forecast over the longer term, it is helpful to remember that the information is only ever as good as the underlying assumptions behind the figures. Also, the longer-term financial forecast should be considered in the context that much uncertainty remains within both the UK and global economies over the short term such that the level of underlying risk of error is likely to increase significantly as the timeline of any forecast is extended out beyond the short-term.

## **7.3.**

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

- Investment income – managed funds – 5.6%.
- Investment income – local investments – 0.0% to 5.5%.
- Inflation – Consumer Price Index – 2.0% (Retail Price Index – 3.0%).

## **7.4.**

The main driver in terms of financial performance comes from investing activities, primarily through externally managed fund investments but also to a lesser extent through local investments. This means that there is a clear trade-off between the

pursuit of investment returns and the associated risks, such that the Strategic Reserve Fund is exposed to a higher level of risk than it would be if, for example, the funds were invested in short term cash deposits.

### **7.5.**

A review of the performance of local investments on 28 August 2019 by the Investments Sub-committee identified a need to review the governance arrangements surrounding these investments, noting that many existing arrangements were relatively long-standing. By contrast, externally managed fund investments are regularly reviewed, with for example, the most recent review in February 2019 agreeing a shift in strategy towards a lower risk income focused strategy along with a commensurate reduction in risk volatility.

### **7.6.**

The long-term forecast indicates that the Strategic Reserve Fund model is working, in that the Fund is expected to perform sufficiently well for it to remain above the minimum balance or “Floor” over the next 10-year period. In other words, the Fund, including the diverse portfolio of investments, is anticipated to perform within the range of assumptions, as set out in section 7.3 above, over this period.

### **7.7.**

Whilst the level of disbursements planned for Years 1 to 3 are relatively high, principally as a result of planned contributions to the General Fund capital programme, this does result in a material reduction in the available headroom over this period. This position does then improve steadily over the remainder of this period, over years 4 to 10, although it is notable that no additional funding commitments have been flagged for these seven years. By far the largest draw on the Strategic Reserve Fund is the annual funding contribution to General Fund Services being £70,235,000 over the 10-year forecast period. Whilst the forecast shows this should be a sustainable position, the impact is considerably higher when the opportunity cost is factored in, as the loss of investment income, at 5.6% per annum compounded over 10 years, would equate to an additional £24,493,000 or a mark-up of 34.9%.

### **7.8.**

There is a risk that the predicted level of volatility assumed in the investment strategy results in two or more consecutive years of low or negative investment returns and that would cause the “Floor” to be breached if the draw from reserves were not also revised downwards. A prudent approach is recommended when giving consideration to any requests for additional disbursements.

### **7.9.**

It is proposed that the long term 10-year budget forecast be endorsed as a financial planning document and reviewed annually as part of the Council’s budget setting process for the Strategic Reserve Fund going forward.

## **8. Corporate Governance**

### **8.1.**

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.

### **8.2.**

Operation of a sustainable Strategic Reserve Fund contributes indirectly to the provision of Council services and therefore will assist in delivering the Council's priorities, as detailed in the Council Plan 2018 to 2023, by allocating resources to those areas of activity which have been highlighted as priorities as a result of public and staff engagement exercises.

## **9. Financial Implications**

### **9.1.**

It is recognised that a clear link needs to be maintained between the level of distributions being made by the Strategic Reserve Fund and the actual level of investment income being generated if the value of the Strategic Reserve Fund is to be maintained in real terms.

### **9.2.**

Accordingly, the established practice that requests for additional disbursements from the Strategic Reserve Fund are supported by a full business case appraisal and are accompanied by an impact assessment prepared by the Head of Finance should continue. This should ensure that due regard is given to the associated financial implications, and in particular that the full impact that any such proposals have are quantified in terms of the sustainability of the Strategic Reserve Fund as a whole and the level of funds available for distribution in future years.

## **10. Legal Aspects**

### **10.1.**

Section 95 of the Local Government (Scotland) Act 1973, as amended, obliges the Council to make arrangements for the proper administration of its financial affairs.

### **10.2.**

Section 69 (3)(e) of the Orkney County Council Act 1974 permits the Council to apply any reserves established thereunder for any purposes which in the opinion of the Council is solely in the interests of the County or its inhabitants.

### **10.3.**

The Council must make arrangements which secure best value. An authority securing best value will be able to show that it is making effective and efficient use of its financial resources.

## **11. Contact Officers**

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Colin Kemp, Corporate Finance Senior Manager, Email [colin.kemp@orkney.gov.uk](mailto:colin.kemp@orkney.gov.uk)

## **12. Appendices**

Appendix 1: Strategic Reserve Fund – Draft 3 Year Budget for financial years 2021/22, 2022/23 and 2023/24.

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

## SRF Draft 3 year budget - 2021/24

	2020/21 Budget Estimate £000's	2020/21 Probable Outturn £000's	2021/22 Budget Estimate £000's	2022/23 Budget Estimate £000's	2023/24 Budget Estimate £000's
Investment Activities - local investments	(190)	(174)	(174)	(174)	(174)
- managed funds	(13,483)	(41,500)	(14,131)	(7,266)	(14,005)
- loans fund	69	71	14	27	65
- other, including strategic projects	931	(82)	510	553	915
Property Investments	(700)	(753)	(750)	(750)	(750)
Renewable Energy	(200)	(154)	(150)	(150)	(150)
Scapa Flow Oil Port	(764)	(1,692)	(280)	(280)	(280)
Loan Charges - interest and debt management	0	(51)	(51)	(51)	(51)
Loan Charges - CFCR	119	45	119	119	119
Other	18	14	14	0	0
<b>Net budget surplus</b>	<b>(14,200)</b>	<b>(44,276)</b>	<b>(14,879)</b>	<b>(7,972)</b>	<b>(14,311)</b>
	2.9%	0	1.4%	1.5%	2.6%
<b>less allocation to protect value of fund @ RPI</b>	<b>6,765</b>	<b>5,284</b>	<b>3,288</b>	<b>3,561</b>	<b>6,055</b>
<b>Balance available for disbursement</b>	<b>(7,435)</b>	<b>(38,992)</b>	<b>(11,591)</b>	<b>(4,411)</b>	<b>(8,256)</b>
<b>Disbursements:</b>					
General Fund Services	6,317	6,317	7,470	8,263	6,350
Covid-19 Fund	0	3,000	0	0	0
Contribution to capital projects - HRA	320	320	0	0	0
Contribution to capital projects - General Fund	5,000	0	4,000	4,070	0
Contribution to the Island Games	300	10	300	300	370
North Isles Landscape Partnership Scheme	279	33	246	0	0
Contribution to other projects, incl. revenue strategic projects	868	637	448	0	0
	13,084	10,317	12,464	12,633	6,720
<b>Deficit/(Surplus) on SRF (in real terms)</b>	<b>5,649</b>	<b>(28,675)</b>	<b>873</b>	<b>8,222</b>	<b>(1,536)</b>
<b>Deficit/(Surplus) on SRF (actual)</b>	<b>(1,116)</b>	<b>(33,959)</b>	<b>(2,415)</b>	<b>4,661</b>	<b>(7,591)</b>
<b>Cashflow - Opening Balance</b>	<b>(6,882)</b>	<b>(7,082)</b>	<b>(13,964)</b>	<b>(13,470)</b>	<b>(12,952)</b>
Surplus/(Deficit) on year	1,116	33,959	2,415	(4,661)	7,591
Less: Non-cash - Managed Funds Income	(13,483)	(41,500)	(14,131)	(7,266)	(14,005)
Fund Transfers - Inflow/(Outflow)	12,367	(200)	11,716	11,927	6,414
Other Movements	924	859	494	518	880
<b>Cashflow - Closing Balance</b>	<b>(5,958)</b>	<b>(13,964)</b>	<b>(13,470)</b>	<b>(12,952)</b>	<b>(12,072)</b>
	2020/21 Budget Estimate £000's	2020/21 Probable Outturn £000's	2021/22 Budget Estimate £000's	2022/23 Budget Estimate £000's	2023/24 Budget Estimate £000's
<b>SRF Balance Sheet</b>					
Investment Properties	21,546	19,753	19,872	19,991	20,110
Local Investments	7,878	8,327	8,287	8,247	8,207
Managed Funds Investments	241,884	252,339	254,754	250,093	257,684
OIC Loans Fund Deposit/(Advance)	(5,958)	(13,964)	(13,470)	(12,952)	(12,072)
Provisions	(30,732)	(31,395)	(31,835)	(32,313)	(33,153)
Net Accruals	(93)	(178)	(178)	(178)	(178)
Net Assets	234,525	234,882	237,430	232,888	240,598
Less: Unusable Reserves	10,822	8,511	8,644	8,763	8,882
	<b>223,703</b>	<b>226,371</b>	<b>228,786</b>	<b>224,125</b>	<b>231,716</b>
<b>Represented by: Useable Reserves</b>					
Strategic Reserve Fund	204,692	208,374	210,546	205,634	212,896
Flotta Terminal Decommissioning Fund	7,617	6,668	6,761	6,862	7,041
Conservation Fund	191	193	193	193	193
Travel Fund	103	105	105	105	105
Talented Performers Fund	61	62	62	62	62
Orkney Memorial Fund	485	463	463	463	463
Talented Young Persons Fund	15	12	12	12	12
Renewable Energy Fund	9,169	9,124	9,274	9,424	9,574
Capital Receipts Reserve	1,370	1,370	1,370	1,370	1,370
	<b>223,703</b>	<b>226,371</b>	<b>228,786</b>	<b>224,125</b>	<b>231,716</b>
<b>Target Minimum Balance or "Floor" for SRF</b>	<b>213,204</b>	<b>212,645</b>	<b>215,622</b>	<b>218,856</b>	<b>224,546</b>
Useable Headroom	10,499 4.7%	13,726 6.1%	13,164 5.8%	5,269 2.4%	7,170 3.1%

## SRF Draft 10 year budget projection - 2021/31

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget
	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Investment Activities - local investments	(174)	(174)	(174)	(174)	(174)	(174)	(150)	(150)	(150)	(150)
- managed funds	(14,131)	(7,266)	(14,005)	(14,430)	(14,882)	(15,353)	(15,845)	(16,359)	(16,895)	(17,455)
- loans fund	14	27	65	241	221	199	166	144	121	98
- other, including strategic projects	510	553	915	942	970	999	1,029	1,060	1,092	1,125
Property Investments	(750)	(750)	(750)	(765)	(780)	(796)	(812)	(828)	(845)	(862)
Renewable Energy	(150)	(150)	(150)	(153)	(156)	(159)	(162)	(166)	(169)	(172)
Scapa Flow Oil Port	(280)	(280)	(280)	(301)	(322)	(343)	(364)	(385)	(406)	(427)
Loan Charges - interest and debt management	(51)	(51)	(51)	(51)	(51)	(51)	(51)	(51)	(51)	(51)
Loan Charges	119	119	119	150	150	150	150	150	150	150
Other	14	0	0	0	0	0	0	0	0	0
<b>Net budget surplus</b>	<b>(14,879)</b>	<b>(7,972)</b>	<b>(14,311)</b>	<b>(14,541)</b>	<b>(15,024)</b>	<b>(15,528)</b>	<b>(16,040)</b>	<b>(16,584)</b>	<b>(17,152)</b>	<b>(17,744)</b>
	1.4%	1.5%	2.6%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
<b>less allocation to protect value of fund @ RPI</b>	<b>3,288</b>	<b>3,561</b>	<b>6,055</b>	<b>6,951</b>	<b>7,193</b>	<b>7,446</b>	<b>7,710</b>	<b>7,985</b>	<b>8,272</b>	<b>8,572</b>
<b>Balance available for disbursement (in real terms)</b>	<b>(11,591)</b>	<b>(4,411)</b>	<b>(8,256)</b>	<b>(7,590)</b>	<b>(7,831)</b>	<b>(8,082)</b>	<b>(8,330)</b>	<b>(8,599)</b>	<b>(8,880)</b>	<b>(9,172)</b>
<b>Disbursements:</b>										
General Fund Services	7,470	8,263	6,350	6,477	6,607	6,739	6,873	7,011	7,151	7,294
Community Development Fund	0	0	0	0	0	0	0	0	0	0
Contribution to capital projects - HRA	0	0	0	0	0	0	0	0	0	0
Contribution to capital projects - General Fund	4,000	4,070	0	0	0	0	0	0	0	0
Contribution to the Island Games	300	300	370	0	0	0	0	0	0	0
North Isles Landscape Partnership Scheme	246	0	0	0	0	0	0	0	0	0
Contribution to other projects, incl. revenue strategic project	448	0	0	0	0	0	0	0	0	0
<b>Total Planned Disbursements</b>	<b>12,464</b>	<b>12,633</b>	<b>6,720</b>	<b>6,477</b>	<b>6,607</b>	<b>6,739</b>	<b>6,873</b>	<b>7,011</b>	<b>7,151</b>	<b>7,294</b>
<b>Deficit/(Surplus) on SRF (in real terms)</b>	<b>873</b>	<b>8,222</b>	<b>(1,536)</b>	<b>(1,113)</b>	<b>(1,225)</b>	<b>(1,343)</b>	<b>(1,456)</b>	<b>(1,588)</b>	<b>(1,729)</b>	<b>(1,877)</b>
<b>Deficit/(Surplus) on SRF (actual)</b>	<b>(2,415)</b>	<b>4,661</b>	<b>(7,591)</b>	<b>(8,064)</b>	<b>(8,418)</b>	<b>(8,789)</b>	<b>(9,166)</b>	<b>(9,573)</b>	<b>(10,001)</b>	<b>(10,449)</b>
<b>Cashflow - Opening Balance</b>	<b>(13,964)</b>	<b>(13,470)</b>	<b>(12,952)</b>	<b>(12,072)</b>	<b>(11,037)</b>	<b>(9,973)</b>	<b>(8,278)</b>	<b>(7,191)</b>	<b>(6,072)</b>	<b>(4,919)</b>
Surplus/(Deficit) on year	2,415	(4,661)	7,591	8,064	8,418	8,789	9,166	9,573	10,001	10,449
Less: Non-cash - Managed Funds Income	(14,131)	(7,266)	(14,005)	(14,430)	(14,882)	(15,353)	(15,845)	(16,359)	(16,895)	(17,455)
Fund Transfers - Inflow/(Outflow)	11,716	11,927	6,414	6,366	6,464	6,564	6,679	6,785	6,894	7,006
Other Movements	494	518	880	1,035	1,064	1,695	1,087	1,119	1,153	1,188
<b>Cashflow - Closing Balance</b>	<b>(13,470)</b>	<b>(12,952)</b>	<b>(12,072)</b>	<b>(11,037)</b>	<b>(9,973)</b>	<b>(8,278)</b>	<b>(7,191)</b>	<b>(6,072)</b>	<b>(4,919)</b>	<b>(3,731)</b>

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget
	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
<b>SRF Balance Sheet</b>										
Investment Properties	19,872	19,991	20,110	20,260	20,410	20,560	20,710	20,860	21,010	21,160
Local Investments	8,287	8,247	8,207	8,167	8,127	7,487	7,487	7,487	7,487	7,487
Managed Funds Investments	254,754	250,093	257,684	265,748	274,166	282,955	292,121	301,694	311,695	322,144
OIC Loans Fund Deposit/(Advance)	( 13,470)	( 12,952)	( 12,072)	( 11,037)	( 9,973)	( 8,278)	( 7,191)	( 6,072)	( 4,919)	( 3,731)
Provisions	( 31,835)	( 32,313)	( 33,153)	( 34,148)	( 35,172)	( 36,227)	( 37,314)	( 38,433)	( 39,586)	( 40,774)
Net Accruals	( 178)	( 178)	( 178)	( 178)	( 178)	( 178)	( 178)	( 178)	( 178)	( 178)
Net Assets	237,430	232,888	240,598	248,812	257,380	266,319	275,635	285,358	295,509	306,108
Less: Unusable Reserves	8,644	8,763	8,882	9,032	9,182	9,332	9,482	9,632	9,782	9,932
	<b>228,786</b>	<b>224,125</b>	<b>231,716</b>	<b>239,780</b>	<b>248,198</b>	<b>256,987</b>	<b>266,153</b>	<b>275,726</b>	<b>285,727</b>	<b>296,176</b>
<b>Represented by: Useable Reserves</b>										
Strategic Reserve Fund	210,546	205,634	212,896	220,596	228,640	237,046	245,819	254,988	264,576	274,600
Flotta Terminal Decommissioning Fund	6,761	6,862	7,041	7,252	7,470	7,694	7,925	8,162	8,407	8,660
Conservation Fund	193	193	193	193	193	193	193	193	193	193
Travel Fund	105	105	105	105	105	105	105	105	105	105
Talented Performers Fund	62	62	62	62	62	62	62	62	62	62
Orkney Memorial Fund	463	463	463	463	463	463	463	463	463	463
Talented Young Persons Fund	12	12	12	12	12	12	12	12	12	12
Renewable Energy Fund	9,274	9,424	9,574	9,727	9,883	10,042	10,205	10,370	10,539	10,711
Capital Receipts Reserve	1,370	1,370	1,370	1,370	1,370	1,370	1,370	1,370	1,370	1,370
	<b>228,786</b>	<b>224,125</b>	<b>231,716</b>	<b>239,780</b>	<b>248,198</b>	<b>256,987</b>	<b>266,153</b>	<b>275,726</b>	<b>285,727</b>	<b>296,176</b>
<b>Target Minimum Balance or "Floor" for SRF</b>	215,622	218,856	224,546	231,282	238,220	245,367	252,728	260,310	268,119	276,163
Useable Headroom	13,164 5.8%	5,269 2.4%	7,170 3.1%	8,498 3.5%	9,978 4.0%	11,620 4.5%	13,425 5.0%	15,416 5.6%	17,608 6.2%	20,013 6.8%