

Item: 4

Policy and Resources Committee: 3 March 2026

General Fund Reserves Strategy

Report by Head of Finance



1. Overview

- 1.1. 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.
- 1.2. 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.
- 1.3. 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.
- 1.4. 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.
- 1.5. 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.
- 1.6. 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.
- 1.7. Appendix 1 provides an evaluation of individual reserves and balances currently held by the Council. As at 31 March 2025, the Council held General Fund reserve balances totalling £25,987,684. The breakdown of the balances is summarised in the table at section 3.4 of this report. The 'General Fund Reserve' represents the non-earmarked balances, which as at 31 March 2025, stood at £4,147,794, approximately 3.5% of the net revenue budget for 2025/26.
- 1.8. There is no generally recommended target level of uncommitted General Fund Reserves although a number of local authorities do have a target range of between 2% and 4% of their net revenue expenditure in the medium term. During the 2023/24 budget setting process the value of reserves was reduced from 4% to 2%. It is recommended that the minimum level is increased to 3% for 2026/27. At 3% of the proposed net Revenue Budget for financial year 2026/27, the non-earmarked General Fund Reserves would be set at a minimum balance of approximately £4,600,000.

2. Recommendations

- 2.1. It is recommended that members of the Committee:
- i. Note the balance and 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.
 - ii. Agree that the minimum non-earmarked General Fund Balance for 2026/27 be set at 3% of the net revenue budget for 2026/27, with a minimum balance of approximately £4,600,000 as a contingency for in-year pressures.

- iii. Agree that, should the Council return an overspend position for 2025/26, any uncommitted balances held within earmarked funds should be returned to non-earmarked General Fund reserves, to meet in-year overspends and attain the 3% contingency balance for non-earmarked General Fund balances.
- iv. Delegate powers to the Head of Finance, in consultation with the Chief Executive and Directors, to make the adjustments to reserves balances, taking account of the 2025/26 year-end position and ongoing budget pressures for 2026/27.

3. General Fund Reserves as at 31 March 2025

- 3.1. 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.
- 3.2. 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.
- 3.3. 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.
- 3.4. The following table provides a summary position for General Fund reserve balances as at 31 March 2025.

General Fund	Balance as at	Balance as at
	31/03/25	31/03/25
	£	£
General Fund Reserve		4,147,793.68
Capital Fund		992,545.02
Capital Receipt Reserve		935,534.18
Repairs & Renewals Fund - Revenue		8,852,004.09
Renewable, Redevelopment & Regeneration Fund	4,144,442.80	
Economic Development Grants Fund	1,128,954.58	
Workforce Management Fund	683,393.91	
Capital Projects Appraisal Fund	649,594.03	
Crown Estates Fund	3,058,265.99	
Re-determinations Flexibility Fund	374,626.56	
Business Support Fund	170,990.67	
Sustainable and Green Transport Fund	145,651.39	
Islands Deal Fund	703,887.12	
Other Earmarked Reserves		11,059,807.05
Total General Fund Reserves		25,987,684.02

- 3.5. 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.
- 3.6. 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.
- 3.7. The Council is also in the fortunate position of having a Strategic Reserve Fund which, as at 31 March 2025, had a value of £190,303,466. Utilisation of this reserve in the Council's budget setting considerations is considered in another paper to this meeting.

4. Proposed level of non-earmarked General Fund Reserve

- 4.1. 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.

- 4.2. In the event that any use of General Fund Reserves is made in determining the revenue budget for 2026/27, 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. It is anticipated that there will be no excess General Fund reserves to contribute to the 2026/27 budget setting.
- 4.3. 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 would be considered prudent to hold reserves to a higher percentage of the net budget than some larger authorities, given that the possibility exists that a catastrophic event could occur that is larger in scale than the size of the Council and cost the Council in excess of the reserves held.
- 4.4. This report recommends increasing the minimum level of non-earmarked reserves to 3% to cover known budget pressures. Based on the proposed Net Revenue Budget for 2026/27 of approximately £153,346,000, a 3% minimum balance would imply a minimum level of uncommitted General Fund Reserves for the Council in the region of £4,600,000.

For Further Information please contact:

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Implications of Report

1. Financial

Detailed throughout the report.

2. Legal

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

3. Corporate Governance - None

4. Human Resources - None

5. Equalities – N/A

6. Island Communities Impact – N/A

7. Links to Council Plan: The proposals in this report support and contribute to improved outcomes for communities as outlined in the following Council Plan strategic priorities:

Growing our economy.

Strengthening our Communities.

Developing our Infrastructure.

Transforming our Council.

8. Links to Local Outcomes Improvement Plan: The proposals in this report support and contribute to improved outcomes for communities as outlined in the following Local Outcomes Improvement Plan priorities:

Cost of Living.

Sustainable Development.

Local Equality.

Improving Population Health.

9. Environmental and Climate Risk – N/A

10. Risk

Risk that 3% of net revenue budget is not sufficient.

11. Procurement – N/A

12. Health and Safety – N/A

13. Property and Assets – N/A

14. Information Technology – N/A

15. Cost of Living – N/A

List of Background Papers

Policy and Resources Committee, 25 February 2025: Item 3 – General Fund Reserves Strategy.

Appendix

Appendix 1: Evaluation of individual reserves and balances.

Evaluation of Individual General Fund Reserves and Balances

Name of Reserve.	Non-Earmarked General Fund Balance.
Balance at 31 March 2025.	£4,147,793.68
Purpose of the Reserve.	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 General Fund Reserves strategy for 2025/26 was to hold 2% of net revenue budget for 2025/26 to meet any unforeseen in-year pressures. The resultant value of £2,365,000 for the contingency purposes was set as part of the 2025/26 budget setting process. The actual balance represents ~ 3.5%.
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 2% of the net revenue budget is consistent relative to other councils. Historically the Council has set this contingency at higher levels as additional security against unforeseen financial and operational risks. Given the level of known pressures, a 3% balance is a prudent level for General Fund reserve.

Name of Reserve.	Capital Fund.
Balance at 31 March 2025.	£992,545.02
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, the Policy and Resources Committee recommended that the Capital Fund 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 to be applied against capital spend.

Name of Reserve.	Capital Receipts Reserve.
Balance at 31 March 2025.	£935,534.18
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 to be applied against capital spend.

Name of Reserve.	Repairs and Renewals Fund.
Balance at 31 March 2025.	£8,852,004.09.
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 Project Fund. <p>Within the balance, there is ~£3,616,555 of "General Fund Services" and ~£181,000 of "Ferries Replacement Programme", of which the majority is committed.</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.	Workforce Management and Management Support Fund.
Balance at 31 March 2025.	£683,393.91
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"> • Graduate Trainee and Apprentices salary costs (per Phase 2 of restructure).

	<ul style="list-style-type: none"> • 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.	This Fund continues to be required for its established purpose.

Name of Reserve.	Renewables, Redevelopment and Regeneration Fund.
Balance at 31 March 2025.	£4,144,442.80
Purpose of the Reserve	The fund was established as an investment fund by ring fencing £8,000,000 of General Fund reserves. The General Fund reserves had been bolstered by the incorporation of the Relevant Services Contingency Fund balance which had its origins in non-domestic rates payments made by operators of the Flotta Terminal during a period of industrial de-rating.
How and when the Reserve can be used.	The fund has been applied to a variety of infrastructure projects including the Commercial Hotel, Stromness Pierhead Regeneration, MV Hoy Head lengthening, wind developments, Student Housing, serviced sites at the former Black Building, the Kirkwall Conservation Area Renewal Scheme, and the Townscape Heritage Initiative. 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. In February 2023 these 'funds' were top-sliced and balances were transferred back to non-earmarked General Fund reserves.
Procedures for the Reserve's management and control.	Approval of the fund being used as a funding source for projects is referred to the Policy and Resources Committee with a recommendation to Council.
Conclusion of review.	The Renewables, Redevelopment and Regeneration Fund continues to be required for its established purpose. Given the pressures on 2025/26 budgets, should the Council return an overspend position then any uncommitted balances should be returned to non-earmarked General Fund reserves.

Name of Reserve.	Economic Development Grants Fund.
Balance at 31 March 2025.	£1,128,954.58
Purpose of the Reserve.	This fund was established to ensure that commitments made by the Development and Infrastructure Committee (now Enterprise 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.	Capital Projects Appraisal Fund.
Balance at 31 March 2025.	£649,594.03
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 is 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.
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.	Fund continues to be used for its established purpose.

Name of Reserve.	Crown Estate Fund.
Balance at 31 March 2025.	£3,058,265.99
Purpose of the Reserve.	The fund was established from an unspent allocation of Crown Estate net revenue funding that was 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>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 Director for Enterprise and Resources, in consultation with the Leader, Depute Leader, Chair and Vice Chair of the Enterprise and Infrastructure Committee.</p> <p>Determination of applications for funding from the Crown Estate Community Led Development Fund is delegated to the Director for Enterprise and Resources, in consultation with the Leader, Depute Leader, Chair and Vice Chair of the Enterprise 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>The Crown Estate Fund continues to be required for its established purpose.</p>

Name of Reserve.	Business Support Fund.
Balance at 31 March 2025.	£170,990.67
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 Business Support Fund was established by the Council on 16 April 2020, at the beginning of COVID, 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 Business Support Fund is delegated to the Chief Executive, in consultation with the Leader, the Chair and Vice Chair of the Enterprise and Infrastructure Committee, the Director for Enterprise and Resources and the Head of Finance.
Conclusion of review.	On 21 February 2023, the Policy and Resources Committee recommended that this fund should cease from 28 February 2025. However, where commitments have been made the funding should be allowed to take place, although the funding should be time limited and, on lapsing, the balance should be returned to non-earmarked General Fund Balances.

Name of Reserve.	Redeterminations Flexibility Fund.
Balance at 31 March 2025.	£374,626.56
Purpose of the Reserve.	To enable the carry forward of funding received as redetermination in the last few days of March each year.
How and when the Reserve can be used.	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. This flexibility should only be allowed for one financial year.
Procedures for the Reserve's management and control.	Application of the Redeterminations Flexibility Fund is delegated to the Chief Executive, in consultation with the Head of Finance.
Conclusion of review.	The Redeterminations Flexibility Fund continues to be required for its established purpose. If the funding is not used within the 12-month period following the receipt, then the balances should be returned to non-earmarked General Fund balances.

Name of Reserve.	Sustainable and Green Transport Fund.
Balance at 31 March 2025.	£145,651.39
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 Director of Enterprise and Resources, although a report is submitted to the Enterprise and Infrastructure Committee, on an annual basis, outlining the investments made from the Sustainable and Green Transport Fund, together with proposed projects for subsequent years.
Conclusion of review.	The Sustainable and Green Transport Fund continues to be required for its established purpose.

Name of Reserve.	Islands Deal Fund.
Balance at 31 March 2025.	£703,887.12
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.	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.
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.	The Islands Deal Fund continues to be required for its established purpose.