

Minute

Policy and Resources Committee

Tuesday, 21 December 2021, 10:30.

Microsoft Teams.



Present

Councillors James W Stockan, W Leslie Manson, Stephen G Clackson, Norman R Craigie, Robin W Crichton, David Dawson, Andrew Drever, Barbara Foulkes, Steven B Heddle, J Harvey Johnston, Rachael A King, John T Richards, Stephen Sankey, John A R Scott, Gwenda M Shearer, Graham L Sinclair, Magnus O Thomson, Duncan A Tullock and Heather N Woodbridge.

Clerk

- Hazel Flett, Senior Committees Officer.

In Attendance

- John W Mundell, Interim Chief Executive.
- Stephen Brown, Chief Officer/Executive Director, Orkney Health and Care.
- Hayley Green, Interim Executive Director of Environmental, Property and IT Services (for Items 1 to 5).
- Gareth Waterson, Interim Executive Director of Finance, Regulatory, Marine and Transportation Services.
- James Wylie, Executive Director of Education, Leisure and Housing.
- James Buck, Head of Marine Services and Transportation.
- Karen Greaves, Head of Executive Support.
- Andrew Groundwater, Head of HR and Performance.
- Colin Kemp, Interim Head of Finance.
- Gavin Mitchell, Head of Legal Services.

Observing

- Kenny MacPherson, Interim Head of IT and Facilities.
- Lorna Richardson, Interim Head of Roads, Fleet and Waste.
- Paul Kemp, Strategic Finance Manager.
- Shonagh Merriman, Interim Corporate Finance Senior Manager.
- Avril Litts, Accounting Manager (Strategic Finance).
- Kirsty Groundwater, Communications Teams Leader.
- Sandra Craigie, Committees Officer.
- Angela Kingston, Committees Officer.

Apologies

- Councillor Alexander G Cowie.
- Councillor Owen Tierney.

Declarations of Interest

- Councillor John A R Scott – Item 4.
- Councillor Gwenda M Shearer – Item 2.

Chair

- Councillor James W Stockan.

1. Disclosure of Exempt Information

The Committee noted the proposal that the public be excluded from the meeting for consideration of Appendices 2 and 3 of Item 2, as the business to be discussed involved the potential disclosure of exempt information of the classes described in the relevant paragraphs of Part 1 of Schedule 7A of the Local Government (Scotland) Act 1973 as amended.

2. COVID-19 Funding – Proposed Allocations

Councillor Gwenda M Shearer declared a non-financial interest in this item, in that she had a personal interest in some of the various recovery projects to be considered for potential funding allocations, and was not present during discussion thereof.

After consideration of a joint report by the Chief Executive and the Interim Executive Director of Finance, Regulatory, Marine and Transportation Services, copies of which had been circulated, the Committee:

Noted:

2.1. That, over financial year 2020/21, the Council received significant levels of additional government funding to meet the additional costs of operation and to compensate for income lost during the year.

2.2. That, as at 31 March 2021, the Council held accumulated additional cash balances amounting to £8,250,000, which could be allocated to items of spending pressure or asset replacement on a one-off basis.

2.3. The proposed allocation of funding to various recovery projects, summarised in section 3.4 and detailed in Appendix 1 of the joint report by the Chief Executive and the Interim Executive Director of Finance, Regulatory, Marine and Transportation Services.

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

2.4. That the allocation of funding to a series of recovery projects, as set out in Appendix 1 to this Minute, be approved.

2.5. That a contribution of £33,500, towards the cost of survey work, ground investigation, design and architectural services required to develop the Kirkwall Regeneration project to a stage to submit a planning application and apply for building warrant, be approved.

Councillor Duncan A Tullock left the meeting during discussion of this item.

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

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

Noted:

3.1. That the Strategic Reserve Fund Managed Funds investments were predicted to outperform the approved budget for financial year 2021/22, as indicated in the probable outturn column of Appendix 1 to the report by the Head of Finance.

3.2. That, after allowing for distributions of £8,170,000 during financial year 2021/22, the value of the Strategic Reserve Fund was estimated to increase by £11,419,000 to £245,135,000 as at 31 March 2022.

3.3. That, with existing distribution commitments of £9,385,000 for financial years 2022/23, 2023/24 and 2024/25, and with £20,963,000 allocated to support General Fund Services over the same period, the available headroom within the Strategic Reserve Fund relative to the minimum balance or “Floor” was estimated to decline from £29,364,000 to £21,819,000, or from approximately 12.0% to 8.4% of usable reserves, over the next three years.

3.4. That, while much uncertainty remained within the global economy and therefore considerable volatility could be anticipated from investment returns over the short to medium term, the investment strategy adopted for the Strategic Reserve Fund Managed Funds investments sought to improve the level of diversification and focus on income generation going forward.

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

3.6. That a prudent approach was recommended when considering requests for additional disbursements from the Strategic Reserve Fund over the next three financial years.

3.7. That the financial commitment from the Strategic Reserve Fund to the General Fund for financial years 2021/22, 2022/23 and 2023/24 was set as a cumulative total of £22,083,000 over the three-year period.

3.8. That financial contributions of £6,350,000 and £7,470,000 for financial years 2020/21 and 2021/22 respectively resulted in a proposed financial contribution of £8,263,000 being available for 2022/23.

3.9. The proposal that the indicative baseline financial contribution from the Strategic Reserve Fund to the General Fund should revert to £6,350,000 for financial years 2023/24 and 2024/25.

On the motion of Councillor James W Stockan, seconded by Councillor Robin W Crichton, the Committee resolved to **recommend to the Council**:

3.10. That a financial contribution of £8,263,000 from the Strategic Reserve Fund to the General Fund, forming part of the three-year cumulative commitment referred to at paragraph 3.7 above, be used as a planning assumption as part of the Council's budget setting process for financial year 2022/23.

3.11. That the minimum balance or "Floor", below which the value of the Strategic Reserve Fund should not fall, be set at £225,049,000 as at 1 April 2022.

3.12. That, in line with the aspiration of setting a three-year budget, indicative figures of £232,701,000 and £237,820,000 be set as the minimum balance or "Floor", below which the value of the Strategic Reserve Fund should not fall for financial years 2023/24 and 2024/25 respectively, subject to annual review.

3.13. That the Strategic Reserve Fund budget for financial year 2022/23, together with indicative budgets for 2023/24 and 2024/25, attached as Appendix 2 to this Minute, be approved.

3.14. That the long-term 10-year budget forecast for the Strategic Reserve Fund, attached as Appendix 3 to this Minute, be endorsed as a financial planning document.

4. Strategic Reserve Fund – Contribution to General Fund Services

Proposed Notional Allocations

Councillor John A R Scott declared a non-financial interest in this item, being a Council-appointed trustee of the Pickaquoy Centre Trust, but concluded that his interest did not preclude his involvement in the discussion.

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

Noted:

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

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

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

On the motion of Councillor James W Stockan, seconded by Councillor John A R Scott, the Committee resolved to **recommend to the Council**:

4.4. That the Strategic Reserve Fund allocation to General Fund services for financial year 2022/23, amounting to £8,263,000, be notionally allocated as a direct funding contribution towards the service functions, as set out in Appendix 4 to this Minute.

4.5. That grants to voluntary organisations for 2022/23, that were notionally allocated against the Strategic Reserve Fund contribution to General Fund services, be increased by 10%, at a total cost of £142,000.

4.6. That, should a higher contribution than £8,263,000 be required from the Strategic Reserve Fund to balance the General Fund budget for financial year 2022/23, that contribution should be treated as a source of funding for General Fund services and notionally allocated to Loan Charges.

Signed: James W Stockan.

As a result of internet connectivity issues, Councillor James W Stockan was not present for all of the discussion relating to item 5 – Reserves and Provisions Strategy. Councillor W Leslie Manson took the Chair for the remaining part of that item.

5. Reserves and Provisions Strategy

After consideration of a report by the Head of Finance, copies of which had been circulated, and after hearing a report from the Interim Executive Director of Finance, Regulatory, Marine and Transportation Services, the Committee:

Noted:

5.1. That the Council should be clear on the purpose for holding any reserves and the protocols for their use.

5.2. The broad range of reserve levels within which local authorities might reasonably operate depending on their particular circumstances.

5.3. That, although financial year 2020/21 saw huge financial uncertainty and risk on account of the COVID-19 pandemic, the outturn was better than anticipated with additional government support provided.

5.4. That, as at 31 March 2021, the Council held earmarked reserves of £34,333,200, together with a non-earmarked General Fund Balance of £6,684,300.

5.5. That the Council could reasonably operate with a lower level of non-earmarked General Fund Balance and might also be able to re-allocate some of the earmarked reserves where the reason for earmarking had changed.

5.6. That, with the Heads of Terms for an Islands Deal having been signed, the Council would be expected to contribute to shortfalls in funding on several Islands Deal projects and might wish to earmark funds for that purpose.

5.7. The purpose for holding each of the Council's earmarked reserves and the non-earmarked General Fund Balances, as set out in Appendix 2 to the report by the Head of Finance.

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

5.8. That the level of General Fund Balance for 2022/23 be set at 3% of the net revenue budget for 2021/22, with a target balance of £2,681,775.

5.9. That the sum of £4,002,525 be utilised in meeting any shortfall in the General Fund revenue budget for 2022/23, with any balance earmarked towards the site cost for the Integrated Waste Facility project and thereafter for the Islands Deal funding gap for the Creative Islands Wellbeing project and the Orkney Research and Innovation Campus.

5.10. That application of the funding set aside through paragraph 5.9 above be delegated to the Chief Executive, in consultation with the Head of Finance.

5.11. That the Head of Finance should conduct a detailed review of the earmarked General Fund balances and thereafter submit a report, to the Policy and Resources Committee, assessing whether the original purpose for holding the earmarked balances remained valid, or if the level of balance could be reduced and funds reprovisioned.

Signed: W L Manson.

6. Orkney Harbours Masterplan Phase 1

Proposed Governance Arrangements

After consideration of a report by the Interim Executive Director of Finance, Regulatory, Marine and Transportation Services, copies of which had been circulated, and after hearing a report from the Head of Marine Services and Transportation, the Committee:

Noted:

6.1. That interest in the proposed Scapa Deep Water Quay and Hatston Pier extension projects contained within the Orkney Harbours Masterplan Phase 1 had remained at a high level since applications were submitted to Crown Estate Scotland's ScotWind seabed leasing round by potential developers in July 2021.

6.2. That Crown Estate Scotland was due to announce preferred developers for the ScotWind off-shore wind seabed leases in mid to late January 2022.

6.3. That, as a result of the announcement by Crown Estate Scotland, due in January 2022, as well as continued and further strong interest from a number of the applicants for seabed leases, the Harbour Authority was expecting a number of approaches from potential developers seeking to enter into discussions and negotiations for use of the proposed facilities at Scapa Deep Water Quay, Hatston Pier, Scapa Flow and Lyness.

6.4. The proposal that, to ensure the Council and the wider Orkney community did not miss out on opportunities that would arise from the preferred developer(s)' announcement due by Crown Estate Scotland in January 2022, a negotiating team be established, together with delegation to authorise and conclude the necessary agreements.

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

6.5. That consideration of establishing a negotiating team and the delegation of powers to authorise and conclude any Heads of Terms, commercial or other agreements associated with the proposed developments contained within the Orkney Harbours Masterplan Phase 1, as well as any developments associated with Crown Estate Scotland's ScotWind seabed leasing rounds, for the period 1 January to 31 December 2022, be referred to the Special General Meeting of the Council to be held on 23 December 2021.

7. Conclusion of Meeting

At 12:57 the Chair declared the meeting concluded.

Signed: James W Stockan.