

Item: 7

Policy and Resources Committee: 21 December 2021.

Reserves and Provisions Strategy.

Report by Head of Finance.

1. Purpose of Report

To consider a strategy for managing the Council's Reserves in the context of setting the Revenue Budget for 2022/23.

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, 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.

2.4.

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.

2.5.

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

2.6.

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

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 2 to this report.

It is recommended:

2.8.

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.

2.9.

That the sum of £4,002,525 be utilised in meeting any shortfall in the 2022/23 General Fund revenue budget, 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.

2.10.

That application of the funding set aside through recommendation 2.9 above be delegated to the Chief Executive, in consultation with the Head of Finance.

2.11.

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 remains valid, or if the level of balance could be reduced and funds re-provisioned.

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.

3.7.

Establishment of provisions is covered by International Accounting Standard 37 – Provisions, Contingent Liabilities and Contingent Assets, with the objective being to ensure that appropriate recognition criteria and measurement bases are applied to provisions, contingent liabilities and contingent assets and that sufficient information is disclosed in the notes to the accounts to enable users to understand their nature, timing and amount.

3.8.

A provision is a liability of uncertain timing or amount and is recognised when:

- An entity has a present obligation (legal or constructive) as a result of a past event.
- It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.
- A reliable estimate can be made of the amount of the obligation.

3.9.

If these conditions are not met, no provision shall be recognised.

3.10.

The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

4. Existing Reserves Position

4.1.

The Audited Annual Accounts for 2020/21, presented to the Monitoring and Audit Committee on 11 November 2021, give an overview of the Reserves position as at 31 March 2021 which is summarised in the table below. The Orkney College balance included in the Accounts is excluded from the table as it is not a General Fund Balance:

General Fund	£	Balance as at 31/03/21 £
Non-Earmarked Balance.		6,684,300.
Capital Fund.	507,800.	
Capital Receipts Reserve.	951,200.	
Repairs and Renewals Fund.	10,234,400.	
Local Works and Services Contingency Fund.	114,800.	
Workforce Management and Management Support Fund.	1,517,000.	

General Fund	£	Balance as at 31/03/21 £
Training Fund.	230,900.	
Innovation Fund.	729,700.	
Renewable, Redevelopment and Regeneration Fund.	10,555,200.	
Recreation and Cultural Services Project Fund.	65,200.	
Development Grants Fund.	1,783,900.	
Sustainable Communities Fund.	14,800.	
Outwith Orkney Placements Fund.	853,000.	
Welfare Fund.	4,100.	
Capital Projects Appraisal Fund.	549,900.	
Crown Estate Fund.	1,147,700.	
Redeterminations	2,105,100.	
Business Support Fund	2,968,500.	
Total Earmarked Reserves.		34,333,200.
Total General Fund Reserves.		41,017,500.

4.2.

The Council is also in the fortunate position of having a Strategic Reserve Fund which, at 31 March 2021, had a value of £232,346,700. Utilisation of this reserve in the Council's budget setting considerations is not considered in detail in this report but is the subject of a separate report.

5. Emerging Requirement for Islands Deal Funding

5.1.

Heads of Terms for the Islands Growth Deal were signed in March 2021, confirming that the Scottish and UK Governments would invest £100 million over 10 years in 18 agreed projects / programmes, subject to final approval of robust business cases.

5.2.

Projects included in the Heads of Terms require an Outline Business Case (OBC) and a Full Business Case before expenditure can commence, building on the existing Strategic Outline Cases (SOCs) for each investment. The Full Deal document cannot be signed until all OBCs are at a reasonable level and to the satisfaction of both Scottish and UK Governments. It is only post Full Deal sign off, and on approval of Full Business Cases, that funding will be released for Islands Growth Deal projects.

5.3.

The match funding that the Council may have to identify, which totals £18,416,770, is detailed in the table, attached as Appendix 1 to this report, and relates specifically to the Orkney Research and Innovation Campus, the Future Fuels Hub and the Creative Islands Wellbeing project.

5.4.

The Creative Islands Wellbeing project and the Orkney Research and Innovation Campus will fall to be undertaken much earlier in the Islands Deal programme than the Future Fuels Hub which would only start in 2026/27 and be complete in 2028/29. There may also be the possibility of funding part of the match funding for the Future Fuels Hub as part of the Scapa Deep Water Quay on which the Hub will be constructed. The Scapa Deep Water Quay project is also being progressed as a Miscellaneous Piers and Harbours project rather than through General Fund Services. An allocation of funding to the Creative Islands Wellbeing project and the Orkney Research and Innovation Campus at this time would be a positive signal from the Council of its commitment to the delivery of the Islands Deal.

6. Proposed Level of Non-Earmarked General Fund Reserve

6.1.

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.

6.2.

In the event that any use of General Fund Reserves is made in determining the revenue budget for 2022/23, 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.

6.3.

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 2021/22 of £89,392,500, this would imply a level of uncommitted Reserves for the Council of between £1,787,050 and £3,574,100.

6.4.

Prior to the closure of the 2019/20 financial accounts, the Council recognised that the Coronavirus pandemic was markedly changing the financial outlook for 2020/21 and made a contribution of £3,997,000 to the General Fund non-earmarked balance, which was carried forward into 2020/21, the idea being to give the Council additional flexibility in dealing with the financial challenges of the pandemic. The outturn for 2020/21 however was that the additional reserves were not required, and the combination of government support provided and savings made in some areas, resulted in additional balances being carried forward into 2021/22.

6.5.

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.

6.6.

The Council's non-earmarked General Fund Reserve of £6,684,300 at 31 March 2021 represented approximately 7.5% of the Council's net budgeted expenditure for 2021/22. At 3% of the net Revenue Budget the General Fund Reserve would be £2,681,775 and £4,002,525 would be available for reallocation. This could be reallocated to the repayment of capital debt, or potentially allocated towards the Islands Deal shortfall, however the priority purpose will be setting a balanced General Fund Budget for 2021/22.

7. Establishing the Level of Earmarked Reserves

7.1.

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.

7.2.

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.

7.3.

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 the pandemic.

7.4.

Appendix 2 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.

7.5.

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 reserved to a Committee. Appendix 2 details the extent of delegation for each of the reserves listed.

7.6.

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.

7.7.

With the accumulated value of earmarked reserves having increased quite significantly, a detailed review of the reasons for holding the earmarked balances and the levels of balance held is recommended.

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.

Maintenance of adequate reserve balances contributes indirectly to the provision of Council services and therefore will assist in promoting the Council's priorities by enabling the allocation of resources to those areas of activity which have been highlighted as priorities by the Council or as a result of public and staff engagement.

9. Financial Implications

9.1.

The financial implications are detailed throughout the report.

9.2.

The General Fund non-earmarked balance at 1 April 2020 was £8,784,300. The Council committed £2,100,000 of this balance to Road maintenance when setting the 2021/22 revenue budget, reducing the balance to £6,684,300.

9.3.

If the recommendation to set the General Fund non-earmarked balance at 3% of the net revenue budget for 2021/22 is approved there will be £4,002,525 available to contribute to setting the General Fund budget for 2022/23, or reallocation.

9.4.

A potential draw on the General Fund non-earmarked balance for the value of the approved site will crystallise if the Integrated Waste Facility project proceeds. The site has been valued at £500,000 and would transfer from the Strategic Reserve Fund to the General Fund.

10. Legal Aspects

10.1.

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

10.2.

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.

11. Contact Officer

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12. Appendices

Appendix 1: Islands Deal – Potential Match Funding Requirements.

Appendix 2: Evaluation of Individual General Fund Reserves and Balances.

Appendix 1.

Islands Deal – Potential Match Funding Requirements

Project	Deal Funding £	Total Match Required £	Other Match Required £	OIC Match Required £	Project Total £
Orkney Research and Innovation Campus	8,000,000	5,733,540	2,866,770	2,866,700	13,733,540
World Heritage Gateway	6,500,000	1,624,000	1,624,000	-	8,124,000
Vertical Farming	2,000,000	-	-	-	2,000,000
Future Fuels Hub	6,500,000	42,800,000	29,000,000	13,800,000	49,300,000
Creative Islands (Revenue)	333,333	-	-	-	333,333
Creative Islands (Capital)	1,500,000	4,502,606	2,752,606	1,750,000	6,002,606
Centre for Net Zero	6,500,000	-	-	-	6,500,000
TalentED (Joint project share)	1,966,667	-	-	-	1,966,667
	33,300,000			18,416,700	87,960,146

Evaluation of Individual General Fund Reserves and Balances

Name of Reserve.	Non-Earmarked General Fund Balance.
Balance at 31 March 2021.	£6,684,300.
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 £6,684,300 may be regarded as a high fund value when compared to other councils.</p> <p>The General Fund balance was increased on 31 March 2020 by contributions of £3,997,000, increasing the balance to £8,784,300. When setting the budget for 2021/22 the Council allocated £2,100,000 to road repairs and maintenance over 2021 to 2023 with the resultant reduction in the unearmarked General Fund Balance to £6,684,300.</p> <p>The Council has previously considered that a higher level of General Fund balance would be retained to cover any additional budget pressures in 2020/21 or consequential budget setting pressures for 2021/22, and when deemed financially prudent to do so would reduce the balance 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 7.5% 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.

Name of Reserve.	Capital Fund.
Balance at 31 March 2021.	£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.
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 is required to ensure provision exists for investment in financial systems.

Name of Reserve.	Capital Receipts Reserve.
Balance at 31 March 2021.	£2,519,000.
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 2021.	£10,234,400.
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. • Quarries. • Plant. • Roads. • Transportation Infrastructure. <p>The Repairs and Renewals Fund increased significantly at 31 March 2021 on account of an allocation of £2.1M for road maintenance and repair and a £400k allocation for vehicles that had suffered delayed delivery.</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.

Name of Reserve.	Local Works and Services Contingency Fund.
Balance at 31 March 2021.	£114,800.
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 Senior Management Team for consideration. Senior Management Team will advise the Executive 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.
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.	The fund was piloted successfully in 2015/16 with the uncommitted balance carried forward into future years to allow the fund to continue to operate without any further funding contributions.

Name of Reserve.	Workforce Management and Management Support Fund.
Balance at 31 March 2021.	£1,517,000.
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. 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. The fund was supplemented at 31 March 2021 with contributions to allow the delivery of future savings.</p>
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.	That the Workforce Management Fund continues to be required for its established purpose.
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Name of Reserve.	Training Fund.
Balance at 31 March 2021.	£230,900.
Purpose of the Reserve.	This fund was initially created in financial year 2006/07 through a transfer of the Corporate Training budget underspend of £39,000. Several underspends since then have resulted in the current balance.
How and when the Reserve can be used.	The fund can only be applied for agreed corporate training activities, which cannot be covered by either individual service training budgets or the corporate training budget.
Procedures for the Reserve's management and control.	Application of the Training Fund is delegated to the Chief Executive, in consultation with the Head of Finance.
Conclusion of review.	This fund has been identified as a funding source for training related service pressure bids during the budget setting exercise over recent years.

Name of Reserve.	Innovation Fund.
Balance at 31 March 2021.	£729,743.
Purpose of the Reserve.	The former Spend to Save Development Fund was re-designated as the Innovation Fund to better reflect the types of funding allocations made. The fund is used to fund projects which should have a proven 'save' which can be adjusted in future revenue budgets.
How and when the Reserve can be used.	<p>There are established criteria for projects to be funded from the Innovation Fund which must fall within the following three distinct categories:</p> <ul style="list-style-type: none"> • Spend to Save – where projects deliver savings to the baseline budget. • Preventative – where projects deliver savings in future Council spending not currently budgeted for and mitigate future services pressures. • Systems Development – where projects deliver improvements to existing systems and electronic platforms leading to efficiencies and time-releasing savings. <p>The payback period for projects within the three categories is as follows:</p> <ul style="list-style-type: none"> • Spend to Save and Preventative – up to 7 years. • Systems Development – up to 5 years. <p>The qualifying project cost for applications to the Innovation Fund is set at £5,000.</p>
Procedures for the Reserve's management and control.	Application of the Innovation Fund is delegated to the Chief Executive, in consultation with the Head of Finance.
Conclusion of review.	The fund balance is committed in full to Council priority projects.

Name of Reserve.	Renewables, Redevelopment and Regeneration Fund.
Balance at 31 March 2021.	£10,555,200.
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, installation of the caisson at the Barriers, the Kirkwall Conservation Area Renewal Scheme and the Townscape Heritage Initiative. 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. The fund was used to carry forward COVID-19 funding from 2020/21 and a separate report on the agenda will consider the allocation of £8,240,000 of the total balance.
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.	That the Renewables, Redevelopment and Regeneration Fund continues to be required for its established purpose.

Name of Reserve.	Recreation and Cultural Services Project Fund.
Balance at 31 March 2021.	£65,200.
Purpose of the Reserve.	The fund was originally established by setting aside £200,000 from the Education, Leisure and Recreation Service revenue budget. This initial sum was a contingency sum for self-insurance of the Ness Battery whilst it was being renovated. This balance was subsequently increased with contributions of £25,000 for costs associated with the Olympic Torch, a further £50,000 set aside for World War 1 commemorations and £25,000 for the Commonwealth Games Queen's Baton relay.
How and when the Reserve can be used.	On completion of works to renovate the Ness Battery the property was added to the Council's list of insured property. The cost of the Olympic Torch event was met from the service revenue budget whilst the Queen's Baton relay was contained within the sum set aside. The project to upgrade the play area at Summerdale Drive, Kirkwall (now completed) was agreed on the basis that it could be covered by the underspend on the service budget in 2013/14 with any slippage covered from this fund. The balance of the fund was earmarked to underwrite the Active Life membership card scheme for the initial two-year trial period but was not required as the scheme had been a success prior to the pandemic lockdown.
Procedures for the Reserve's management and control.	Application of the Recreation and Cultural Services Project Fund is delegated to the Executive Director of Education, Leisure and Housing, in consultation with the Head of Finance.
Conclusion of review.	The fund, which was initially established for specific contingencies by contributions from the Education revenue budget, was not required for that purpose but has since been usefully applied to meet other service priorities.

Name of Reserve.	Economic Development Grants Fund.
Balance at 31 March 2021.	£1,783,900.
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>

Name of Reserve.	Sustainable Communities Fund.
Balance at 31 March 2021.	£14,800.
Purpose of the Reserve.	<p>Working with Communities is one of the Council's values in the Council Plan 2018 to 2023 and provision for the Sustainable Communities project was established in the revenue budget for 2013/14, with a one-off service growth provision of £40,000. The project was late in getting started and this led to the establishment of a fund to carry the balance forward to ensure the project could be completed.</p> <p>Any underspends or overspends at the end of each financial year have been carried forward into the fund to ensure the project can be completed.</p>
How and when the Reserve can be used.	This fund was established to enable the carry forward of the unused budget provision and will be applied against expenditure on the Sustainable Communities project.
Procedures for the Reserve's management and control.	Application of the Sustainable Communities Fund is delegated to the Executive Director of Development and Infrastructure, in consultation with the Head of Finance.
Conclusion of review.	Delivery of the expected outcomes from the Sustainable Communities project will necessitate carrying forward the fund balance to enable it to be spent on the project.

Name of Reserve	Outwith Orkney Placements Fund
Balance at 31 March 2021.	£853,000.
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.	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. 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.

Name of Reserve	Welfare Fund
Balance at 31 March 2021.	£4,100.
Purpose of the Reserve.	This fund was established as a new provision required by Scottish Government for 2013/14. Underspends on the revenue budget since then have been carried forward each year, following approval by the Scottish Government.
How and when the Reserve can be used.	The fund balance may be applied against welfare reform expenditure incurred.
Procedures for the Reserve's management and control	Application of the Welfare Fund is delegated to the Head of Finance.
Conclusion of review.	This fund was created at the request of Scottish Government to enable a carry forward of a small sum made available to the Council at the end of each financial year until fully spent.

Name of Reserve.	Capital Projects Appraisal Fund.
Balance at 31 March 2021.	£549,900.
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 Senior Management Team (SMT) 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 2021.	£1,147,700.
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.

	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.
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.	That the Crown Estate Fund continues to be required for its established purpose.

Name of Reserve.	Coronavirus Business Hardship Support Fund.
Balance at 31 March 2021.	£2,968,500.
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 specifically to assist local businesses to survive the economic downturn that has arisen as a result of the Coronavirus Pandemic. 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 Executive Director of Development and Infrastructure and the Head of Finance.
Conclusion of review.	That the Coronavirus Business Hardship Support Fund continues to be required for its established purpose.

Name of Reserve.	Redeterminations Fund.
Balance at 31 March 2021.	£2,105,100.
Purpose of the Reserve.	To enable the carry forward of funding received as redetermination in the last few days of March 2021.
How and when the Reserve can be used.	The funding was provided as “ring fenced” funding that the Council was permitted to carry forward to be applied to service expenditure in 2021/22. The majority of this ring fenced funding relates to the Education Service.
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.	That the Redeterminations Fund continues to be required for its established purpose.