Minute

Policy and Resources Committee

Tuesday, 20 February 2024, 13:00.

Council Chamber, Council Offices, School Place, Kirkwall.

Present

Councillors Heather N Woodbridge, Alexander G Cowie, Graham A Bevan, Stephen G Clackson, David Dawson, P Lindsay Hall, Steven B Heddle, Rachael A King, Kristopher D Leask, W Leslie Manson, James R Moar, Raymond S Peace, John A R Scott, Gwenda M Shearer, Gillian Skuse, Jean E Stevenson, Ivan A Taylor, Mellissa-Louise Thomson, Owen Tierney and Duncan A Tullock.

Clerk

- Hazel Flett, Service Manager (Governance).

In Attendance

- Oliver D Reid, Chief Executive.
- Stephen Brown, Chief Officer, Orkney Health and Social Care Partnership.
- Karen Greaves, Corporate Director for Strategy, Performance and Business Solutions.
- Hayley Green, Corporate Director for Neighbourhood Services and Infrastructure.
- Gareth Waterson, Corporate Director for Enterprise and Sustainable Regeneration.
- James Wylie, Corporate Director for Education, Leisure and Housing.
- Gavin Mitchell, Head of Legal and Governance.
- Andrew Groundwater, Head of Human Resources and Organisational Development (for Items 1.3 to 12).
- Erik Knight, Head of Finance.
- Kenny MacPherson, Head of Property, Asset Management and Facilities (for Items 1 and 2).
- Alex Rodwell, Head of Improvement and Performance.
- Carole Graves, Service Manager (Revenues and Benefits) (for Items 1 to 5).
- Shonagh Merriman, Service Manager (Corporate Finance) (for Items 1.2 to 5).

Observing

- Rosemary Colsell, Service Manager (Procurement) (for Items 5 and 6).
- Kirsty Groundwater, Communications Team Leader.

Observing via remote link (Microsoft Teams)

- Glen Thomson, Service Manager (Property and Capital Projects) (for Items 1 and 2).

Declarations of Interest

- Councillor Graham A Bevan – Item 5.
- Councillor W Leslie Manson – Item 5.
- Councillor Gillian Skuse – Item 5.
- Councillor Mellissa-Louise Thomson – Item 5.
- Councillor Heather N Woodbridge – Item 5.

Chair

- Councillor Heather N Woodbridge.

1. Revenue Expenditure Monitoring

1.1. Policy and Resources

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

Noted:

1.1.1. The revenue financial summary statement, in respect of service areas for which the Policy and Resources Committee was responsible, for the period 1 April to 31 December 2023, attached as Annex 1 to the report by the Head of Finance, indicating a budget underspend position of £357,700.

1.1.2. The revenue financial detail by service area statement, in respect of service areas for which the Policy and Resources Committee was responsible, for the period 1 April to 31 December 2023, attached as Annex 2 to the report by the Head of Finance.

The Committee scrutinised:

1.1.3. The explanations given and actions proposed in respect of significant budget variances, as outlined in the Budget Action Plan, attached as Annex 3 to the report by the Head of Finance, and obtained assurance that action was being taken with regard to significant budget variances.

Councillor Steven B Heddle joined the meeting during discussion of this item.

1.2. Orkney Health and Care

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

Noted:

1.2.1. The revenue financial summary statement in respect of service areas within the Orkney Health and Social Care Partnership, for which the Council was responsible, for the period 1 April to 31 December 2023, attached as Annex 1 to the report by the Head of Finance, indicating a budget overspend position of £3,292,900.

1.2.2. The revenue financial detail by service area statement in respect of service areas within the Orkney Health and Social Care Partnership, for which the Council was responsible, for the period 1 April to 31 December 2023, attached as Annex 2 to the report by the Head of Finance.

The Committee scrutinised:

1.2.3. The explanations given and actions proposed in respect of significant budget variances, as outlined in the Budget Action Plan, attached as Annex 3 to the report by the Head of Finance, and obtained assurance that action was being taken with regard to significant budget variances.

1.3. Summary

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

Noted:

1.3.1. The summary revenue expenditure statement for the period 1 April to 31 December 2023, attached as Annex 1 to the report by the Head of Finance, indicating the following:

- A total General Fund overspend of £5,293,500.
- A surplus in Sources of Funding of £101,800.
- A net Non-General Fund deficit of £5,753,900.

1.3.2. The financial detail across individual Sources of Funding for the period 1 April to 31 December 2023, including significant variances identified as Priority Actions, together with changes in the original overall budget position, attached as Annex 2 to the report by the Head of Finance.

The Committee scrutinised:

1.3.3. The explanations given and actions proposed in respect of significant budget variances across individual Sources of Funding, as outlined in the Budget Action Plan, attached as Annex 3 to the report by the Head of Finance, and obtained assurance that action was being taken with regard to significant budget variances.

Councillor Owen Tierney joined the meeting at this point.

2. Capital Expenditure Monitoring

After consideration of a report by the Head of Finance, copies of which had been circulated, and after hearing a report from the Service Manager (Corporate Finance), the Committee:

Noted:

2.1. The summary financial position, as at 31 December 2023, in respect of the approved General Fund and Non-General Fund capital programmes, as detailed in section 3.1 of the report by the Head of Finance, indicating the following:

- Actual expenditure incurred as at 31 December 2023 of £10,389,000.
- Annual budget of £45,768,000, which reflected slippage and current timescales for completion of individual projects, as recommended by the Policy and Resources Committee on 19 September 2023.
- Probable outturn as at 31 March 2024 of £16,871,000.

The Committee scrutinised:

2.2. The detailed analysis of capital expenditure, together with project updates in respect of the General Fund and the Non-General Fund capital programmes, attached as Appendix 1 to the report by the Head of Finance, and obtained assurance with regard to significant budget variances and on progress being made with delivery of the approved capital programmes.

3. Governance Arrangements

After consideration of a joint report by the Chief Executive and the Corporate Director for Strategy, Performance and Business Solutions, together with an Equality Impact Assessment, copies of which had been circulated, the Committee:

Noted:

3.1. The proposals to amend the Standing Orders in respect of Remote Attendance and removal of the requirement to stand whilst speaking at General Meetings of the Council.

3.2. The proposed new committee report template, attached as Appendix 1 to the joint report by the Chief Executive and the Corporate Director for Strategy, Performance and Business Solutions.

Councillor Heather N Woodbridge, seconded by Councillor Owen Tierney, moved that:

- For all meetings of the Council, its Committees and Sub-committees, although in-person attendance should remain the default position, the practice of seeking agreement in advance from the Convener, Chair or Vice Chair for remote attendance should cease, with the exception of meetings covered by Standing Order 8.11.
- Remote participation should be permitted in the following instances, which was not considered exhaustive should other circumstances dictate remote participation:
  - Weather or travel disruption within Orkney (actual or forecast).
  - Carer responsibilities.
  - Health issues which prevent travel (not participation).
  - Travel outwith Orkney.
- Standing Order 12.4, which required standing to speak at General Meetings of the Council, be rescinded.
- Standing Orders be amended to reflect the changes to remote attendance protocol and removal of the requirement for standing to speak at General Meetings of the Council, as outlined above.
- The Chief Executive should progress roll-out of the committee report template, referred to at paragraph 3.2 above.

Councillor Duncan A Tullock, seconded by Councillor David Dawson, moved an amendment that:

- For all meetings of the Council, its Committees and Sub-committees, although in-person attendance should remain the default position, the practice of seeking agreement in advance from the Convener, Chair or Vice Chair for remote attendance should cease, with the exception of meetings covered by Standing Order 8.11.
- Remote participation should be permitted in the following instances, which was not considered exhaustive should other circumstances dictate remote participation:
  - Weather or travel disruption within Orkney (actual or forecast).
  - Carer responsibilities.
  - Health issues which prevent travel (not participation).
  - Travel outwith Orkney.
- Standing Orders be amended to reflect the changes to remote attendance protocol, as outlined above.
- The Chief Executive should progress roll-out of the committee report template, referred to at paragraph 3.2 above.

The result of a recorded vote was as follows:

For the Amendment:

Councillors Stephen G Clackson, David Dawson, Steven B Heddle, W Leslie Manson, James R Moar, Gillian Skuse, Jean E Stevenson, Ivan A Taylor, Mellissa-Louise Thomson and Duncan A Tullock (10).

For the Motion:

Councillors Graham A Bevan, Alexander G Cowie, P Lindsay Hall, Rachael A King, Kristopher D Leask, Raymond S Peace, John A R Scott, Gwenda M Shearer, Owen Tierney and Heather N Woodbridge (10).

There being an equality of votes between the Amendment and the Motion, on the casting vote of the Chair, the Committee:

Resolved to **recommend to the Council**:

3.3. That, for all meetings of the Council, its Committees and Sub-committees, although in-person attendance should remain the default position, the practice of seeking agreement in advance from the Convener, Chair or Vice Chair for remote attendance should cease, with the exception of meetings covered by Standing Order 8.11.

3.4. That remote participation should be permitted in the following instances, which was not considered exhaustive should other circumstances dictate remote participation:

- Weather or travel disruption within Orkney (actual or forecast).
- Carer responsibilities.

- Health issues which prevent travel (not participation).
- Travel outwith Orkney.

3.5. That Standing Order 12.4, which required standing to speak at General Meetings of the Council, be rescinded.

3.6. That Standing Orders be amended to reflect the changes to remote attendance protocol and removal of the requirement for standing to speak at General Meetings of the Council, as outlined above.

3.7. That the Chief Executive should progress roll-out of the committee report template, referred to at paragraph 3.2 above.

4. Treasury Management Strategy Statement

After consideration of a report by the Head of Finance, together with an Equality Impact Assessment, copies of which had been circulated, and after hearing a report from the Service Manager (Corporate Finance), the Committee:

Noted:

4.1. That the CIPFA Treasury Code stated that the Council could delegate responsibility for implementation and regular monitoring of its treasury management policies and practices.

4.2. That, from 2024/25 onwards, the Investments Sub-committee would be responsible for ongoing monitoring and scrutiny of the approved Treasury Management Strategy Statement, including a mid-year review and annual review.

4.3. The Liability Benchmark chart, attached as Appendix 2 to the report by the Head of Finance.

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

4.4. That the Treasury Management Strategy Statement and Annual Investment Strategy for 2024/25, attached as Appendix 1 to this Minute, be approved.

5. Council Tax – Surcharge on Second Homes

Councillors Graham A Bevan, W Leslie Manson, Gillian Skuse and Heather N Woodbridge declared interests in this item, their connection being they owned property in Orkney classed as second homes, and were not present during discussion thereof.

Councillor Mellissa-Louise Thomson declared an interest in this item, her connection being that she owned a property in Orkney classed as a second home and also that she was a Director of the Eday Partnership, which had an interest in housing projects in Eday, and such projects might benefit financially if the recommendations in the report were approved, and was not present during discussion thereof.

Councillors Steven B Heddle and James R Moar declared that they had a connection to the matters being considered in this item as they owned second properties in Orkney but, as the properties were rented out to third parties, who were liable to pay the Council Tax, they considered that their connection did not amount to an interest and therefore remained present for the duration of this item.

As the Leader, Councillor Heather N Woodbridge, had declared an interest in this item and left the meeting, the Depute Leader, Councillor Alexander G Cowie, took the Chair for this item.

Signed: (Leader’s signature).

After consideration of a report by the Corporate Director for Enterprise and Sustainable Regeneration, together with an Equality Impact Assessment and an Island Communities Impact Assessment, copies of which had been circulated, and after hearing a report from the Service Manager (Revenues and Benefits), the Committee:

Noted:

5.1. Current policy on empty properties and second homes, as set out in Appendix 1 to the report by the Corporate Director for Enterprise and Sustainable Regeneration.

5.2. That, in December 2023, the Scottish Government introduced new legislation, The Council Tax (Variation for Unoccupied Dwellings) (Scotland) Amendment Regulations 2023, giving local authorities new powers with the ability to charge up to double the full rate of Council Tax on second homes, from 1 April 2024.

5.3. That analysis from the Council Tax system showed there were eight properties based in the Isles which qualified for 50% discount on second homes for daily commute over a body of water.

Councillor David Dawson, seconded by Councillor Raymond S Peace, moved that:

- The following amendments be made to the policy on Council Tax charging applied to second home properties, to take effect from 1 April 2024:
    - That an additional surcharge of 100% be applied to all second homes.
    - That the second home discount exception of 50%, referred to at section 3.2 of the report by the Corporate Director for Enterprise and Sustainable Regeneration, should cease to apply.
- A sum of £200,000 be set aside, from the additional receipts from the introduction of the second homes 100% surcharge, to finance the ongoing operation of the Island and Rural Housing Fund.

Councillor Stephen G Clackson, seconded by Councillor Kristopher D Leask, moved an amendment that:

- The following amendment be made to the policy on Council Tax charging applied to second home properties, to take effect from 1 April 2024:
    - That an additional surcharge of 100% be applied to all second homes.
- A sum of £200,000 be set aside, from the additional receipts from the introduction of the second homes 100% surcharge, to finance the ongoing operation of the Island and Rural Housing Fund.

The result of a recorded vote was as follows:

For the Amendment:

Councillors Stephen G Clackson, Alexander G Cowie, P Lindsay Hall, Steven B Heddle, Rachael A King, Kristopher D Leask, James R Moar, John A R Scott, and Owen Tierney (9).

For the Motion:

Councillors David Dawson, Raymond S Peace, Gwenda M Shearer, Jean E Stevenson, Ivan A Taylor and Duncan A Tullock (6).

The Amendment was therefore carried and the Committee thereafter resolved to **recommend to the Council**:

5.4. That the following amendment be made to the policy on Council Tax charging applied to second home properties, to take effect from 1 April 2024:

- That an additional surcharge of 100% be applied to all second homes.

5.5. That the 50% discount on Council Tax on second homes, where a person's sole or main residence in Orkney was separated from their place of work by a body of water, the transport provision over which did not permit daily commuting between their sole or main residence and their place of work, and they occupied a second home in Orkney to enable them to maintain that employment, should continue to apply.

5.6. That a sum of £200,000 be set aside, from the additional receipts from the introduction of the second homes 100% surcharge, to finance the ongoing operation of the Island and Rural Housing Fund.

Signed: (Depute Leader's signature).

Councillor Owen Tierney left the meeting at this point.

6. Contract Standing Orders

After consideration of a report by the Corporate Director for Strategy, Performance and Business Solutions, copies of which had been circulated, and after hearing a report from the Head of Legal and Governance, the Committee:

Noted:

6.1. That the Contract Standing Orders, last revised in July 2022, had been amended to ensure continued compliance with legislation and best practice and to reflect changes to internal procurement processes since the last revision.

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

6.2. That the updated Contract Standing Orders, attached as Appendix 2 to this Minute, be approved.

7. Children’s Services Plan

After consideration of a joint report by the Corporate Director for Education, Leisure and Housing and the Chief Officer, Orkney Health and Social Care Partnership, together with an Equality Impact Assessment, copies of which had been circulated, the Committee:

Noted:

7.1. That responsibility for children’s services planning rested with a Local Authority and its relevant Health Board, working collaboratively with other members of their Community Planning Partnership as well as with children, young people and their families.

7.2. That the Children’s Services Plan 2023-26 had been prepared by the Orkney Children’s Services Strategic Partnership.

7.3. The need to review and update the plan annually, and, in particular, to better represent the outcomes of involvement and engagement with those involved in delivering children services, as well as Orkney’s children, young people and families.

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

7.4. That Orkney’s Children’s Services Plan 2023-26, attached as Appendix 3 to this Minute, be approved, in so far as it related to the remit of the Council.

Councillor Stephen G Clackson left the meeting during discussion of this item.

8. Police and Fire Sub-committee

After consideration of the draft Minute of the Meeting of the Police and Fire Sub-committee held on 21 November 2023, copies of which had been circulated, the Committee:

Resolved, on the motion of Councillor David Dawson, seconded by Councillor Duncan A Tullock, to approve the Minute of the Meeting of the Police and Fire Sub-committee held on 21 November 2023, attached as Appendix 4 to this Minute, as a true record.

9. Pension Fund Sub-committee together with Pension Board

After consideration of the draft Minute of the Meeting of the Pension Fund Sub-committee, together with the Pension Board, held on 22 November 2023, copies of which had been circulated, the Committee:

Resolved, on the motion of Councillor Heather N Woodbridge, seconded by Councillor P Lindsay Hall, to approve the Minute of the Meeting of the Pension Fund Sub-committee, together with the Pension Board, held on 22 November 2023, attached as Appendix 5 to this Minute, as a true record.

10. Investments Sub-committee

After consideration of the draft Minute of the Meeting of the Investments Sub-committee held on 23 November 2023, copies of which had been circulated, the Committee:

Resolved, on the motion of Councillor Heather N Woodbridge, seconded by Councillor Rachael A King, to approve the Minute of the Meeting of the Investments Sub-committee held on 23 November 2023, attached as Appendix 6 to this Minute, as a true record.

11. Asset Management Sub-committee

After consideration of the draft Minute of the Meeting of the Asset Management Sub-committee held on 30 January 2024, copies of which had been circulated, the Committee:

Resolved, on the motion of Councillor Heather N Woodbridge, seconded by Councillor P Lindsay Hall, to approve the Minute of the Meeting of the Asset Management Sub-committee held on 30 January 2024, attached as Appendix 7 to this Minute, as a true record.

12. Conclusion of Meeting

At 16:35 the Chair declared the meeting concluded.

Signed: (Leader’s signature).

Treasury Management Strategy Statement

Policy on the Statutory Repayment of Loans Fund Advances and Annual Investment Strategy

Orkney Islands Council

2024/2025

Contents

1 Introduction

1.1 Background

The Authority is required to operate a balanced revenue budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low-risk counterparties or instruments commensurate with the Authority's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Authority's capital plans. These capital plans provide a guide to the borrowing need of the Authority, essentially the longer-term cash flow planning, to ensure that it can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet risk or cost objectives.

The contribution the treasury management function makes to the Authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

CIPFA defines treasury management as:

"The management of the local authority's borrowing, investments and cash flows, including its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, arising mainly from investing activities of the Strategic Reserve Fund, and are separate from the day-to-day treasury management activities.

1.2 Reporting Requirements

1.2.1 Capital Strategy

The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to prepare a Capital Strategy report which will provide the following:

- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services.
- an overview of how the associated risk is managed.
- the implications for future financial sustainability.

The aim of the strategy is to ensure that all the Authority's elected members fully understand the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite.

1.2.2 Treasury Management Reporting

The Authority is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

a. **Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report is forward looking and covers:
   - the capital plans, (including prudential indicators).
   - a policy on statutory repayment of loans fund advances, (how residual capital expenditure is charged to revenue over time.)
   - the Treasury Management Strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
   - an Annual Investment Strategy, (the parameters on how investments are to be managed.)

b. **A mid-year treasury management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision. In addition, this Authority will receive quarterly update reports.

c. **An annual treasury report** – This is a backward-looking review document and **provides** details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny

The annual Treasury Management Strategy Statement is adequately scrutinised by Policy and Resources Committee, with a recommendation to Council for approval. The mid-year and annual treasury reports are for scrutiny purposes only and, from 2024/25, this role will be undertaken by the Investments Sub-committee.

Quarterly Reports – In addition to the three major reports detailed above, from 2023/24 quarterly reporting (end of June/end of December) is also required. These additional reports do not have to be reported to the full Council but do require to be adequately scrutinised. This is undertaken by the Investments Sub-committee.

1.3 Treasury Management Strategy for 2024/25

The strategy for 2024/25 covers two main areas:

Capital issues

- the capital expenditure plans and the associated prudential indicators.
- the policy for statutory repayment of loans fund advances.

Treasury management issues

- the current treasury position.
- treasury indicators which limit the treasury risk and activities of the Authority.
- prospects for interest rates.
- the borrowing strategy.
- policy on borrowing in advance of need.
- debt rescheduling.
- the investment strategy.
- creditworthiness policy, and
- the policy on use of external service providers.

These elements cover the requirements of the Local Government in Scotland Act 2003, the CIPFA Prudential Code, the CIPFA Treasury Management Code and Scottish Government loans fund repayment regulations and investment regulations particularly Finance Circulars 5/2010 and 7/2016.

1.4 Training

The CIPFA Treasury Management Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

Furthermore, pages 47 and 48 of the Code state that they expect ‘’all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making.

The scale and nature of this will depend on the size and complexity of the organisation’s treasury management needs. Organisations should consider how to assess whether treasury management staff and board/council members have the required knowledge and skills to undertake their roles and whether they have been able to maintain those skills and keep them up to date.

As a minimum, authorities should carry out the following to monitor and review knowledge and skills:

- Record attendance at training and ensure action is taken where poor attendance is identified.
- Prepare tailored learning plans for treasury management officers and board/council members.

- Require treasury management officers and board/council members to undertake self-assessment against the required competencies (as set out in the schedule that may be adopted by the organisation).
- Have regular communication with officers and board/council members, encouraging them to highlight training needs on an ongoing basis.

In further support of the revised training requirements, CIPFA's Better Governance Forum and Treasury Management Network have produced a 'self-assessment by members responsible for the scrutiny of treasury management', which is available from the CIPFA website to download.

The members have undertaken training during 2023/2024 and further training will be arranged as required.

The training needs of treasury management officers are periodically reviewed.

A formal record of the training received by officers central to the Treasury function will be maintained by the Authority. Similarly, a formal record of the treasury management/capital finance training received by members will also be maintained.

1.5 Treasury Management Consultants

The Authority uses Link Group, Link Treasury Services Limited as its external treasury management advisors.

The Authority recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services to acquire access to specialist skills and resources. The Authority will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

2 The Capital Prudential Indicators 2024/25 – 2026/27

The Authority's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans are prudent and sustainable.

2.1 Capital Expenditure and Financing

This prudential indicator is a summary of the Authority's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Capital expenditure £m	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Non-HRA	15.050	38.613	17.908	8.038	5.075
HRA	9.151	7.155	1.346	0.000	0.000
Total	**24.201**	**45.768**	**19.254**	**8.038**	**5.075**

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Financing of capital expenditure £m	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Capital receipts	1.448	0.235	0.235	0.235	0.235
Capital grants	10.720	19.679	11.864	7.068	4.640
Capital reserves	0.000	2.160	8.198	0.000	0.000
Revenue	1.094	1.585	0.569	0.569	0.569
Net financing need for the year	**10.939**	**22.109**	**(1.612)**	**0.166**	**(0.369)**

2.2 The Authority's Borrowing Need (the Capital Financing Requirement)

The second prudential indicator is the Authority's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Authority's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

The CFR does not increase indefinitely, as prudent annual repayments from revenue need to be made which reflect the useful life of capital assets financed by borrowing. From 1.4.16, authorities may choose whether to use scheduled debt amortisation, (loans pool charges), or another suitable method of calculation in order to repay borrowing.

The CFR includes any other long-term liabilities (e.g., PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Authority's borrowing requirement, these types of schemes include a borrowing facility by the PFI, PPP lease provider and so the Authority is not required to separately borrow for these schemes. The Authority currently has no such schemes within the CFR.

The Authority is asked to approve the CFR projections below:

£m	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Capital Financing Requirement					
CFR – Non-HRA	51.358	70.191	64.928	62.702	59.950
CFR – HRA	8.990	9.992	10.718	10.351	10.074
Total CFR	60.348	80.183	75.646	73.053	70.024
Movement in CFR	**7.808**	**19.835**	**(4.537)**	**(2.593)**	**(3.029)**

Movement in CFR represented by					
Net financing need for the year (above)	10.939	22.109	(1.612)	0.166	(0.369)
Less loan fund repayments and other financing movements	(3.131)	(2.274)	(2.925)	(2.759)	(2.660)
Movement in CFR	**7.808**	**19.835**	**(4.537)**	**(2.593)**	**(3.029)**

2.3 Liability Benchmark

The Authority is required to estimate and measure the Liability Benchmark for the forthcoming financial year and the following two financial years, as a minimum.

There are four components to the Liability Benchmark:

1. **Existing loan debt outstanding:** the Authority's existing loans that are still outstanding in future years.
2. **Loans CFR:** this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned Loans Fund advances/Loans Fund principal repayments.
3. **Net loans requirement:** this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned Loans Fund principal repayments and any other major cash flows forecast.
4. **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.

2.4 Core Funds and Expected Investment Balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

Year End Resources £m	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Strategic Reserve Fund	204.314	255.866	207.757	212.396	218.730
Other Fund balances / reserves	36.358	36.000	30.000	30.000	30.000
Capital receipts	2.066	2. 066	2. 066	2. 066	2.066
Provisions	38.246	38.467	40.467	41.034	41.601
Other	8.023	8.000	8.000	8.000	8.000
Total core funds	**289.007**	**340.399**	**288.290**	**293.496**	**300.397**
Working capital*	(3.369)	(2.400)	(2.400)	(2.400)	(2.400)
(Under)/over borrowing	(30.291)	(30.155)	(20.646)	(18.150)	(15.019)
Expected investments	**255.347**	**368.154**	**306.536**	**309.246**	**313.016**

*Working capital balances shown are estimated year-end; these may be higher mid-year

2.5 Statutory Repayment of Loans Fund Advances

The Authority is required to set out its policy for the statutory repayment of loans fund advances prior to the start of the financial year. The repayment of loans fund advances ensures that the Authority makes a prudent provision each year to pay off an element of the accumulated loans fund advances made in previous financial years.

A variety of options are provided to authorities so long as a prudent provision is made each year. The Authority has previously adopted the following policy on the repayment of loans fund advances, which remains unchanged:

For loans fund advances, the policy will be to maintain the practice of previous years and apply the Asset Method, with all loans fund advances being repaid in equal instalments of principal with reference to the life of an asset.

3 Borrowing

The capital expenditure plans set out in Section 2 provide details of the service activity of the Authority. The treasury management function ensures that the Authority's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Authority's Capital Strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions, and the Annual Investment Strategy.

3.1 Current Portfolio Position

The overall treasury management portfolio as at 31 March 2023 and for the position as at 31 December 2023 are shown below for both borrowing and investments, including the Strategic Reserve Fund investments managed in-house and externally.

TREASURY PORTFOLIO				
	actual	actual	current	current
	31.3.23	**31.3.23**	**31.12.23**	**31.12.23**
Treasury investments	£000	%	£000	%
banks	2,630	1%	5,704	2%
building societies - unrated	0	0%	0	0%
building societies - rated	0	0%	0	0%
local authorities	0	0%	0	0%
DMADF (H.M.Treasury)	0	0%	1,400	0%
money market funds	4,600	2%	7,300	2%
certificates of deposit	4,000	1%	0	0%
Total managed in house	**11,230**	**4%**	**14,404**	**5%**
property investments	19,228	7%	19,228	7%
local investments	7,871	3%	7,871	3%
Strategic Reserve Fund managed in house	**27,099**	**10%**	**27,099**	**9%**
bond funds	39,757	14%	41,823	14%
diversified growth fund	27,325	10%	28,596	10%
equity fund	93,215	33%	95,140	32%
credit strategies fund	20,982	7%	22,772	8%
property funds	23,607	8%	22,811	8%
global private debt fund	9,134	3%	9,177	3%
alternative income fund	32,291	11%	31,128	11%
Strategic Reserve Fund managed externally	**246,311**	**87%**	**251,447**	**86%**
Total treasury investments	**284,640**	**100%**	**292,950**	**100%**
Treasury external borrowing				
local authorities	0	0%	10,000	25%
PWLB	30,000	100%	30,000	75%
other	57	0%	29	0%
LOBOs	0	0%	0	0%
Total external borrowing	**30,057**	**100%**	**40,029**	**100%**
Net treasury investments / (borrowing)	**254,583**		**252,921**	

The Authority's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

£m	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
External Debt					
Debt at 1 April	35.086	30.057	50.028	55.000	55.000
Expected change in Debt	(5.029)	19.971	4.972	0.000	0.000
Other long-term liabilities (OLTL)	0.000	0.000	0.000	0.000	0.000
Expected change in OLTL	0.000	0.000	0.000	0.000	0.000
Actual gross debt at 31 March	**30.057**	**50.028**	**55.000**	**55.000**	**55.000**
The Capital Financing Requirement	60.348	80.183	75.646	73.053	70.024
Under / (over) borrowing	**30.291**	**30.155**	**20.646**	**18.053**	**15.024**

Within the range of prudential indicators there are several key indicators to ensure that the Authority operates its activities within well-defined limits. One of these is that the Authority needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2024/25 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Head of Finance reports that the Authority complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes account of current commitments, existing plans, and the proposals in this budget report.

3.2 Treasury Indicators: Limits to Borrowing Activity

The Operational Boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Operational Boundary £m	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Debt	80.000	75.000	75.000	70.000
Other long-term liabilities	0.000	0.000	0.000	0.000
Total	80.000	75.000	75.000	70.000

The Authorised Limit for External Debt. This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the Full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

- This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all local authority plans, or those of a specific authority, although this power has not yet been exercised.
- The Authority is asked to approve the following Authorised Limit:

Authorised Limit £m	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Debt	90.000	85.000	85.000	80.000
Other long-term liabilities	0.000	0.000	0.000	0.000
Total	90.000	85.000	85.000	80.000

3.3 Prospects for Interest Rates

The Authority has appointed Link Group as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. Link provided the following forecasts on 08 January 2024. These are forecasts for Bank Rate, average earnings and PWLB certainty rates, gilt yields plus 80bps:

Link Group Interest Rate View 08.01.24													
	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	4.80	4.30	3.80	3.30	3.00	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.20	5.10	4.60	4.10	3.70	3.30	3.10	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.00	4.90	4.40	3.90	3.60	3.20	3.10	3.10	3.10	3.10	3.10	3.20	3.20
5 yr PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 yr PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 yr PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50 yr PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

Additional notes by Link on this forecast table: -

Our central forecast for interest rates was previously updated on 7 November and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by keeping Bank Rate at 5.25% until at least H2 2024. We expect rate cuts to start when both the CPI inflation and wage/employment data are supportive of such a move, and when there is a likelihood of the overall economy enduring at least a slowdown or mild recession over the coming months (although most recent GDP releases have surprised with their on-going robustness).

Naturally, timing on this matter will remain one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the on-going conflicts between Russia and Ukraine, and Gaza and Israel.

PWLB RATES

The short and medium part of the gilt curve has rallied since the start of November as markets price in a quicker reduction in Bank Rate through 2024 and 2025 than held sway back then. This reflects market confidence in inflation falling back in a similar manner to that already seen in the US and the Euro-zone. At the time of writing there is c70 basis points difference between the 5 and 50 year parts of the curve.

The balance of risks to the UK economy:

- The overall balance of risks to economic growth in the UK is even.

Downside risks to current forecasts for UK gilt yields and PWLB rates include:

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, could keep gilt yields high for longer).
- **The Bank of England** has increased Bank Rate too fast and too far over recent months, and subsequently brings about a deeper and longer UK recession than we currently anticipate.
- **Geopolitical risk**s, for example in Ukraine/Russia, the Middle East, China/Taiwan/US, Iran and North Korea, which could lead to increasing safe-haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates:

- Despite the tightening in Bank Rate to 5.25%, the **Bank of England allows inflationary pressures to remain elevated** for a long period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project.
- **The pound weakens** because of a lack of confidence in the UK Government's pre-election fiscal policies, which may prove inflationary, resulting in investors pricing in a risk premium for holding UK sovereign debt.
- Projected **gilt issuance, inclusive of natural maturities and QT**, could be too much for the markets to comfortably digest without higher yields compensating.

LINK GROUP FORECASTS

We expect the MPC will keep Bank Rate at 5.25% until the second half of 2024, to combat on-going inflationary and wage pressures, even if they have dampened somewhat of late. We do not think that the MPC will increase Bank Rate above 5.25%.

Gilt yields and PWLB rates

The overall longer-run trend is for gilt yields and PWLB rates to fall back over the timeline of our forecasts, as inflation continues to fall through 2024.

Our target borrowing rates are set **two years forward** (as we expect rates to fall back) and the current PWLB (certainty) borrowing rates are set out below:

PWLB Debt	Current borrowing rate as at 08.01.24 p.m.	Target borrowing rate now (end of Q4 2025)	Target borrowing rate previous (end of Q3 2025)
5 Years	4.53%	3.70%	3.80%
10 Years	4.67%	3.90%	3.80%
25 Years	5.19%	4.20%	4.20%
50 Years	4.97%	4.00%	4.00%

Borrowing advice: Our long-term (beyond 10 years) forecast for Bank Rate remains at 3% and reflects Capital Economics' research that suggests AI and general improvements in productivity will be supportive of a higher neutral interest rate. As all PWLB certainty rates are currently significantly above this level, borrowing strategies will need to be reviewed in that context. Overall, better value can be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should be considered. Temporary borrowing rates will remain elevated for some time to come but may prove the best option whilst the market continues to factor in Bank Rate reductions for 2024 and later.

Our suggested budgeted earnings rates for investments up to about three months' duration in each financial year are set out below:

Average earnings in each year	Now	Previously
2023/24 (residual)	5.30%	5.30%
2024/25	4.55%	4.70%
2025/26	3.10%	3.20%
2026/27	3.00%	3.00%
2027/28	3.25%	3.25%
2028/29	3.25%	3.25%
Years 6 to 10	3.25%	3.25%
Years 10+	3.25%	3.25%

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

Our interest rate forecast for Bank Rate is in steps of 25 bps, whereas PWLB forecasts have been rounded to the nearest 10 bps and are central forecasts within bands of + / - 25 bps. Naturally, we continue to monitor events and will update our forecasts as and when appropriate.

3.4 Borrowing Strategy

The Authority is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Authority's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy. That is, Bank Rate remains elevated through to the second half of 2024.

Against this background and the risks within the economic forecast, caution will be adopted with the 2024/25 treasury operations. The Head of Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in borrowing rates,* then borrowing will be postponed.
- *if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast,* fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Any decisions will be reported to the appropriate decision-making body at the next available opportunity.

3.5 Policy on Borrowing in Advance of Need

The Authority will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Authority can ensure the security of such funds.

Borrowing in advance will be made within the constraints that:

- It will be limited to no more than 50% of the expected increase in borrowing need (CFR) over the three-year planning period; and
- The authority would not look to borrow more than 24 months in advance of need.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

3.6 Rescheduling

Rescheduling of current borrowing in our debt portfolio may be considered whilst premature redemption rates remain elevated but only if there is surplus cash available to facilitate any repayment, or rebalancing of the portfolio to provide more certainty is considered appropriate.

If rescheduling is to be undertaken, it will be reported to the Council, at the earliest meeting following its action.

3.7 New Financial Institutions as a Source of Borrowing and/or Types of Borrowing

Currently the PWLB Certainty Rate is set at gilts + 80 basis points. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

- Local authorities (primarily shorter dated maturities out to 3 years or so – generally still cheaper than the Certainty Rate).

Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

4 Annual Investment Strategy

4.1 Investment Policy – Management of Risk

The Authority's investment policy has regard to the following: -

The Council's investment policy implements the requirements of the following:-

- Local Government Investments (Scotland) Regulations 2010, (and accompanying Finance Circular 5/2010),
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code")
- CIPFA Treasury Management Guidance Notes 2021

The Authority's investment priorities will be security first, portfolio liquidity second and then yield, (return). The Authority will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with regard to the Authority's risk appetite.

In the current economic climate, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs but to also consider ''laddering'' investments for periods up to 12 months with high credit rated financial institutions, whilst investment rates remain elevated, as well as wider range fund options.

The above guidance from the Scottish Government and CIPFA places a high priority on the management of risk. This Authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.
2. **Other information**: ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Authority will engage with its advisors to maintain a monitor on market pricing such as **"credit default swaps"** and overlay that information on top of the credit ratings.
3. **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
4. This Authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in Appendix 5.4 under the categories of 'specified' and 'non-specified' investments.
5. **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity, if originally,

they were classified as being non-specified investments solely due to the maturity period exceeding one year.

6. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 4.2.
7. **Transaction limits** are set for each type of investment in 4.2.
8. This Authority will set a limit for its investments which are invested for **longer than 365 days**, (see paragraph 4.4).
9. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 4.3).
10. This Authority has engaged **external consultants**, (see paragraph 1.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this Authority in the context of the expected level of cash balances and need for liquidity throughout the year.
11. All investments will be denominated in **sterling**.
12. Externally managed fund investments are managed by externally appointed fund managers operating within individual mandates as part of an agreed investment strategy which sets both the permitted asset class limit and range. The appointed fund managers are authorised to manage risk within these mandates.

However, this Authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 4.5). Regular monitoring of investment performance will be carried out during the year.

4.2 Creditworthiness policy

This Authority applies the creditworthiness service provided by the Link Group. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody’s and Standard and Poor’s. The credit ratings of counterparties are supplemented with the following overlays:

- ‘’watches’’ and ‘’outlooks’’ from credit rating agencies;
- CDS spreads that may give early warning of changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, and any assigned Watches and Outlooks, in a weighted scoring system which is then combined with an overlay of CDS spreads. The end product of this is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Authority to determine the suggested duration for investments. The Authority will therefore, use counterparties within the following durational bands:

- Yellow 5 years *
- Dark pink 5 years for Ultra Short Dated Bond Funds with a credit score of 1.25
- Light pink 5 years for Ultra Short Dated Bond Funds with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

The Link creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

Typically the minimum credit ratings criteria the Authority uses will be a short-term rating (Fitch or equivalents) of F1 and a long-term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored on a weekly basis. The Authority is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Authority's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Authority will be advised of information in movements in Credit Default Swap spreads against the iTraxx European Senior Financials benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link. Extreme market movements may result in downgrade of an institution or removal from the Authority's lending list.
- Sole reliance will not be placed on the use of this external service. In addition this Authority will also use market data and market information, as well as information on any external support for banks to help support its decision-making process.

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

* Please note: the yellow colour category is for UK Government debt, or its equivalent, money market funds and collateralised deposits where the collateral is UK Government debt –see appendix 5.4.

Creditworthiness.

Significant levels of downgrades to Short and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. Nonetheless, when setting minimum sovereign debt ratings, this Authority will not set a minimum rating for the UK.

CDS prices

Although bank CDS prices, (these are market indicators of credit risk), spiked upwards during the days of the Truss/Kwarteng government in the autumn of 2022, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. Link monitor CDS prices as part of their creditworthiness service to local authorities and the Authority has access to this information via its Link-provided Passport portal.

4.3 Limits

The council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch (or equivalent). The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 5.6. The list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

4.4 Investment Strategy

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. The current shape of the yield curve suggests that is the case at present, but there is the prospect of Bank Rate having peaked in the second half of 2023 and possibly reducing as early as the second half of 2024 so an agile investment strategy would be appropriate to optimise returns.

Accordingly, while most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

Investment returns expectations.

The current forecast shown in paragraph 3.3, includes a forecast for Bank Rate to have peaked at 5.25% in Q4 2024.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

Average earnings in each year	
2023/24 (residual)	5.30%
2024/25	4.55%
2025/26	3.10%
2026/27	3.00%
2027/28	3.25%
Years 6 to 10	3.25%
Years 10+	3.25%

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

Against this view the Treasury officers expect for its cash flow generated balances, the Authority will seek to utilise its business reserve instant access and notice accounts, Money Market Funds and short-dated deposits (overnight to 100 days), and long-dated deposits (up to 365 days), in order to benefit from the compounding of interest.

Investment treasury indicator and limit - total principal funds invested for greater than 365 days. These limits are set with regard to the Authority's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.

The Authority is asked to approve the following treasury indicator and limit:

Upper limit for principal sums invested for longer than 365 days			
£m	2024/25	2025/26	2026/27
Principal sums invested for longer than 365 days	£m 90	£m 95	£m 100
Current investments as at 31 December 23 in excess of 1 year maturing in each year	Nil	Nil	Nil

The budgeted investment earnings rates for returns on the Council's strategic reserve fund investments is derived from the approved investment strategy for the portfolio of investments that are managed by appointed external fund managers.

A revised investment strategy was implemented in 2017, introducing a new allocation to Enhanced Yield Debt as an alternative to Government Bonds which should marginally improve investment returns going forward. Since then, a further review has taken place which resulted in the adoption of an income focused strategy in 2019. Both these changes in strategy resulted in a forecast return of 5.2% per annum, however, it should be noted that the investment strategy for the Strategic Reserve Fund will be reviewed in 2024 and the forecast returns may change.

For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits, (overnight to 365 days), in order to benefit from the compounding of interest.

4.5 Investment Performance / Risk Benchmarking

This Authority will use an investment benchmark to assess the investment performance of its investment portfolio for both in-house and external investments:

Investment Portfolio	Benchmark	Target Mandate
In-house cash balances	30-day (backward looking) Sterling Overnight Index Average	Outperform benchmark
Bonds	UK Corporate Bonds – Market Iboxx Sterling Non-Gilts ex BBB	Benchmark over a rolling 3-year period
Equities	Global Equities - MSCI All Country World Index (NDR)	Benchmark over a rolling 3-year period +1.5% p.a.
Equities – Global Alpha	FTSE All Share (9%), MSCI All County World Index (49%), UK Base Rate (27%), FTSE Act (15%)	Outperform benchmark over a rolling 3-year period
UK Property Fund	MSCI All Balanced Property Fund Index Weighted Average	Outperform benchmark over a rolling 3-year period
Diversified Growth Fund	3-month SONIA	Benchmark over a rolling 3-year period +3.0% p.a.
High Yield Debt Strategies	3-month SOFR	Benchmark over a rolling 3-year period +5.0% p.a.
Secured Income Fund	10 Year Gilts	Benchmark over a rolling 3-year period +2.0% p.a.
Global Private Debt Fund	90-day LIBOR	Benchmark over a rolling 3-year period +6.0% p.a.

4.6 End of Year Investment Report

At the end of the financial year, the Authority will report on its investment activity as part of its Annual Treasury Report.

4.7 External Fund Managers

As at 31 March 2024, it is estimated that £250.0m of the Authority's funds will be externally managed on a discretionary basis by externally appointed fund managers.

A review of the investment strategy for the Authority's strategic reserve fund, undertaken by the Investments Sub-committee in 2016, concluded that although the existing strategy had been effective in adding value, while at the same time preserving the value of the Fund in real terms, it did identify scope to improve the risk and return profile of the fund through the use of specialist pooled funds to diversify away from Equities as an asset class.

In 2018 the Investments Sub-committee reviewed the investment strategy again and on 28 February 2019 resolved to further diversify into Illiquid Debt and Secured Income by way of direct investment to a pooled fund. It was further resolved that the equity allocation be split on a 50/50 basis between funds held on a growth basis, with a newly appointed Fund Manager, whilst retaining Schroders on a simplified single global equity strategy with the existing value style basis. The Corporate Bonds allocation was to be transferred to a specialist passive manager. These diversifications were to be matched by a proportionate reduction in growth assets.

The Head of Finance developed an Action Plan, in consultation with Hymans Robertson, to implement the changes to the investment strategy. Interviews with potential fund managers took place in August and October 2019 after which fund managers were appointed to three new mandates, as follows:

- Baillie Gifford – Global Alpha.
- Barings – Global Private Loan Fund III.
- Blackrock – UK Strategic Alternative Income Fund.

In addition to the above appointments, Legal and General Investment Managers were appointed through a national framework to manage the bond allocation for the Strategic Reserve Fund on a passive basis.

The process to put the new mandates in place commenced in 2019, and although the pace of diversification was slower than originally envisaged due to volatility experienced in the markets relating to COVID-19 and the war in Ukraine, the process was completed by 31 March 2023.

The Authority's external fund manager(s) will comply with the Annual Investment Strategy. The agreement(s) between the Authority and the fund manager(s) additionally stipulate guidelines on duration and other limits in order to contain and control risk.

5 Appendices

5.1. Prudential and treasury indicators.

5.2. Interest rate forecasts.

5.3. Economic background.

5.4. Treasury management practice TMP1 – credit and counterparty risk management.

5.6. Approved countries for investments.

5.7. Treasury management scheme of delegation.

5.8. The treasury management role of the section 95 officer.

5.1 The Capital Prudential and Treasury Indicators 2024/25 – 2026/27

The Authority's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

5.1.1 Capital Expenditure

Capital expenditure £m	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Social Care	2.958	8.784	1.625	0.000	0.000
Roads and Transportation	2.775	3.737	0.970	0.950	0.950
Education and Leisure	3.880	3.965	0.337	0.128	0.000
Marine Services	7.787	9.601	1.255	0.569	0.569
Other Services	5.481	12.526	13.624	6.391	3.556
Non-HRA	**22.881**	**38.613**	**17.811**	**8.038**	**5.075**
HRA	**1.320**	**7.155**	**1.346**	**0.000**	**0.000**
Total	**24.201**	**45.768**	**19.157**	**8.038**	**5.075**

5.1.2 Affordability Prudential Indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Authority's overall finances. The Authority is asked to approve the following indicators:

a. Ratio of Financing Costs to Net Revenue Stream

This indicator identifies the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) against the net revenue stream.

%	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
General Fund	1.3%	1.0%	1.4%	1.3%	1.2%
Scapa Flow Oil Port	13.6%	21.5%	19.5%	20.2%	19.8%
Miscellaneous Piers	10.7%	14.9%	10.2%	10.8%	10.6%
Housing Revenue Account	22.5%	18.7%	17.7%	16.9%	14.0%

The estimates of financing costs include current commitments and the proposals in this budget report.

The above ratio for the Housing Revenue Account shows the amount of rent income being committed to servicing the long-term debt associated with the Authority's house building strategy and as such, 35% should be regarded as the upper limit for the cost of capital relative to net revenue on the Housing Revenue Account, for the term of the current 5-year capital programme.

HRA Ratios

£	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
HRA debt £m	8.990	9.992	10.718	10.351	10.074
HRA revenues £m	4.186	4.343	4.499	4.782	5.013
Ratio of debt to revenues %	46.6%	43.5%	42.0%	46.2%	49.8%

£	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
HRA debt £m	8.990	9.992	10.718	10.351	10.074
Number of HRA dwellings £m	994	1008	1012	1025	1038
Debt per dwelling £	9.044	9.913	10.591	10.099	9.705

5.1.3 Maturity Structure of Borrowing

Maturity structure of borrowing. These gross limits are set to reduce the Authority's exposure to large, fixed rate sums falling due for refinancing and are required for upper and lower limits.

The Authority is asked to approve the following treasury indicators and limits:

Maturity structure of fixed interest rate borrowing 2024/25		
	Lower	Upper
Under 12 months	25%	25%
12 months to 2 years	0%	10%
2 years to 5 years	0%	15%
5 years to 10 years	0%	0%
10 years to 20 years	0%	0%
20 years and above	75%	50%

5.1.4. Control of Interest Rate Exposure

Please see paragraphs 3.3, 3.4 and 4.4.

5.2 Interest Rate Forecasts 2023-2026

Link Group Interest Rate View 08.01.24	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	4.80	4.30	3.80	3.30	3.00	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.20	5.10	4.60	4.10	3.70	3.30	3.10	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.00	4.90	4.40	3.90	3.60	3.20	3.10	3.10	3.10	3.10	3.10	3.20	3.20
5 yr PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 yr PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 yr PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50 yr PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

PWLB forecasts are based on PWLB certainty rates.

5.3 Economic Background

- The third quarter of 2023/24 saw:
  - A 0.3% m/m decline in real GDP in October, potentially partly due to unseasonably wet weather, but also due to the ongoing drag from higher interest rates. Growth for the second quarter, ending 30th September, was revised downwards to -0.1% and growth on an annual basis was also revised downwards, to 0.3%;
  - A sharp fall in wage growth, with the headline 3myy rate declining from 8.0% in September to 7.2% in October, although the ONS “experimental” rate of unemployment has remained low at 4.2%;
  - CPI inflation continuing on its downward trajectory, from 8.7% in April to 4.6% in October, then again to 3.9% in November;
  - Core CPI inflation decreasing from April and May’s 31 years’ high of 7.1% to 5.1% in November, the lowest rate since January 2022;
  - The Bank of England holding Bank Rate at 5.25% in November and December;
  - A steady fall in 10-year gilt yields as investors revised their interest rate expectations lower.
- The revision of GDP data in Q2 to a 0.1% q/q fall may mean the mildest of mild recessions has begun. Indeed, real GDP in October fell 0.3% m/m which does suggest that the economy may stagnate again in Q3. The weakness in October may partly be due to the unseasonably wet weather. That said, as the weakness was broad based it may also be the case that the ongoing drag from higher interest rates is more than offsetting any boost from the rise in real wages.
- However, the rise in the flash composite activity Purchasing Managers Index, from 50.7 in November to 51.7 in December, did increase the chances of the economy avoiding a contraction in Q3. The improvement was entirely driven by the increase in the services activity balance from 50.9 to 52.7. (Scores above 50 point to expansion in the economy, although only tepid in this instance.) The press release noted that this was primarily driven by a revival in consumer demand in the technological and financial services sectors. This chimes with the further improvement in the GfK measure of consumer confidence in December, from -24 to -22. The services PMI is now consistent with non-retail services output growing by 0.5% q/q in Q3, but this is in stark contrast to the

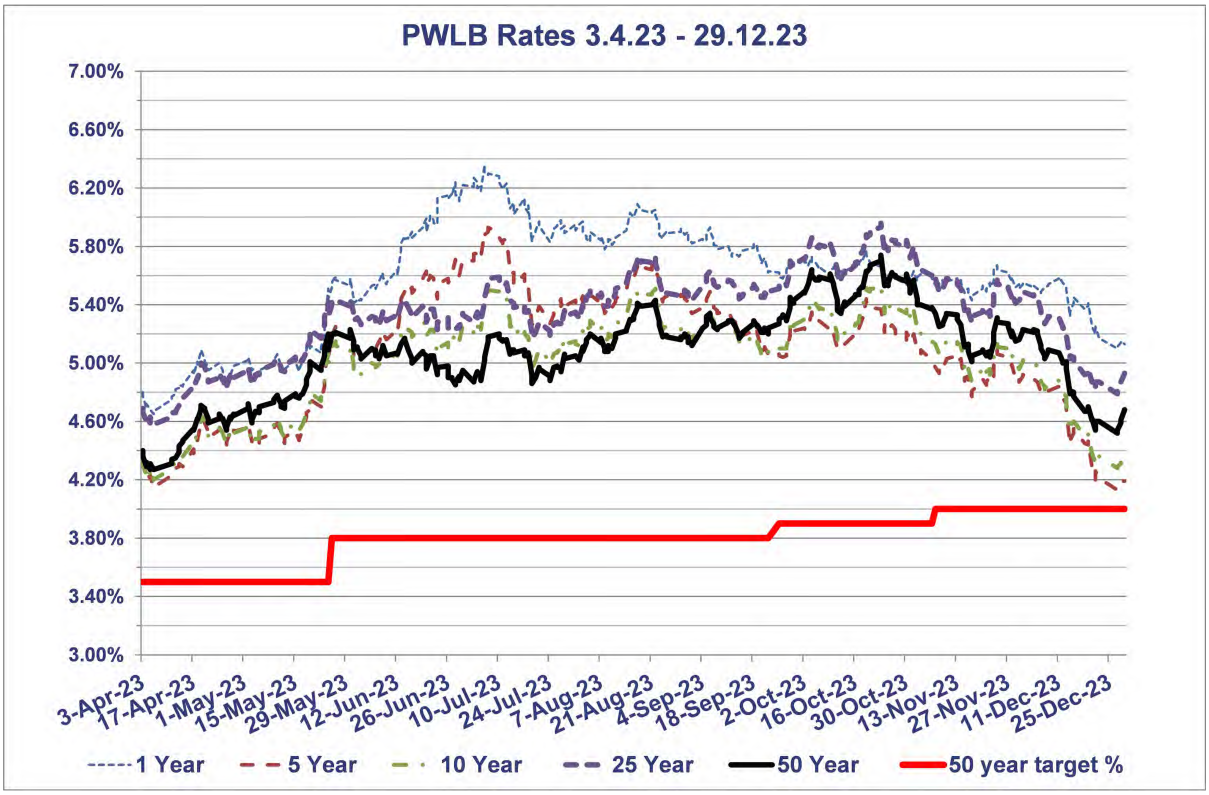
manufacturing sector where the output balance slumped from 49.2 to 45.9 and, at face value, the output balance is consistent with a 1.5% q/q fall in manufacturing output in Q3.

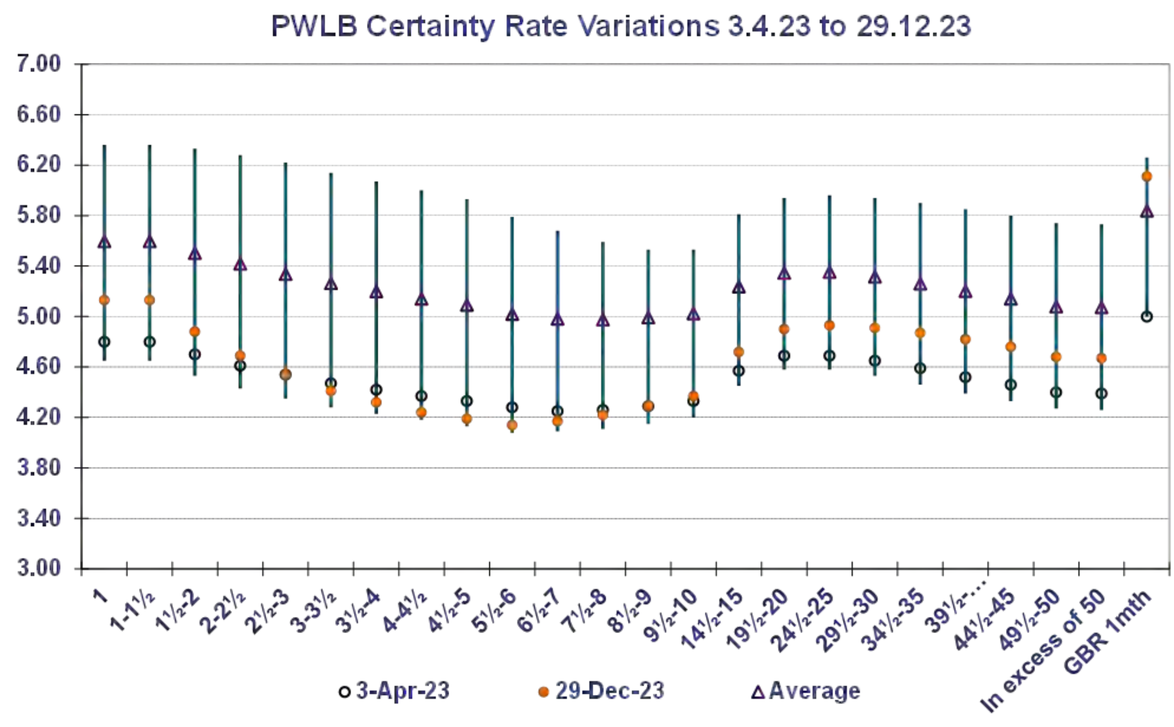
- The 0.3% m/m fall in retail sales volumes in October means that after contracting by 1.0% q/q (which was downwardly revised from -0.8% q/q) in Q2, retail activity remained weak at the start of Q3. That suggests higher interest rates are taking a bigger toll on real consumer spending.
- Higher interest rates have filtered through the financial channels and weakened the housing market but, overall, it remains surprisingly resilient with the Halifax house price index recently pointing to a 1.7% year on year increase whilst Nationwide's December data pointed to a -1.8% year on year decrease. However, the full weakness in real consumer spending and real business investment has yet to come as currently it is estimated that around two thirds to a half of the impact of higher interest rates on household interest payments has yet to be felt.
- Overall, we expect real GDP growth to remain subdued throughout 2024 as the drag from higher interest rates is protracted but a fading of the cost-of-living crisis and interest rate cuts in the second half of 2024 will support a recovery in GDP growth in 2025.
- The labour market remains tight by historical standards, but the sharp fall in wage growth seen in October will reinforce the growing belief in markets that interest rates will be cut mid-2024. Wage growth eased in October much faster than the consensus expected. Total earnings fell by 1.6% m/m, which meant the headline 3myy rate eased from 8.0% in September to 7.2% in October. This news will be welcomed by the Bank of England. Indeed, the timelier three-month annualised rate of average earnings growth fell from +2.4% to -1.2%. Excluding bonuses, it fell from 5.3% to 2.0%. Furthermore, one of the Bank's key barometers of inflation persistence, regular private sector pay growth, dropped from 7.9% 3myy to 7.3%, which leaves it comfortably on track to fall to 7.2% by December, as predicted by the Bank in November.
- The fall in wage growth occurred despite labour demand being stronger in October than expected. The three-month change in employment eased only a touch from +52,000 in September to +50,000 in October. But resilient labour demand was offset by a further 63,000 rise in the supply of workers in the three months to October. That meant labour supply exceeded its pre-pandemic level for the first time, and the unemployment rate remained at 4.2% in October. In the three months to November, the number of job vacancies fell for the 17th month in a row, from around 959,000 in October to around 949,000. That has reduced the vacancy to unemployment ratio as demand for labour eases relative to supply, which may support a further easing in wage growth in the coming months.
- CPI inflation fell from 6.7% in September to 4.6% in October, and then again to 3.9% in November. Both these falls were bigger than expected and there are clear signs of easing in domestic inflationary pressures. The fall in core CPI inflation from 5.7% to 5.1% in November was bigger than expected (consensus forecast 5.6%). That's the lowest rate since January 2022. Some of the decline in core inflation was due to the global influence of core goods inflation, which

slowed from 4.3% to 3.3%. But some of it was due to services inflation falling from 6.6% to 6.3%. The Bank views the latter as a key barometer of the persistence of inflation and it came in further below the Bank's forecast of 6.9% in its November Monetary Policy Report. This will give the Bank more confidence that services inflation is now on a firmly downward path.

- The Bank of England sprung no surprises with its December monetary policy committee (MPC) meeting, leaving interest rates at 5.25% for the third time in a row and pushing back against the prospect of near-term interest rate cuts. The Bank continued to sound hawkish, with the MPC maintaining its tightening bias saying that "further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures". And it stuck to the familiar script, saying that policy will be "sufficiently restrictive for sufficiently long" and that "monetary policy is likely to need to be restrictive for an extended period of time". In other words, the message is that the MPC is not yet willing to endorse investors' expectations that rates will be cut as soon as May 2024.
- Looking ahead, our colleagues at Capital Economics forecast that the recent downward trends in CPI and core inflation will stall over the next few months before starting to decline more decisively again in February. That explains why we think the Bank of England won't feel comfortable cutting interest rates until H2 2024.
- The fall in UK market interest rate expectations in December has driven most of the decline in 10-year gilt yields, which have fallen in line with 10-year US Treasury and euro-zone yields. 10-year gilt yields have fallen from 4.68% in October 2023 to around 3.70% in early January, with further declines likely if the falling inflation story is maintained.
- Investors' growing expectations that the Fed will cut interest rates soon has led to an improvement in risk sentiment, which has boosted the pound and other risky assets. In addition, the rise in the pound, from $1.21 in November to $1.27 now, has also been supported by the recent relative decline in UK wholesale gas prices.
- The further fall in 10-year real gilt yields in December has supported the recent rise in the FTSE 100. That said, the index remains 5% below its record high in February 2023. This modest rise in equities appears to have been mostly driven by strong performances in the industrials and rate-sensitive technology sectors. But UK equities have continued to underperform US and euro-zone equities. The FTSE 100 has risen by 2.2% in December, while the S&P 500 has risen by 3.8%. This is partly due to lower energy prices, which have been a relatively bigger drag on the FTSE 100, due to the index's high concentration of energy companies.

In the chart below, the rise in gilt yields across the curve in the first half of 2023/24, and therein PWLB rates, is clear to see, prior to the end of the year rally based on a mix of supportive domestic and international factors.


PWLB Rates 3.4.23 - 29.12.23
7.00%
6.60%
6.20%
5.80%
5.40%
5.00%
4.60%
4.20%
3.80%
3.40%
3.00%
3-Apr-23
17-Apr-23
1-May-23
15-May-23
29-May-23
12-Jun-23
26-Jun-23
10-Jul-23
24-Jul-23
7-Aug-23
21-Aug-23
4-Sep-23
18-Sep-23
2-Oct-23
16-Oct-23
30-Oct-23
13-Nov-23
27-Nov-23
11-Dec-23
25-Dec-23
1 Year
5 Year
10 Year
25 Year
50 Year
50 year target %


PWLB Certainty Rate Variations 3.4.23 to 29.12.23
7.00
6.60
6.20
5.80
5.40
5.00
4.60
4.20
3.80
3.40
3.00
1
1-1½
1½-2
2-2½
2½-3
3-3½
3½-4
4-4½
4½-5
5½-6
6½-7
7½-8
8½-9
9½-10
14½-15
19½-20
24½-25
29½-30
34½-35
39½-...
44½-45
49½-50
In excess of 50
GBR 1mth
3-Apr-23
29-Dec-23
Average

HIGH/LOW/AVERAGE PWLB RATES FOR 03.04.23-29.12.23

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	4.65%	4.13%	4.20%	4.58%	4.27%
Date	06/04/2023	27/12/2023	06/04/2023	06/04/2023	05/04/2023
High	**6.36%**	**5.93%**	**5.53%**	**5.96%**	**5.74%**
Date	06/07/2023	07/07/2023	23/10/2023	23/10/2023	23/10/2023
Average	5.60%	5.09%	5.03%	5.35%	5.08%
Spread	1.71%	1.80%	1.33%	1.38%	1.47%

MPC meetings 2nd November and 14th December 2023

- On 2nd November, the Bank of England's Monetary Policy Committee (MPC) voted to keep Bank Rate on hold at 5.25%, and on 14th December reiterated that view. Both increases reflected a split vote, the latter by 6 votes to 3, with the minority grouping voting for an increase of 0.25% as concerns about "sticky" inflation remained in place.
- Nonetheless, with UK CPI inflation now at 3.9%, and core inflating beginning to moderate (5.1%), markets are voicing a view that rate cuts should begin in Q1 2024/25, some way ahead of the indications from MPC members. Of course, the data will be the ultimate determinant, so upcoming publications of employment, wages and inflation numbers will be of particular importance, and on-going volatility in Bank Rate expectations and the gilt yield curve can be expected.
- In addition, what happens outside of the UK is also critical to movement in gilt yields. The US FOMC has kept short-term rates in the range of 5.25%-5.50%, whilst the ECB has moved its Deposit rate to a probable peak of 4%. Markets currently expect both central banks to start cutting rates in 2024.

5.4 Treasury Management Practice (TMP1): Permitted Investments

This Authority approves the following forms of investment instrument for use as permitted investments as set out in table 1 and table 2.

Treasury risks

All the investment instruments in tables 1 and 2 are subject to the following risks:

1. **Credit and counterparty risk:** this is the risk of failure by a counterparty (bank or building society) to meet its contractual obligations to the organisation particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources. There are no counterparties where this risk is zero although AAA rated organisations have the highest, relative, level of creditworthiness.
2. **Liquidity risk:** this is the risk that cash will not be available when it is needed. While it could be said that all counterparties are subject to at least a very small level of liquidity risk as credit risk can never be zero, in this document, liquidity risk has been treated as whether or not instant access to cash can be obtained from each form of investment instrument. However, it has to be pointed out that while some forms of investment e.g. gilts, CDs, corporate bonds can usually be sold immediately if the need arises, there are two caveats: - a. cash may not be available until a settlement date up to three days after the sale, b. there is an

implied assumption that markets will not freeze up and so the instrument in question will find a ready buyer. The column in tables 1 & 2 headed as ‘market risk’ will show each investment instrument as being instant access, sale T+3 = transaction date plus 3 business days before you get cash, or term i.e. money is locked in until an agreed maturity date.

3. **Market risk:** this is the risk that, through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately. However, some cash rich local authorities may positively want exposure to market risk e.g., those investing in investment instruments with a view to obtaining a long-term increase in value.
4. **Interest rate risk**: this is the risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation’s finances, against which the organisation has failed to protect itself adequately. This Authority has set limits for its fixed and variable rate exposure in its Treasury Indicators in this report. It also manages interest rate risk by maintaining a number of discrete investment portfolios which are managed by external fund managers. The separation of equites, multi-asset and bond investments in this way effectively minimises the Council’s exposure to interest rate movements.
5. **Legal and regulatory risk:** this is the risk that the organisation itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the organisation suffers losses accordingly.

Controls on treasury risks

1. **Credit and counterparty risk:** this Authority has set minimum credit criteria to determine which counterparties and countries are of sufficiently high creditworthiness to be considered for investment purposes. See paragraphs 4.2 and 4.3.
2. **Liquidity risk:** this Authority has a cash flow forecasting model to enable it to determine how long investments can be made for and how much can be invested.
3. **Market risk:** this is a risk that, through adverse market fluctuations in the value of the principle sums an organisation borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately. However, as a cash rich local authority the Council carries an active exposure to market risk, e.g. those investing in investment instruments through the Strategic Reserve Fund with a view to obtaining a long-term increase in value.
4. **Interest rate risk**: this Authority manages this risk by having a view of the future course of interest rates and then formulating a treasury management strategy accordingly which aims to maximise investment earnings consistent with control of risk or alternatively, seeks to minimise expenditure on interest costs on borrowing. See paragraph 4.4.
5. **Legal and regulatory risk:** this Authority will not undertake any form of investing until it has ensured that it has all necessary powers and also complied with all regulations. This applies to all types of investment instruments.

Unlimited investments

Regulation 24 states that an investment can be shown in tables 1 & 2 as being ‘unlimited’ in terms of the maximum amount or percentage of the total portfolio that can be put into that type of investment. However, it also requires that an explanation must be given for using that category.

The Authority has given the following types of investment an unlimited category: -

1. **Debt Management Agency Deposit Facility.** This is considered to be the lowest risk form of investment available to local authorities as it is operated by the Debt Management Office which is part of H.M. Treasury i.e. the UK Government’s sovereign rating stands behind the DMADF. It is also a deposit account and avoids the complications of buying and holding Government issued treasury bills or gilts.
2. **High creditworthiness banks and building societies.** See paragraph 4.2 for an explanation of this Authority’s definition of high creditworthiness. While an unlimited amount of the investment portfolio may be put into banks and building societies with high creditworthiness, the Authority will ensure diversification of its portfolio by ensuring that no more than 25% of the total portfolio can be placed with any one institution or group at any one time.
3. **The Council’s Current Provider of Banking Services.** In normal circumstances the authority will ensure diversification of its portfolio ensuring that no more than 25% of the total portfolio can be placed with any one institution or group at any one time. In restricted circumstances, however, to be determined on a case by case basis by the Section 95 Officer to the Council, the Council’s banker is further authorised to hold an unlimited amount, or up to 100%, of Council funds either in the form of cash or bonds as part of the transition process or portfolio restructuring exercise, in respect of the Strategic Reserve Fund managed fund investments, for a maximum period of up to 7 working days.

Objectives of each type of investment instrument

Regulation 25 requires an explanation of the objectives of every type of investment instrument which an Authority approves as being 'permitted'.

1. Deposits

The following forms of 'investments' are actually more accurately called deposits as cash is deposited in an account until an agreed maturity date or is held at call.

a) **Debt Management Agency Deposit Facility.** This offers the lowest risk form of investment available to local authorities as it is effectively an investment placed with the Government. It is also easy to use as it is a deposit account and avoids the complications of buying and holding Government issued treasury bills or gilts. As it is low risk it also earns low rates of interest. However, it is very useful for authorities whose overriding priority is the avoidance of risk. The longest period for a term deposit with the DMADF is 6 months.

b) **Term deposits with high creditworthiness banks and building societies.** See paragraph 4.2 for an explanation of this Authority's definition of high creditworthiness. This is the most widely used form of investing used by local authorities. It offers a much higher rate of return than the DMADF (dependent on term). The Authority will ensure diversification of its portfolio of deposits ensuring that no more than 25% of the total portfolio can be placed with any one institution or group. In addition, longer term deposits offer an opportunity to increase investment returns by locking in high rates ahead of an expected fall in the level of interest rates. At other times, longer term rates can offer good value when the markets incorrectly assess the speed and timing of interest rate increases. This form of investing therefore, offers a lot of flexibility and higher earnings than the DMADF. Where it is restricted is that once a longer-term investment is made, that cash is locked in until the maturity date.

c) **Call accounts with high creditworthiness banks and building societies.** The objectives are as for 1b. but there is instant access to recalling cash deposited. This generally means accepting a lower rate of interest than that which could be earned from the same institution by making a term deposit. Some use of call accounts is highly desirable to ensure that the Authority has ready access to cash when needed to pay bills.

d) **Fixed term deposits with variable rate and variable maturities (structured deposits).** This line encompasses ALL types of structured deposits. There has been considerable change in the types of structured deposits brought to the market over the last few years, some of which are already no longer available. In view of the fluidity of this area, this is a generic title for all structured deposits so as to provide authorities with greater flexibility to adopt new instruments as and when they are brought to the market. However, this does mean that members ought to be informed as to what instruments are presently under this generic title so that they are aware of the current situation, and that they are informed and approve of intended changes in an appropriate manner.

e) **Collateralised deposits.** These are deposits placed with a bank which offers collateral backing based on specific assets. Examples seen in the past have included local authority LOBOs, where such deposits are effectively lending to a local authority as that is the ultimate security.

2. Deposits with Counterparties Currently in Receipt of Government Support / Ownership

These banks offer another dimension of creditworthiness in terms of Government backing through either partial or full direct ownership. The view of this Authority is that such backing makes these banks attractive institutions with whom to place deposits, and that will remain our view if the UK sovereign rating were to be downgraded in the coming year.

a. **Term deposits with high creditworthiness banks which are fully or semi nationalised.** As for 1b. but Government full, (or substantial partial), ownership, implies that the Government stands behind this bank and will be deeply committed to providing whatever support that may be required to ensure the continuity of that bank. This Authority considers that this indicates a low and acceptable level of residual risk.

b. **Fixed term deposits with variable rate and variable maturities (structured deposits).** This line encompasses ALL types of structured deposits. There has been considerable change in the types of structured deposits brought to the market over the last few years, some of which are already no longer available. In view of the fluidity of this area, this is a generic title for all structured deposits so as to provide councils with greater flexibility to adopt new instruments as and when they are brought to the market. However, this does mean that members ought to be informed as to what instruments are presently covered under this generic title so that they are aware of the current situation, and that they are informed and approve of intended changes in an appropriate manner.

3. Collective Investment Schemes Structured as Open-Ended Investment Companies (OEICS)

a. **Government liquidity funds.** These are the same as MMFs (see below) but only invest in government debt issuance with highly rated governments. Due to the higher quality of underlying investments, they offer a lower rate of return than MMFs. However, their net return is typically on a par with the DMADF, but with instant access.

b. **Money Market Funds (MMFs).** By definition, MMFs are AAA rated and are widely diversified, using many forms of money market securities including types which this Authority does not currently have the expertise or capabilities to hold directly. However, due to the high level of expertise of the fund managers and the huge amounts of money invested in MMFs, and the fact that the weighted average maturity (WAM) cannot exceed 60 days, MMFs offer a combination of high security, instant access to funds, high diversification and good rates of return compared to equivalent instant access facilities. They are particularly advantageous in falling interest rate environments as their 60-day WAM means they have locked in investments earning higher rates of interest than are currently available in the market. MMFs also help an authority to diversify its own portfolio as e.g. a £2m investment placed directly with HSBC is a 100% risk exposure to HSBC whereas

£2m invested in a MMF may end up with say £10,000 being invested with HSBC through the MMF. For authorities particularly concerned with risk exposure to banks, MMFs offer an effective way of minimising risk exposure while still getting much better rates of return than available through the DMADF.

c. **Ultra-short dated bond funds.** These funds are similar to MMFs, can still be AAA rated but have Variable Net Asset Values (VNAV) as opposed to a traditional MMF which has a Constant Net Asset Value (CNAV). They aim to achieve a higher yield and to do this either take more credit risk or invest out for longer periods of time, which means they are more volatile. These funds can have WAM's and Weighted Average Life (WAL's) of 90 – 365 days or even longer. Their primary objective is yield and capital preservation is second. They therefore are a higher risk than MMFs and correspondingly have the potential to earn higher returns than MMFs.

d. **Gilt funds.** These are funds which invest only in U.K. Government gilts. They offer a lower rate of return than bond funds but are highly rated both as a fund and through investing only in highly rated government securities. They offer a higher rate of return than investing in the DMADF, but they do have an exposure to movements in market prices of assets held.

e. **Bond funds.** These can invest in both government and corporate bonds. This therefore entails a higher level of risk exposure than gilt funds and the aim is to achieve a higher rate of return than normally available from gilt funds by trading in non-government bonds.

4. Securities Issued or Guaranteed by Governments

The following types of investments are where an authority directly purchases a particular investment instrument, a security, i.e. it has a market price when purchased and that value can change during the period the instrument is held until it matures or is sold. The annual earnings on a security is called a yield i.e. it is normally the interest paid by the issuer divided by the price you paid to purchase the security unless a security is initially issued at a discount e.g. treasury bills.

a. **Treasury bills.** These are short term bills, (up to 18 months but usually 9 months or less), issued by the Government and so are backed by the sovereign rating of the UK. The yield is higher than the rate of interest paid by the DMADF and another advantage compared to a time deposit in the DMADF is that they can be sold if there is a need for access to cash at any point in time. However, there is a spread between purchase and sale prices so early sales could incur a net cost during the period of ownership.

b. **Gilts.** These are longer term debt issuance by the UK Government and are backed by the sovereign rating of the UK. The yield is higher than the rate of interest paid by the DMADF and another advantage compared to a time deposit in the DMADF is that they can be sold if there is a need for access to cash at any point in time. However, there is a spread between purchase and sale prices so early sales may incur a net cost. Market movements that occur between purchase and sale may also have an adverse impact on proceeds. The advantage over Treasury bills is that they generally offer higher yields the longer it is to maturity (for most periods) if the yield curve is positive.

c. **Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government** e.g. National Rail. This is similar to a gilt due to the explicit Government guarantee.

d. **Sovereign bond issues (other than the UK govt) denominated in Sterling.** As for gilts but issued by other nations. Use limited to issues of nations with at least the same sovereign rating as for the UK.

e. **Bonds issued by Multi-Lateral Development Banks (MLDBs).** These are similar to c. and d. above but are issued by MLDBs which are typically guaranteed by a group of sovereign states e.g. European Bank for Reconstruction and Development.

5. Securities Issued by Corporate Organisations

The following types of investments are where an authority directly purchases a particular investment instrument, a security, i.e. it has a market price when purchased and that value can change during the period the instrument is held until it is sold. The annual earning on a security is called a yield i.e. is the interest paid by the issuer divided by the price you paid to purchase the security. These are similar to the previous category, but corporate organisations can have a wide variety of creditworthiness, so it is essential for local authorities to only select the organisations with the highest levels of credit worthiness. Corporate securities are generally a higher risk than government debt issuance and so earn higher yields.

a. **Certificates of deposit (CDs).** These are shorter term securities issued by deposit taking institutions (mainly financial institutions). They are negotiable instruments, so can be sold ahead of maturity and also purchased after they have been issued. However, that liquidity can come at a price, where the yield could be marginally less than placing a deposit with the same bank as the issuing bank.

b. **Commercial paper.** This is similar to CDs but is issued by commercial organisations or other entities. Maturity periods are up to 365 days but commonly 90 days.

c. **Corporate bonds.** These are (long term) bonds (usually bearing a fixed rate of interest) issued by a financial institution, company or other non-government issuer in order to raise capital for the institution as an alternative to issuing shares or borrowing from banks. They are generally seen to be of a lower creditworthiness than government issued debt and so usually offer higher rates of yield.

d. **Floating rate notes.** These are bonds on which the rate of interest is established periodically with reference to short-term interest rates.

6. Other

Property fund. This is a collective investment fund specialising in property. Rather than owning a single property with all the risk exposure that means to one property in one location rising or falling in value, maintenance costs, tenants paying their rent / lease etc., a collective fund offers the advantage of diversified investment over a wide portfolio of different properties. This can be attractive for authorities who want exposure to the potential for the property sector to rise in value. However, timing is critical to entering or leaving this sector at the optimum times of the property cycle of rising and falling values. Typically, the minimum investment time horizon for considering such funds is at least 3-5 years.

Diversified Growth Fund. This is a collective investment fund specialising in a diversified investment approach. Rather than holding individual stocks and shares a collective fund offers the advantage of more diversified investment over a wider portfolio of investments and range of asset classes. This can be attractive for authorities who want exposure to the potential for asset classes including listed equities, private equity, high yield and investment grade bonds, structured finance, emerging market bonds, absolute return, insurance linked, commodities, infrastructure and currency assets to rise in value. By their very nature, some of these asset classes are regarded as being higher risk and as such it is not considered prudent to hold individual stocks as a direct investment. The risk profile of the collective investment fund is managed as a whole to smooth out the volatility in terms of the performance of individual investments and across asset classes.

Enhanced Yield Debt or Multi Asset Credit Fund. This is a collective investment fund specialising in enhanced yield debt focused strategies or multi asset credit investment approach. Rather than holding individual stocks and shares a collective fund offers the advantage of targeting a select group of investments and range of asset classes. This can be attractive for authorities who want exposure to the specialist area of enhanced yield debt strategies or multi asset credit asset classes including for example senior secured corporate debt, high yield, mezzanine corporate debt, property debt, infrastructure debt, asset-backed securities and distressed debt. Some of these asset classes are regarded as being both higher risk and by their nature can be more illiquid, as such it is not considered prudent to hold individual stocks as a direct investment. The risk profile of the collective investment fund is managed as a whole to smooth out the volatility in terms of the performance of individual investments and across asset classes.

Private Debt Fund. This is an investment fund specialising in directly originated senior secured loans to private equity-owned businesses. Private debt provides a spread pick-up versus the syndicated loan markets. The privately negotiated debt deals tend to be structured with strong financial covenants which protect lenders. Lenders in the private credit market can also benefit from origination fees, which benefit banks in the syndicated market.

Strategic Alternative Income Fund. This is a collective investment fund specialising in private market assets. Rather than holding individual stocks and shares a collective fund offers the advantage of targeting a select group of investments and range of asset classes. This can be attractive for authorities who want exposure to the potential for asset classes including infrastructure debt, renewable energy, real estate debt, long lease property and private credit. By their very nature, some of these asset classes are regarded as being higher risk and can be more illiquid, as such it is not considered prudent to hold individual stocks as a direct investment. This type of fund is designed to deliver predictable, long-term cash flows that have explicit and implicit linkage to inflation.

Table 1: Permitted Investments in House – Treasury Management and Common Good

This table is for use by the in-house treasury management team.

1.1 Deposits

	* Minimum Credit Criteria / colour banding	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
Debt Management Agency Deposit Facility (DMADF)	--	term	no	100%	6 months
Term Deposits – local authorities	--	term	no	100%	2 years
Call Accounts – banks and building societies **	Green	instant	no	100%	2 years
Term Deposits – banks and building societies **	Green	term	no	100%	2 years
Fixed Term Deposits with variable rate and variable maturities: - Structured deposits.	Green	term	no	20%	2 years
Collateralised Deposit (see note 2)	UK sovereign rating or note 1	term	no	20%	2 years

1.2 Deposits with counterparties currently in receipt of government support / ownership

	* Minimum Credit Criteria / colour banding	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
UK part nationalised banks	See note 1	term	no	100%	2 years
Banks part nationalised by high credit rated (sovereign rating) countries – non-UK	Sovereign rating or note 1	term	no	20%	2 years
Fixed term deposits with variable rate and variable maturities: - Structured deposits	See note 1	term	yes	20%	2 years

1.3 Collective investment schemes structured as Open-Ended Investment Companies (OEICs)

	* Minimum Fund Rating	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
1a. Money Market Funds (CNAV)	MMF rating	instant	No See app 5.5	20%	60-day weighted average
1b. Money Market Funds (LVNAV)	MMF rating	instant	No See app 5.5	20%	60-day weighted average
1c. Money Market Funds (VNAV)	MMF rating	instant	No See app 5.5	20%	60-day weighted average
2a. Ultra-Short Dated Bond Funds with a credit score of 1.25	Bond fund rating	T+1 to T+5	yes	20%	90-day weighted average
2b. Ultra-Short Dated Bond Funds with a credit score of 1.5	Bond fund rating	T+1 to T+5	yes	20%	90-day weighted average
3. Bond Funds	Bond fund rating (or alternative measure if not rated)	T+2 or longer	yes	20%	10-year weighted average
4. Gilt Funds	UK sovereign rating	T+2 or longer	yes	20%	10-year weighted average

1.4 Securities issued or guaranteed by governments

	* Minimum Credit Criteria	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
Treasury Bills	UK sovereign rating	Sale T+1	yes	20%	1 year
UK Government Gilts	UK sovereign rating	Sale T+1	yes	20%	30 years
Bond issued by a financial institution which is explicitly guaranteed by the UK Government e.g. National Rail	UK sovereign rating	Sale T+3	yes	20%	30 years
Sovereign Bond issues (other than the UK govt)	AAA (or state your criteria if different)	Sale T+1	yes	20%	30 years
Bonds issued by multilateral development banks	AAA (or state your criteria if different)	Sale T+1	yes	20%	30 years

1.5 Securities issued by corporate organisations

	* Minimum Credit Criteria	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
Certificates of Deposit issued by banks and building societies	Green	Sale T+0	yes	20%	2 year
Commercial Paper other	Short-term F1, A1, P1, Long-term A, Viability C, Support 2	Sale T+0	yes	20%	90 days
Floating rate notes	Short-term F1, A1, P1, Long-term A, Viability C, Support 2	Sale T+0	yes	20%	30 years
Corporate Bonds other	Short-term F1, A1, P1, Long-term A, Viability C, Support 2	Sale T+3	yes	20%	30 years

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Authority To ensure that the Authority is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

1.6 Other

	*** Minimum Credit Criteria / fund rating**	**Liquidity risk**	**Market risk**	**Max % of total investments**	**Max. maturity period**
Property Funds	--	T+4	yes	20%	30 years
Diversified Growth Funds	-	T+4	Yes	20%	30 years
Enhanced Yield Debt Strategies or Multi Asset Fund	-	T+4	Yes	20%	30 years
Local authority mortgage scheme	Short-term F1, A1, P1, Long-term AA-, Viability B, Support 3			£5M	5 years

Table 2: permitted investments for use by external fund managers – Strategic Reserve Fund and Common Good

2.1 Deposits

	* Minimum Credit Criteria	**Liquidity risk**	**Market risk**	**Max % of total investments**	Max. maturity period
Term Deposits – local authorities	--	term	no	100%	2 years
Call Accounts – banks and building societies **	See note 1	instant	no	100%	On call
Term Deposits – banks and building societies **	* Short-term F1, A1 P1, Long-term A	term	no	100%	2 years
Collateralised Deposit (see note 2)	UK sovereign rating or note 1	term	no	20%	2 years

2.2 Deposits with counterparties currently in receipt of government support / ownership

	*** Minimum Credit Criteria**	**Liquidity risk**	**Market risk**	**Max % of total investments**	**Max. maturity period**
UK part nationalised banks	UK sovereign rating	Term or instant	no	20%	2 years
Banks part nationalised by high credit rated (sovereign rating) countries – non-UK**	UK sovereign rating or AA- long-term rating	Term or instant	no	20%	2 years

2.3 Collective investment schemes structured as Open-Ended Investment Companies (OEICs)

	*** Minimum Fund Rating**	**Liquidity risk**	**Market risk**	**Max % of total investments**	**Max. maturity period**
1a. Money Market Funds (CNAV)	MMF rating	instant	No see app 5.5	20%	60 days weighted average
1b. Money Market Funds (LVNAV)	MMF rating	instant	No see app 5.5	20%	60 days weighted average
1c. Money Market Funds (VNAV)	MMF rating	instant	No see app 5.5	20%	60 days weighted average
2. Ultra-Short Dated Bond funds with a credit score of 1.25	Bond fund rating	T+>1	yes	20%	90 days weighted average
3. Ultra-Short Dated Bond funds with a credit score of 1.5	Bond fund rating	T+>1	yes	20%	10 years weighted average

4. Bond Funds	Bond fund rating (or alternative measure if not rated)	T+>1	yes	20%	10 years weighted average
5. Gilt Funds	Bond fund rating (or alternative measure if not rated)	T+>1	yes	20%	10 years weighted average

2.4 Securities issued or guaranteed by governments

	* Minimum Credit Criteria	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
Treasury Bills	UK sovereign rating	Sale T+1	yes	20%	1 year
UK Gilts	UK sovereign rating	Sale T+1	yes	20%	100 years
Bond issued by a financial institution which is explicitly guaranteed by the UK Government e.g. National Rail	UK sovereign rating	Sale T+3	yes	20%	100 years
Sovereign Bond issues (other than the UK govt)	AAA (or state your criteria if different)	Sale T+1	yes	20%	100 years
Bonds issued by Multilateral Development Banks	AAA (or state your criteria if different)	Sale T+1	yes	20%	100 years

2.5 Securities issued by corporate organisations

	* Minimum Credit Criteria	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
Certificates of Deposit issued by banks and building	*Short-term F1, A1, P1, Long-term A	Sale T+1	yes	20%	1 year
Commercial Paper other	* Short-term F1, A1, P1, Long-term A	Sale T+1	yes	20%	90 days
Corporate Bonds other	* Short-term F1, A1, P1, Long-term A	Sale T+3	yes	20%	75 years
Floating Rate Notes	* Long-term A	Sale T+1	yes	20%	75 years

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Authority. To ensure that the Authority is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

2.6 Other

	* Minimum Credit Criteria	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
Property Funds	-	T+4	Yes	20%	30 years
Diversified Growth Funds	-	T+4	Yes	20%	30 years
Enhanced Yield Debt Strategies or Multi Asset Funds	-	T+4	Yes	20%	30 years
Infrastructure Equity	-	T+4	Yes	20%	50 years
Illiquid or Private Debt Funds	-	T+4	Yes	20%	30 years
Secured Income/Secured Finance		T+4	Yes	20%	30 years

It should be noted that the external fund managers appointed to manage the Council's managed fund portfolios are authorised through agreed investment guidelines to hold permitted investments in the form of non-treasury investments as described in Appendix 6 to this strategy document i.e. equity shares, unit trusts and bond holdings.

2.7. Permitted Investments – Non Treasury Investments.

Definition of non-treasury investments

Regulation 9 adds to the normal definition of investments the following categories:-

- a. All shareholding, unit holding and bond holding, including those in a local authority owned company, is an investment.
- b. Loans to a local authority company or other entity formed by a local authority to deliver services, is an investment.
- c. Loans made to third parties are investments.
- d. Investment property is an investment.

However, the following loans are excluded from the definition of investments:

- Loans made by a local authority to another authority or harbour authority using powers contained in Regulation 2(1)(e) of The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016.

Regulation 24. A local authority shall state the limits for the amounts which, at any time during the financial year, may be invested in each type of permitted investment, such limit being applied when the investment is made. The limits may be defined by reference to a sum of money or a percentage of the local authority's overall investments, or both. A local authority may state that a permitted investment is unlimited. Where a limit is not placed on any type of permitted investment the risk assessment must support that categorisation and an explanation provided as to why an unlimited categorisation is recommended.

Regulation 25. The local authority should identify for each type of permitted investment the objectives of that type of investment. Further, the local authority should identify the treasury risks associated with each type of investment, together with the controls put into place to limit those risks. Treasury risks include credit or security risk of default, liquidity risk – the risks associated with committing funds to longer term investments and market risk – the effect of market prices on investment value.

Regulation 32. The Strategy shall include details of the maximum value and maximum periods for which funds may prudently be invested. The Strategy shall set out the local authority objectives for holding longer term investments. The Strategy shall also refer to the procedures for reviewing the holding of longer term investments particularly those investments held in properties, shareholdings in companies or joint ventures.

External fund managers appointed to manage the Council's managed fund portfolios are authorised through agreed investment guidelines to hold permitted investments in the form of non-treasury investments as defined above i.e. equity shares, unit trusts and bond holdings.

Under current investment guidelines fund managers are authorised to hold up to 100% of the managed funds either in the form of bonds, equities, property or unit trusts including collective investment vehicles such as diversified growth and multi asset fund investments.

Each type of permitted investment has been detailed in Table 2 above, as part of the permitted investments for use by external cash and managed fund managers.

The Consent includes as an investment any loan issued to a local authority company or other entity formed by as local authority to deliver services, or a third party, subject to a maximum amount of £25M and a maximum duration of up to 30 years.

The Consent includes as an investment any investment property up to a maximum value of £10M per investment and a maximum duration of up to 30 years.

In such cases, individual requests will be considered by the Investment Sub-Committee as a potential investment opportunity on commercial terms in the first instance, and thereafter be the subject of due diligence exercise, if supported in principle.

Such loans and property investments are often made for service reasons and for which specific statutory provision exists. Where this is the case, the relevant Services Committee will give consideration to such requests, which may include for example loans at an interest rate below the market rate subject to the state aid implications being addressed.

All loans to third parties are classified as investments for the purposes of the Consent. Where the loan is advanced at less than a market interest rate there is an associated loss of investment return which would otherwise have been earned on these monies. Annual strategies and reports will recognise all loans to third parties as investments. In such cases, these loans will be categorised, identifying the service reason together with details of those loans carrying a below market interest rate and the impact these advances have on investment returns in future reports.

5.5 Treasury Management Practice (TMP1): Credit and Counterparty Risk Management

Orkney Islands Council, including Strategic Reserve Fund, Charitable and Common Good Funds Permitted Investments, Associated Controls and Limits

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits	Common Good Limits
Cash type instruments				
a. Deposits with the Debt Management Account Facility (UK Government) (**Very low risk)**	This is a deposit with the UK Government and as such counterparty and liquidity risk is very low, and there is no risk to value. Deposits can be between overnight and 6 months.	Little mitigating controls required. As this is a UK Government investment the monetary limit is unlimited to allow for a safe haven for investments.	100%, maximum 6 months.	100%, maximum 6 months.
b. Deposits with other local authorities or public bodies **(Very low risk)**	These are considered quasi–UK Government debt and as such counterparty risk is very low, and there is no risk to value. Liquidity may present a problem as deposits can only be broken with the agreement of the counterparty, and penalties can apply. Deposits with other non-local authority bodies will be restricted to the overall credit rating criteria.	Little mitigating controls required for local authority deposits, as this is a quasi-UK Government investment. Non- local authority deposits will follow the approved credit rating criteria.	100% and maximum 2 years.	100% and maximum 2 years.
c. Money Market Funds (MMFs) (LVNAV) **(Low to very low risk)**	Pooled cash investment vehicle which provides very low counterparty, liquidity and market risk. These will primarily be used as liquidity instruments.	Funds will only be used where the MMFs has a “AAA” rated status from either Fitch, Moody’s or Standard and Poor’s.	20%	20%

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Type of Investment	Treasury Risks	Mitigating Controls	Council Limits	Common Good Limits
d. Ultra-short dated bond funds **(low risk)**	Pooled cash investment vehicle which provides very low counterparty, liquidity and market risk. These will primarily be used as liquidity instruments.	Funds will only be used where they have a “AAA” rated status from either Fitch, Moody’s or Standard and Poor’s.	20%	20%
e. Call account deposit accounts with financial institutions (banks and building societies) **(Low risk depending on credit rating)**	These tend to be low risk investments but will exhibit higher risks than categories (a), (b) and (c) above. Whilst there is no risk to value with these types of investments, liquidity is high, and investments can be returned at short notice.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody’s and Standard and Poor’s. Day to day investment dealing with these criteria will be further strengthened by use of additional market intelligence.	As shown in the counterparty section criteria above.	As shown in the counterparty section criteria above.
f. Term deposits with financial institutions (banks and building societies) **(Low to medium risk depending on period & credit rating)**	These tend to be low risk investments but will exhibit higher risks than categories (a), (b) and (c) above. Whilst there is no risk to value with these types of investments, liquidity is low and term deposits can only be broken with the agreement of the counterparty, and penalties may apply.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody’s and Standard and Poor’s. Day to day investment dealing with these criteria will be further strengthened by use of additional market intelligence.	As shown in the counterparty section criteria above.	As shown in the counterparty section criteria above.

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits	Common Good Limits
g. Government Gilts and Treasury Bills **(Very low risk)**	These are marketable securities issued by the UK Government and as such counterparty and liquidity risk is very low, although there is potential risk to value arising from an adverse movement in interest rates (no loss if these are held to maturity.	Little counterparty mitigating controls are required, as this is a UK Government investment. The potential for capital loss will be reduced by limiting the maximum monetary and time exposures.	20%, maximum 100 years.	20%, maximum 100 years.
h. Certificates of deposits with financial institutions **(Low risk)**	These are short dated marketable securities issued by financial institutions and as such counterparty risk is low but will exhibit higher risks than categories (a), (b) and (c) above. There is risk to value of capital loss arising from selling ahead of maturity if combined with an adverse movement in interest rates (no loss if these are held to maturity). Liquidity risk will normally be low.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's. Day to day investment dealing with these criteria will be further strengthened by the use of additional market intelligence.	20% and maximum 75 years.	20% and maximum 75 years.
i. Structured deposit facilities with banks and building societies (escalating rates, de-escalating rates etc.) **(Low to medium risk depending on period & credit rating)**	These tend to be medium to low risk investments but will exhibit higher risks than categories (a), (b) and (c) above. Whilst there is no risk to value with these types of investments, liquidity is very low, and investments can only be broken with the agreement of the counterparty (penalties may apply).	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's. Day to day investment dealing with these criteria will be further strengthened by the use of additional market intelligence.	As shown in the counterparty section criteria above.	As shown in the counterparty section criteria above.

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Type of Investment	Treasury Risks	Mitigating Controls	Council Limits	Common Good Limits
j. Corporate bonds **(Medium to high risk depending on period & credit rating)**	These are marketable securities issued by financial and corporate institutions. Counterparty risk will vary and there is risk to value of capital loss arising from selling ahead of maturity if combined with an adverse movement in interest rates. Liquidity risk will be low.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's. Corporate bonds will be restricted to those meeting the base criteria. Day to day investment dealing with these criteria will be further strengthened by the use of additional market intelligence.	20% and maximum 75 years.	20% and maximum 75 years.

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits	Common Good Limits
Other types of investments				
a. Investment properties	These are non-service properties which are being held pending disposal or for a longer-term rental income stream. These are highly illiquid assets with high risk to value (the potential for property prices to fall or for rental voids).	In larger investment portfolios some small allocation of property-based investment may counterbalance/compliment the wider cash portfolio. Property holding will be revalued regularly and reported annually with gross and net rental streams.	£10M and maximum of 30 years	n/a
b. Loans to third parties, including soft loans	These are service investments either at market rates of interest or below market rates (soft loans). These types of investments may exhibit credit risk and are likely to be highly illiquid.	Each third-party loan requires Member approval, and each application is supported by the service rational behind the loan and the likelihood of partial or full default.	£5M and maximum 30 years.	n/a
c. Loans to a local authority company	These are service investments either at market rates of interest or below market rates (soft loans). These types of investments may exhibit credit risk and are likely to be highly illiquid.	Each loan to a local authority company requires Member approval and each application is supported by the service rational behind the loan and the likelihood of partial or full default.	£25M and maximum 30 years.	n/a
d. Shareholdings in a local authority company	These are service investments which may exhibit market risk and are likely to be highly illiquid.	Each equity investment in a local authority company requires Member approval and each application will be supported by the service rational behind the investment and the likelihood of loss.	100%	n/a

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits	Common Good Limits
e. Non-local authority shareholdings	These are non-service investments which may exhibit market risk, be only considered for longer term investments and will be likely to be liquid.	Any non-service equity investment will require separate Member approval and each application will be supported by the service rational behind the investment and the likelihood of loss.	Specific managed fund investment guidelines	n/a
f. Local Authority Mortgage Scheme (LAMS)	These are service investments at market rates of interest. Under this scheme the Council would be required to place up to £5M on deposit with a participating bank for a period of between 3 to 5 years.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's.	£5M and maximum 5 years.	n/a

The monitoring of investment counterparties - The status of counterparties will be monitored regularly. The Authority receives credit rating and market information from Link, including when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Director of Finance, and if required new counterparties which meet the criteria will be added to the list. 1805

Use of External Fund Managers – It is the Authority's policy to use external fund managers for part of its investment portfolio. The fund managers are contractually committed to keep to the Authority's investment strategy. The limits for permitted investments have been established in consultation with external fund managers and are consistent with the terms of their appointment. The performance of each manager is reviewed at least quarterly by the Head of Finance and the managers are contractually required to comply with the annual investment strategy.

5.6 Approved Countries for Investments

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link creditworthiness service.

Based on lowest available rating

AAA

- Australia
- Denmark
- Germany
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)

AA-

- Belgium
- France
- Qatar
- **U.K.**

5.7 Treasury Management Scheme of Delegation

1. Full Council

- Approval of annual strategy, following recommendation from Policy and Resources Committee.

2. Policy and Resources Committee

- Receiving and reviewing reports on treasury management policies, practices and activities.
- Recommending approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices.
- Recommending budget for consideration and approval by the responsible body (the full Council).
- Recommending division of responsibilities;
- Reviewing the treasury management policy and procedures and making recommendations to the responsible body (the full Council).

3. Investments Sub-committee

- Receiving and reviewing regular monitoring reports and acting on recommendations.

5.8 The Treasury Management Role of The Section 95 Officer

The S95 (responsible) officer:

- Selecting external service providers, and agreeing terms of appointment, in consultation with the Investments Sub-committee.
- Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance.
- Submitting regular treasury management policy reports.
- Submitting budgets and budget variations.
- Receiving and reviewing management information reports.
- Reviewing the performance of the treasury management function.
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.

Orkney Islands Council

Contract Standing Orders

February 2024 Version 10.0.

Version Control.

Version.	Updated by.	Date.	Details of change.
1.0.		November 2013.	Approved by General Meeting of the Council on 10 December 2013.
2.0.	Gary Butler.	17 January 2014.	Updated to include revised European Union (EU) Advertising thresholds.
3.0.	Rosemary Colsell.	21 June 2016.	Updated and revised to include the provisions of the Procurement Reform (Scotland) Act 2014 and the Procurement Scotland Regulations 2016. Approved by General Meeting of the Council 5 July 2016.
4.0.	Rosemary Colsell.	11 October 2017.	Revision to reflect new requirements at Clause 37.3.
5.0.	Rosemary Colsell.	22 March 2018.	Revision to reflect new Thresholds.
6.0	Rosemary Colsell	November 2019	Updated to reflect new procedures
7.0	Rosemary Colsell	20 January 2020.	Updated to reflect new EU Thresholds
8.0	Rosemary Colsell	6 July 2021.	Updated to reflect EU Exit and new internal procedures
9.0	Rosemary Colsell	Draft 21 June 2022 and following approval 5 July 2022 .	Updated to reflect new guidance and new internal procedures
10.0	Rosemary Colsell	Draft 20 February 2024	Updated to reflect new guidance, Thresholds and internal procedures.

Contents

1. Introduction

1.1. The purpose of Contract Standing Orders (CSOs) is to set clear rules for the procurement of Supplies, Services and Works for the Council. Following the rules should ensure that the Council is fair and accountable in its dealings with Contractors and in the award of Contracts. CSOs are intended to ensure that the Council obtains value for money for the Council taxpayer. Value for money is defined as the optimum combination of whole life cost and quality (or fitness for purpose) to meet the end users' requirements.

1.2. The CSOs are compiled in accordance with the Procurement Reform (Scotland) Act 2014, Public Contracts (Scotland) Regulations 2015, the Procurement (Scotland) Regulations 2016, the Concession Contracts (Scotland) Regulations 2016, the Utilities Contracts (Scotland) Regulations 2016 and the Public Contracts (Scotland) Amendment Regulations 2016.

1.3. The CSOs are to be read in conjunction with the statutory guidance and policy notes as detailed below.

- Procurement Reform (Scotland) Act 2014: statutory guidance (www.gov.scot), Guidance on procurement strategies and annual reports, the sustainable procurement duty, community benefit, tenders and award of contracts.
- Fair work and procurement – Public sector procurement – (www.gov.scot). Addressing Fair Work Practices, including the Real Living Wage, in Procurement.
- Update to procurement of care and support services: SPPN 07/2016 (www.gov.scot).
- Changes to procurement legislation at the end of the EU Exit Transition Period: SPPN 11/2020 (www.gov.scot).
- Fair Work First Implementation – Scottish Public Procurement Update: SPPN 06/2021 (www.gov.scot).
- Public Procurement – taking account of climate and circular economy considerations: SPPN 03/2022 (www.gov.scot).
- Public Procurement – updates to procurement thresholds: SPPN 05/2023 (www.gov.scot).

1.4. All Contracts that are awarded by the Council, regardless of value shall be subject to an obligation to seek best value and be able to demonstrate transparency, equal treatment, non-discrimination and proportionality.

1.5. CSOs are designed to protect the interests of the Council and protect the interests of officers involved in procurement. CSOs enable officers to act confidently for the Council in the pursuit of best value. It is the responsibility of the Chief Executive and Corporate Directors to ensure that officers within their jurisdiction or Service have a good understanding and where applicable a working knowledge of these CSOs.

1.6. Relevant UK and Scottish legislation override these CSOs only in so far as to ensure compliance with said legislative requirements.

1.7. The Corporate Director for Strategy, Performance and Business Solutions may approve guidance notes on tendering and procurement matters for Contracts awarded by the Council. Guidance notes will be compiled by the Service Manager (Procurement).

1.8. The Service Manager (Procurement) will publish a Corporate Procurement Manual to be read by officers in conjunction with the Contract Standing Orders and a control copy will be placed on the staff portal.

2. Definitions and Interpretation

2.1. Definition of terms is as follows:

Abnormally Low Tenders.	As defined within the Public Contracts (Scotland) Regulations 2015 and any subsequent Scottish Government Guidance when available.
Chief Officer.	The Chief Officer – Health and Social Care procuring the Supplies, Services or Works.
Contract.	An agreement between the Council and any Contractor made by formal agreement or by issue of acceptance or an official order for Supplies, Services or Works.
Contract Documents.	Documents to be used in the tendering procedure and where different those that are intended to form part of any Contract following a tendering procedure. The Contract Documents include, but are not restricted to, the Single Procurement Document (SPD), the invitation to tender, the instructions to tenderers, terms and conditions of contract, the specification and technical requirements, pricing schedule, form of tender, certificate of bona fide tendering and any Bills of Quantities and include any such documents or their equivalents using e-procurement.
Contractor(s).	Includes any sole trader, partnership or company (limited or unlimited) or any duly incorporated trade, professional or commercial body.
Delegated Authority.	Officers who have been given formal written authority by their Corporate Director or Chief Officer to manage procurement exercises within a specified value range on behalf of the Council.
Dual Stage Procedure.	The below threshold procedure which is equivalent to the threshold Restricted Procedure.
Threshold.	The threshold for determining the application of the Regulations pursuant to the Public Contracts (Scotland) Regulations 2015 is £214,904 (indicative value excluding 20% VAT £179,087) for Supplies and Services contracts and £5,372,609 (indicative value excluding 20% VAT £4,477,174) for Works contracts. Pursuant to the Utilities Contracts (Scotland) Regulations 2016 the threshold is £429,809 (indicative value excluding 20% VAT £358,174) for Supplies and Services contracts and £5,372,609

	(indicative value excluding 20% VAT £4,477,174) for Works contracts. The remaining threshold values for small lots and the light touch regime for services remain unchanged. These are aligned with the World Trade Organisation and Government Procurement Agreement.
Over Threshold Regulated Procurement.	Supplies, Services or Works contracts with a value over the procurement threshold.
European Single Procurement Document (ESPD).	The standard form document which replaced the pre-qualification questionnaire, to be used for procurements linked to the European Structural and Investment Funds (ESIF) programmes.
Corporate Director.	The Corporate Director procuring the Supplies, Services or Works.
Fair Work First	Fair Work First is the Scottish Government's flagship policy for driving high quality and fair work across the labour market in Scotland by applying fair work criteria to grants, other funding and contracts being awarded by and across the public sector, where it is relevant to do so.
Fair Work First Guidance	Outlines the Scottish Government's Fair Work First approach and exemplifies the Fair Work First criteria in practice. It should be used by those involved in awarding public sector grants, sponsorship and other funding, and contracts, and those seeking to access/accessing such funding and/or contracts.
Framework Agreement.	An overarching agreement with supplier(s) to establish terms governing individual contracts that may be awarded during the life of the agreement ('call-offs'), concluded in accordance with Section 34 of the Public Contracts (Scotland) Regulations 2015.
Government Procurement Agreement	The United Kingdom is a signatory to the World Trade Organisation's (WTO) Government Procurement Agreement (the GPA) and this remains as the UK is now a signatory in its own right following the end of the EU Transition Period.
Health and Social Care Services.	A public contract or framework agreement for social and other specific services listed in Schedule 3 of the Public Contracts (Scotland) Regulations 2015.
Health and Social Care Services Threshold.	£663,540 indicative value excluding 20% VAT £552,950.
Life-Cycle Costing.	All consecutive or interlinked stages, including research and development to be carried out, production, trading and its conditions, transport, use and maintenance, throughout the existence of the product or the works or the provision of the service, from raw material acquisition or generation of

	resources to disposal, clearance and end of service or utilisation.
Procurement.	The process leading to the award of a public contract or framework agreement or establishment of a dynamic purchasing system for the acquisition of works, supplies or services from an economic operator.
Procurement Plan.	A summary of the planned procurement providing sufficient information to ensure that all relevant Council Policies have been followed, including the governance, identified budget, Contract Standing Orders, the Financial Regulations and the Sustainable Procurement Policy requirements.
Public Contracts Scotland (PCS) portal.	The Scottish Government's official national advertising portal for public sector contract opportunities www.publiccontractsscotland.gov.uk.
Relevant Officer	The Officer who has been delegated by either the Chief Executive, the Corporate Directors or the Chief Officer to carry out this instruction as part of their duties.
Quick Quote.	An online quotation facility which allows the Council to obtain competitive quotes electronically for: • Low value requirements between £10,000 and £50,000; and • Unregulated Works Contracts (below the value of £2,000,0000), depending on complexity of contract (as defined in Clause 19).
Quotation.	A formal offer to supply or purchase supplies or provide services where the estimated value of the contract is below £50,000 or to execute works with a value of above £2,000,000 for works.
Regulated Procurement.	As defined by the Procurement Reform (Scotland) Act 2014 a regulated procurement for Supplies or Services Contracts with a value of £50,000 or above and for Works Contracts over £2,000,000 and less than the relevant Thresholds.
Regulations.	The Public Contracts (Scotland) Regulations 2015, the Procurement Reform (Scotland) Act 2014, the Procurement (Scotland) Regulations 2016 and / or the Concession Contracts (Scotland) Regulations 2016 as the context requires, but where the Council is acting as a Harbour Authority and chooses to do so, the Utilities Contracts (Scotland) Regulations 2016.
Single Procurement Document (SPD).	The standard form document which replaces the European Single Procurement Document (ESPD) introduced by the new WTO/GPA Public Procurement Directive (Directive 2014/241/WTO/GPA) which

	replaced the pre-qualification questionnaire. The SPD is the particular form of which has been approved by the Scottish Government.
Single Stage Procedure.	The below Threshold procedure which is equivalent to the Threshold Open Procedure.
Supplies.	Goods or the hire of goods and for any siting or installation of those goods.
Sustainable Procurement Impact Assessment (SPiA)	A Sustainable Procurement Impact Assessment (SpiA) will be carried out for all relevant goods, services and works contracts where there is potential to minimise the use of carbon-based energy and its associated emissions.
Tender.	A formal offer to supply or purchase supplies, execute works or provide services where the estimated value of the contract is £50,000 (excluding Value Added Tax (VAT)) or more.
Tender Evaluation Panel	Established ahead of the tender period and consisting of at least two people with demonstrable technical ability to evaluate tenders.
Tender Opening Board	As described in Clause 37.2.
Unregulated Works Procurement.	A contract for Works with a value of between £50,000 and £2,000,000, being a procurement not covered by the Regulations and procured utilising the Council's database of pre-approved contractors.
Works.	Building construction, building maintenance or engineering works.

2.2. In interpreting these CSOs, any reference to any legislation, regulations or guidance shall be to that legislation, regulations or guidance as the same may be updated, amended, supplemented or replaced from time to time.

3. Compliance with Contract Standing Orders

3.1. Contracts awarded by the Council must comply with CSOs.

3.2. Officers are required to comply with these CSOs, the Scheme of Delegation to Officers, the Scheme of Administration and the Council's Financial Regulations. The Chief Executive, Corporate Directors and Chief Officer will have in place policies, practices, procedures and training which ensure compliance. Failure to comply with the Scheme of Delegation to Officers, the CSOs and the Council's Financial Regulations may result in disciplinary action.

4. Conduct of Officers and Members

4.1. Members must abide by the Councillors Code of Conduct published by the Standards Commission for Scotland available at:.

4.2. Officers must comply with the Code of Conduct for Employees of Orkney Islands Council available on the Council portal.

5. Ethical Standards

5.1. In all dealings with Contractors, the Chief Executive, Corporate Directors, and all officers must preserve the highest standards of honesty, integrity, impartiality and objectivity. In particular, officers engaged in procurement matters must:

5.1.1. Be fair, efficient, firm and courteous;

5.1.2. Maintain the highest possible standard of integrity in all business relationships;

5.1.3. Acquire and maintain current technical knowledge;

5.1.4. Achieve appropriate professional standards in the management of contracts;

5.1.5. Foster appropriate standards of professional competence amongst those for whom they are responsible;

5.1.6. Comply with the law, guidance on professional practice and contractual obligations;

5.1.7. Declare any personal interest which may affect or be seen by others to affect impartiality;

5.1.8. Respect the confidentiality of information received in the course of duty and ensure that information given in the course of duty is honest and clear; and

5.1.9. Respond promptly, courteously and efficiently to suggestions or enquiries, including Freedom of Information (FOI) request obligations according to Council policies.

5.1.10. Not knowingly work with suppliers that trade in slavery, prostitution or illegal drugs, or who breach International Labour Organisation conventions.

5.1.11. Not offer, give or agree to give anything, to any person an inducement or reward for doing, refraining from doing, or for having done or refrained from doing, any act in relation to the obtaining or execution of the procurement agreement or for showing or refraining from showing favour or disfavour to any person in relation to said Agreement which may constitute an offence under the Bribery Act 2010.

5.1.12. Take all reasonable steps, in accordance with good industry practice, to prevent fraud by Council Staff and the Supplier (including its shareholders, members and directors) in connection with the procurement of supplies, services and shall in the first instance notify their Line Manager, Head of Service or Corporate Director immediately if they have reason to suspect that any fraud has occurred or is occurring or is likely to occur. Reporting in all cases should be in accordance with the Council's Corporate Anti-Fraud Policy and Whistle Blowing Policy.

6. Authority to Procure

6.1. No officer may manage a Procurement exercise unless authority has been delegated to them by the Chief Executive, Corporate Director or Chief Officer.

6.2. The diversity of the work involved in procurement necessitates that officers are competent in a wide variety of generic procurement skills in addition to the specific technical skills and knowledge required when procuring specific Supplies, Services and Works. Officers with delegated authority to invite and manage Procurement exercises will be required to undertake specific procurement training.

6.3. The Service Manager (Procurement) is responsible for the training of officers in procurement matters and will maintain a list of officers with Delegated Authority to manage a Procurement exercise.

6.4. As part of the authorisation process, the Relevant Officer must complete a Procurement Plan. Where the value of the contract is under £50,000 (an Unregulated Procurement), authority to proceed should be requested from the relevant Head of Service. Where the value of the contract is £50,000 or above, (Regulated Procurement), authority to proceed should be sought from the relevant Corporate Director or Chief Officer.

7. Separation of Duties

7.1. The roles of the client / budget holder and the officer with delegated authority to manage a Procurement exercise must not be performed by the same officer. The Chief Executive and Corporate Directors will ensure separation of these key roles within the Procurement process.

8. Suspension, Variation and Revocation

8.1. These CSOs may be varied or revoked by the Council. Any variation to, or revocation of CSOs, will be effective on the first working day after the conclusion of the General Meeting of the Council at which it was approved.

8.2. CSOs or any part of them may be suspended by the Council in respect of a Contract on receiving a joint recommendation from the Chief Executive or Corporate Director, and the Head of Finance/Section 95 Officer, that there are special circumstances which justify such a suspension and that it is in the interests and within the powers of the Council to do so.

8.3. The Corporate Director for Strategy, Performance and Business Solutions will be able to vary these CSOs in the following operational circumstances:

8.3.1. To reflect changes in job titles, reorganisations of Council Services and vacancies in posts;

8.3.2. To change references to any piece of legislation where the legislation is repealed and to insert references to new pieces of legislation where the new pieces of legislation largely re-enact the provisions of the repealed legislation; and

8.3.3. To change the financial values of the Threshold where referred to in these CSOs.

8.4. The Service Manager (Procurement) will be responsible for ensuring that an up to date control copy of CSOs is placed on the Council's staff intranet and that, for the purposes of transparency, an additional copy is published on the Council's website.

9. Value of Contract

9.1. The financial values stated throughout these CSOs represent the total value of the Contract over its whole life and are not, for example, the estimated annual value of the Contract.

9.2. Where the Contract is for Supplies or Services, the value of the Contract shall include all options under the Contract. For example, if the Contract allows the Council to either purchase additional Supplies or Services, or to extend the Contract beyond its original term, the financial implications of these must be included in the value of the Contract, even if the likelihood of taking up these options is small.

9.3. It is not permitted to deliberately divide any procurement exercise into two or more Contracts if the intention in doing so is to avoid the application of the financial thresholds in these CSOs or the Regulations.

9.4. All financial values stated in these CSOs are exclusive of VAT unless otherwise stated,

9.5. Wherever VAT may be payable under a contract, an allowance for VAT shall be included in the calculation of the estimated value of the contract for the purposes of determining whether the contract equals or exceeds the new threshold values.

10. Financial Provision

10.1. Before inviting Tenders or Quotations or recommending the acceptance of Tenders, the Chief Executive and Corporate Directors will be required to be satisfied that all necessary Council approvals are in place and sufficient budgetary provision has been made or will be made to cover the contractual commitment by the Council.

11. Equalities and Prevention of Discrimination

11.1. Before entering into a Contract the Chief Executive and Corporate Directors will obtain from the Contractor an assurance, in writing, that to the best of the Contractor’s knowledge the Contractor has complied with all statutory requirements under the Equality Act 2010.

11.2. The assurance referred to in CSO 11.1 may be obtained as part of the selection process as contained in the SPD which includes a requirement to comply with relevant Social Laws.

11.3. Contracts awarded by the Council will contain a condition obliging the Contractor to comply with all duties arising from the Equality Act 2010.

12. Fair Work First

12.1 Fair Work First award criteria must be considered for inclusion in award criteria for the procurement of supplies, services and works where it is appropriate to do so and in accordance with the Fair Work First Guidance as referred to in SPPN 06/2021at CSO 1.3.

12.2. Fair Work First asks businesses bidding for a public contract to commit to adopting the following:

- Appropriate channels for effective voice, such as trade union recognition.
- Investment in workforce development.
- No inappropriate use of zero hours contracts.
- Action to tackle the gender pay gap and create a more diverse and inclusive workplace.
- Providing fair pay for workers (for example, including a mandatory requirement for payment of the real Living Wage where appropriate).
- Offer flexible and family friendly working practices for all workers from day one of employment.
- Oppose the use of fire and rehire practices.

13. Form of Contract

13.1. Except in circumstances where the Chief Executive and Corporate Director and the Head of Legal and Governance agree otherwise, every Contract shall be:

13.1.1. In the name of the Council;

13.1.2. In writing and in an approved form, using either the Council's standard conditions of Contract or, where applicable, government contracts or other specialist or professional body's terms and conditions e.g. Scottish Building Contracts Committee (SBCC), Association of Consulting Engineers (ACE), New Engineering Contract (NEC);

13.1.3. Signed by either the Chief Executive, the Head of Finance/Section 95 Officer, the Head of Legal and Governance or other officer with written delegated authority to sign Contracts on behalf of the Council in accordance with the Scheme of Delegation to Officers for procurement matters; and

13.1.4. Subject to the laws of Scotland.

13.2. The Contract Documents in respect of all Contracts will be prepared by the Chief Executive or Corporate Directors. When it is appropriate to do so, the Chief Executive and Corporate Directors may make use of Contract Documents prepared by the Government Procurement Service, Scottish Procurement, Scotland Excel and other framework agreement providers where permitted by those bodies to do so. It is the Chief Executive and Corporate Director's responsibility to ensure that the Contract Documents are suitable for the Contract.

13.3. All Procurement documents must clearly state that the Freedom of Information (Scotland) Act 2002 applies to Contracts awarded by the Council. This is to ensure that Contractors are aware that the Council may be required, as a matter of law, to release information to third parties.

14. Exemptions and Exceptions

14.1. Supplies, Services and Works shall be acquired by effective competition, including adequate publicity of the Contract, unless there are justifiable reasons to the contrary.

14.2. These CSOs will not apply to a Contract where:

14.2.1. The value of the Contract is less than £10,000 for Supplies and Services and Works;

14.2.2. It is a Contract of employment (Note: this exemption will not apply to Contracts for temporary staff or interim managers supplied by recruitment agencies, or an equivalent organisation);

14.2.3. The Contract is for care or housing support services or other forms of support or self-directed service as determined by the Self Directed Support legislation and relevant guidance, where the service user has the freedom to determine the identity of the service provider;

14.2.4. The Contract relates to the transfer, acquisition or disposal of an interest in heritable property including a license to occupy or use heritable property;

14.2.5. Tenders are invited on behalf of any consortium, or similar body, of which the Council is a member, in accordance with any such method adopted by such a body;

14.2.6. The Contract relates to the appointment of legal counsel to act on behalf of the Council;

14.2.7. The Council funds an external operator to provide Services on a non-contractual basis e.g. grant funded arrangements with the third sector. In such cases the principles of Following the Public Pound shall apply.

14.3. The Council may make an exception from these CSOs where:

14.3.1. The Council is satisfied that there are special circumstances justifying an exception from these CSOs or any part of them;

14.3.2. In the opinion of the Chief Executive or Corporate Directors, action is urgently required to prevent danger to life, serious risk to health, or damage to property;

14.3.3. It is a Contract for the provision of health, special education and / or social care services, and where, in the opinion of the Chief Executive, Corporate Directors, Chief Officer or Chief Social Work Officer, it is considered that to undertake a competitive tendering exercise would have an adverse effect on the quality and continuity of service for service users and their relatives;

14.3.4. Where the Contract is an extension to an existing Contract and is not a Regulated Procurement, an over Threshold Procurement or an Unregulated Works Procurement (in which case see CSOs 17 and 19), and which has been identified by the Relevant Officer as necessary and being so urgent as not to permit the invitation to tenders;

14.3.5. In the opinion of the Chief Executive, Corporate Directors or Chief Officer it is essential that the Contract is entered into for the settlement of any claim or litigation raised by or against the Council;

14.3.6. The Contract is funded by money provided by the government or another public body (including funds from the National Lottery) and the award of that money to the Council is subject to such conditions that make it impractical for the Council to comply with these CSOs in the letting of the Contract.

14.4. Where exceptions are sought in respect of Contracts with a value of greater than £10,000 the Chief Executive and Corporate Directors will comply with the Non Competitive Action (NCA) procedure set out at Appendix 1.

14.5. Where an NCA procedure is used, a proportionate financial and insurance assessment shall be carried out prior to the NCA being requested.

14.6. The Corporate Director for Strategy, Performance and Business Solutions will maintain a central register of exceptions.

15. Contracts below £10,000

15.1. Where the contract value is less than £10,000 for Supplies and Services or Works, the Chief Executive, Corporate Directors and Chief Officer will proceed in a manner which they consider to be the most expedient to the efficient management of their Service whilst ensuring that the Contract represents value for money to the Council.

15.2. The Chief Executive and Corporate Directors may dispense with the need to obtain competitive quotations and instead maintain a written record of price checking or benchmarking where the value of the Contract is less than £10,000 in the case of Supplies and Services or Works.

16. All Contracts for Supplies and Services or Works having a value of £10,000 or above – Procurement Plan

16.1. Where a contract value is £10,000 or higher, the relevant Officer will ensure that a Procurement Plan is completed by the service lead and that an Officer with Delegated Authority is identified to undertake the procurement.

16.2. The Procurement Plan will describe the procurement planned and provide sufficient information to ensure that all relevant Council Policies have been followed, including the governance, identified budget, Contract Standing Orders, the Financial Regulations and the Sustainable Procurement Policy requirements.

16.3. The Relevant Officer will ensure that the Procurement Plan is authorised by the relevant Managers prior to the procurement exercise commencing. The Procurement Plan is to be submitted to the Service Manager (Procurement) in the first instance for authorisation who will forward to the relevant Head of Service or Corporate Director or Chief Officer for further approval in accordance with the values detailed at CSO 6.4 above.

17. Unregulated Procurements with a contract value of between £10,000 and £50,000 for Supplies and Services or Works

17.1. Where the value of the Contract is between £10,000 and £50,000 for Supplies and Services and Works, the Chief Executive and Corporate Directors will invite a minimum of three written quotations from prospective Contractors with the experience and expertise to meet the requirement for Supplies, Services or Works. In circumstances where fewer than three quotations are obtained a written record shall be retained as to the reasons for this.

17.2. Technical and financial checks by means of the SPD (Scotland) shall not be necessary for Contracts below £50,000, instead a selection procedure relevant and proportionate to the subject matter and value of the contract shall be incorporated into the invitation to quote documentation.

17.3. Quotations may be invited and returned by either the Quick Quote system or by an open quotation contract advertisement placed on the PCS portal or, in very exceptional circumstances, by hard copy or email.

17.4. Route 1 Introduction | Procurement Journey (or equivalent) will be used when obtaining quotations where the Contract is for Supplies or Services and the Contract is between £10,000 and £50,000.

18. Regulated Procurements (with a contract value of £50,000 or above for Supplies and Services or more than £2,000,000 for Works, and below the Thresholds)

18.1. Route 2 of the Procurement Journey (or equivalent) and accompanying documentation as appropriate shall be used for all Regulated procurement exercises.

18.2. The SPD is to be used in all cases for Regulated Procurements.

18.3. The ESPD is still to be used where handling procurements linked to European Structural and Investment Funds (ESIF) programmes. EU law continues to apply to ESIF procurements which start after the end of the EU exit Transition Period. This means that public bodies should use the European Single Procurement Document for ESIF procurements instead of the new Single Procurement Document.

18.4. E-procurement must be used as the default position for all Regulated Procurements. Where e-procurement is being used, it shall be the responsibility of the Contractor to obtain the invitation to tender through the e-procurement system.

19. Unregulated Works Procurements (Works contracts with a value of between £50,000 and £2,000,000)

19.1. Where the value of the Works Contract is between £50,000 and £2,000,000, the Chief Executive and Corporate Directors will advertise the contract in accordance with CSO 22 and invite a minimum of three tenders from pre-approved Contractors with the experience and expertise to meet the requirement for Works. In circumstances where fewer than three tenders are obtained a written record shall be retained as to the reasons for this.

19.2 The SPD is to be used in all cases for unregulated Works procurements with a contract value between £50,000 and £2,000,000, unless the Dynamic Purchasing System is utilised (see CSO Clause 32).

19.3. Unregulated procurements for works may be invited and returned by either Quick Quote system or by an Open or restricted procedure contract notice placed on the PCS portal or, in very exceptional circumstances, by hard copy or email.

19.4. The use of this procedure for unregulated procurements is permitted where the procurement is of a standard nature and is not complex as defined in clause 19.5 below.

19.5. Complex procurements are procurements which are not routinely undertaken by the Council and may have unusual technical, legal or financial requirements.

19.6. Complex procurements will be required to follow the requirements for Regulated Procurements CSO Clause(s) 18.1, 18.2, 18.3, 18.4.

20. Regulated Procurements (with a contract value at and above the Thresholds for Supplies and Services or Works)

20.1. Route 3 Introduction | Procurement Journey (or equivalent) and accompanying documentation as appropriate shall be used for all over Threshold Regulated procurement exercises.

20.2. The SPD is to be used in all cases for over Threshold Regulated Procurements.

20.3. E-procurement must be used as the default position for all WTO/GPA Regulated Procurements. Where e-procurement is being used, it shall be the responsibility of the Contractor to obtain the invitation to tender through the e-procurement system.

20.4. All contract notices for over Threshold Regulated Procurements will be passed for approval and issued by the Service Manager (Procurement).

21. Contracts for Health and Social Care Services

21.1. Where a Contract is for Health and Social Care services and is above the Health and Social Care Services Threshold, the procurement regime set out in Chapter 3 of the Public Contracts (Scotland) Regulations 2015 shall apply.

21.2. Where a Contract is for Health and Social Care Services with a value below the Health and Social Care Services Threshold, the Council may choose to award without seeking offers. However there is still a requirement to comply with the WTO/GPA principles of transparency, equal treatment, non-discrimination; proportionality and mutual recognition where relevant.

21.3. Subject to the terms of Clause(s) 21.1 and 21.2 above, where a Contract is for Health and Social Care Services and has a value below £50,000, the Council may choose to award without seeking offers.

21.4. In instances as described above where there is award of a contract without competition, a non-competitive action form must be completed and authorised by the Chief Executive prior to contract award in accordance with CSOs Clause 14 and as set out in Appendix 1.

22. Publicity of Contract Opportunities

22.1. The Council is under a duty to ensure that for each Contract that it intends to award, the Contract is given a degree of advertising which is sufficient to ensure open competition and to meet the requirements of the principles of equal treatment, non-discrimination and transparency. Contracts that are Regulated Procurements and those that exceed the Threshold must comply with the advertising requirements set out in the Regulations.

22.2. The following minimum advertising procedures will apply:

22.2.1. Contract Notice for Supplies and Services where the Contract is or above £50,000 will be uploaded on the PCS portal and advertised in the local newspaper or appropriate additional means where there is a local market for a minimum duration of one week;

22.2.2. Contracts for Works where the Contract is or above £50,000 will be advertised in the local newspaper for a minimum duration of one week;

22.2.3. In addition to the advertising requirements at CSO 22.2, where the value of a Contract for Works exceeds £2,000,000 the contract notice will be uploaded on the PCS portal;

22.2.4. A Contract Notice for Supplies and Services or Works where the Contract exceeds the Thresholds will be uploaded to the new Find a Tender System via the PCS Portal.

22.3. The requirement to publish notices on Public Contracts Scotland (PCS), which comes from the Procurement Reform (Scotland) Act 2014, remains. Whilst public bodies are no longer be required to publish notices in the Official Journal of the European Union (OJEU), these notices are now published on a new UK e-notification system called Find a Tender System (FTS) instead.

22.3.1. FTS has been developed to comply with international agreements such as the GPA, which requires relevant procurements in the UK to be advertised through a single point of access available free of charge. To meet this requirement to publish on FTS, public bodies should continue to use PCS.

22.4. In addition to the advertising requirements referred to in CSO 22.2, or where it is felt that insufficient interest may be generated, the Chief Executive, Corporate Directors and Chief Officer may decide to advertise the Contract opportunity in any other way.

22.5. In exceptional circumstances, for example where using market knowledge it is known that there is no capacity locally to meet the requirements of a Contract, the Chief Executive, Corporate Director or Chief Officer may dispense with the requirement to advertise in the local newspaper.

22.6. All Contract Notices published on the PCS portal will be subject to the prior approval of the Service Manager (Procurement) for over Threshold Regulated Procurements.

22.7. Contract notices advertising Contracts will include the selection and award criteria to be used to evaluate submissions for both the SPD selection stage and the award criteria stage of both Open and Restricted Procedure procurements.

22.8. Where a Contract is to be awarded following a restricted procedure or competitive procedure with negotiation, a call for competition may be made by means of a prior information notice, published in accordance with the Regulations.

23. Procedures

23.1. Where the estimated value of any Contract is likely to be equal to the value of a Regulated Procurement or exceed the Threshold, the Chief Executive and Corporate Directors or Chief Officer will be responsible for determining whether or not the Regulations apply and will refer the matter to the Service Manager (Procurement) who will provide guidance and assistance in determining the appropriate Contract award procedure.

23.2. Where it is established that the full procedural requirements of the Regulations apply, the Chief Executive and Corporate Directors, will ensure that the Contract is advertised, tendered, evaluated and awarded in accordance with the Regulations.

23.3. Where other competitive routes are available to Council for consideration such as the Dynamic Purchasing System, Competitive Dialogue, Negotiated Procedure without Prior Publication, Competitive Procedure with Negotiation, and Innovation Partnership, the Chief Executive and Corporate Directors or Chief Officer will refer the matter to the Service Manager (Procurement) and the Head of Legal and Governance who will provide guidance and assistance in determining the appropriate Contract award procedure and the specific Regulation(s) that will apply.

23.4. The Relevant Officer will determine in consultation with the Service Manager (Procurement) where the use of lotting strategies is appropriate and would have the effect of ensuring that the Contract opportunity is accessible to small and medium-sized enterprises.

24. Commodity Strategy

24.1. The Relevant Officer in consultation with the Service Manager (Procurement) will ensure that an appropriate Commodity Strategy is prepared for each individual Regulated Procurement and over Threshold Regulated Procurement.

24.2. The Commodity Strategy must be prepared by officers with the appropriate Delegated Authority and be proportionate to risk, value and the strategic importance of the commodity to the Organisation.

24.3. The preparation of the Commodity Strategy will ensure that proportionate consideration is given to planning, Sustainable Procurement and Risk Management prior to commencement of the procurement. See more at: Develop Commodity/Service Strategy | Procurement Journey.

24.4. A Commodity Strategy is not required for mini-competitions carried out or work packages called off under Framework Agreements established by external agencies, by the Council; or for work packages placed under the Council's framework arrangements. This CSO will apply in instances where the justification to utilise these arrangements have been authorised by the Chief Executive, Corporate Directors and Chief Officer as appropriate.

25. Contract Award Criteria

25.1. For Regulated Procurements and over Threshold Regulated procurements award criteria must in all cases be advertised and awarded on the basis of the most economically advantageous tender (MEAT), it is not permissible to award on the basis of cost only.

25.2. For Procurements over the value of £10,000 for Supplies and Services, and for Works over the value of £50,000, Contracts shall be awarded on the basis of the Tender which is: the MEAT using both quality and cost award criteria unless there are exceptional reasons that are proportionate and related to the subject matter of the contract and always in the context overall of best value.

25.3. Contracts may in exceptional circumstances be awarded on the basis of a fixed price or cost where economic operators may compete on quality criteria only.

25.4. Procurement of Works under the value £50,000 may in exceptional circumstances be awarded on the basis of cost or price but always in the context of best value. Prior to utilising this CSO, a risk assessment shall be undertaken which evidences overall best value and is recorded on the contract award recommendation report as referred to in CSO 40.

25.5. When developing the Contract Documents, the Chief Executive and Corporate Directors will include award criteria that relate directly to, and is proportionate with, the subject matter of the Contract.

25.6. The award criteria will be clearly defined in the Contract Documents and in the contract notice so that Contractors have a common understanding and will, depending on the subject matter of the Contract, include:

25.6.1. Quality / technical merit;

25.6.2. Qualification and experience of staff assigned to performing the contract, where the quality of the staff assigned can have a significant impact on the level of performance of the contract;

25.6.3. Design, functional characteristics and aesthetics;

25.6.4. Sustainability and community benefit / social issues where appropriate;

25.6.5. Innovation;

25.6.6. Maintenance, including on-going technical support and after sales support;

25.6.7. Delivery or period of completion;

25.6.8. Price;

25.6.9. Life Cycle Costing which shall be objectively verifiable, non-discriminatory and indicated in the procurement documentation.

25.7. The Chief Executive, Corporate Directors and Chief Officer will decide on an overall ratio or split between criteria and allocate weightings and sub-criteria as appropriate.

26. Contract Payments

26.1. Proposed payment arrangements under a Contract must be discussed and agreed by the Head of Finance/Section 95 Officer in advance of any Contract being entered into. However, the Head of Finance/Section 95 Officer may issue guidance on approved payment arrangements.

27. Restricted or Dual Stage Procedure

27.1. The Chief Executive or Corporate Directors may approve the use of a Restricted or Dual Stage Procedure which, subject to CSO 33 electronic tendering, will be advertised and conducted in accordance with CSOs 22 and 27.

27.2. The contract notice will contain sufficient information to enable potential tenderers to determine whether they are interested in bidding for the Contract. The information contained within the contract notice will include the title and a short description of the proposed Contract, the duration, estimated commencement date, the estimated value and the selection criteria used. The contract notice shall also indicate whether e-procurement is to be used and contain a link to https://www.publiccontractsscotland.gov.uk/.

27.3. The contract notice will specify a date and time by which requests to be selected to tender must be received. For the selection stage, this must be no sooner than 30 days from the date the contract notice is published unless reductions in timescales are available. For the tender stage, this must be no sooner than 30 days from the invitation to tender is issued. Where the submission of tenders electronically is permitted, the minimum time limit for receipt of tenders can be reduced to 25 days. Where the Contract exceeds the Threshold the timescales referred to in the Regulations will apply.

27.4. The Chief Executive, Corporate Director or Chief Officer will issue an SPD to all Contractors responding to the contract notice via the PCS portal;

27.5. The Relevant Officer will ensure that the SPD Supporting Statements that are issued to all Contractors responding to the contract notice are tailored to, and are relevant and proportionate to, the subject matter of the proposed Contract.

27.6. No Contractor will be invited to submit a Tender unless they have successfully complied with the technical and financial checks in CSO 34 and have met the selection criteria to be invited to tender set out in the SPD.

27.7. The Relevant Officer will select a sufficient number of Contractors to be invited to tender. To ensure genuine competition, the number of Contractors selected to be invited to tender shall be not less than five, unless agreed by the Chief Executive, Corporate Directors or Chief Officer. In circumstances where fewer than five Contractors submit an SPD, all of the Contractors that have met the selection criteria shall be invited to tender.

27.8. The Chief Executive, Corporate Director or Chief Officer will send invitations to tender, in writing, simultaneously to each Contractor selected to tender and the invitation to tender will be accompanied by the Contract Documents. The invitation to tender shall state the requirements in CSOs 35 and 36.

27.9. As a minimum, the invitation to tender will include the following:

27.9.1. Instructions to tenderers;

27.9.2. Final date and time for the receipt of tenders by the Council;

27.9.3. Where e-procurement is not being used, the address to which tenders must be sent;

27.9.4. Terms and conditions of Contract;

27.9.5. The specification which clearly describes what is required;

27.9.6. The award criteria to be used in the evaluation of tenders;

27.9.7. Tender response requirements;

27.9.8. Form of tender;

27.9.9. Certificate of bona fide tendering;

27.9.10. Compliance Statement as appropriate.

28. Open or Single Stage Procedure

28.1. The Relevant Officer may approve the use of an Open or Single Stage Procedure which, subject to CSO 33 electronic tendering, will be conducted and advertised in accordance with CSOs 22 and 28.

28.2. The contract notice will contain sufficient information to enable any potential tenderer to determine whether they are interested in bidding for the Contract. The information contained within the contract notice will include the title and a short description of the proposed Contract, the duration, estimated commencement date, the estimated value, the selection criteria used and community benefits clauses where they are being used. The contract notice shall also indicate if e-procurement is being used and provide a link to https://www.publiccontractsscotland.gov.uk/.

28.3. The contract notice will specify a date and time by which applications for invitations to tender must be made. The date and time specified will be no sooner than 35 days from the date the contract notice is published. Where the submission of tenders electronically is permitted, the minimum time limit for receipt of tenders can be reduced to 30 days. Where the Contract exceeds the Threshold the timescales referred to in the Regulations will apply.

29. Use of Framework Agreements provided by External Agencies

29.1. The Chief Executive, the Corporate Directors and Chief Officer will consider the use of Framework Agreements established by other bodies as part of the route to procurement decision.

29.2. Where a market outwith the framework suppliers is established and where the contract value is below that of a Regulated Procurement or an over Threshold Regulated Procurement, the Chief Executive, Corporate Directors and Chief Officer will determine if the Contract should be advertised directly to the known suppliers in addition to the call off contract opportunity sourced through a Framework Agreement.

29.3. Where a Framework Agreement is provided by a Framework Provider other than the Council, a check should be undertaken by the Service Manager (Procurement) in consultation with the Head of Legal and Governance to determine the Council’s eligibility to use that Framework Agreement prior to its use.

29.4. Where it has been clearly identified that the Council is eligible to utilise the Framework Agreement, the procedures for the use of that Framework Agreement must be strictly complied with in all instances.

29.5. The duration of the individual contracts based on a Framework Agreement do not need to coincide with the duration of that Framework Agreement, but might as appropriate be shorter or longer.

29.6. When a contract is to be awarded under a Framework Agreement, authorisation must be sought as appropriate in compliance with these CSOs.

29.7. A contract award notice will be published on conclusion of a call-off from a Framework Agreement. A contract award letter will also be issued to the provider, and the Contract will be entered in the Contracts Register.

30. Concluding a Framework Agreement

30.1. The Council may establish a Framework Agreement with either one or a minimum of three economic operators, where there are three economic operators to satisfy the selection criteria.

30.2. The Council must advertise the Contract in accordance with these CSOs, depending on the value of the Contract.

30.3. The period of such arrangements shall not exceed four years without specific justification which must be published when the requirement is advertised.

30.4. Where the Council concludes a framework agreement with more than one economic operator, a specific contract may be awarded:

30.4.1. By direct award in accordance with the terms laid down in the framework agreement without re-opening competition; or

30.4.2. Where the terms of the Framework Agreement permit, by carrying out a mini competition prior to award.

30.5. Where a contract is for the supply of goods or materials or the provision of services or works by means of a call off contract within a framework agreement, and where that framework agreement allows for direct award of call-off contracts without further competition, formal tendering shall be carried out only once prior to the commencement of such arrangement.

30.6. Once awarded, a framework agreement shall remain closed to the admission of new contractors / suppliers / service providers for the lifetime of the Framework Agreement.

30.7. The Council must not use a framework agreement improperly or in such a way as to prevent, restrict or distort competition.

31. Extensions to Existing Contracts

31.1. Subject to CSOs 31.2 to 31.5, where the Relevant Officer considers that an existing Contract should be extended and the option to extend is given to the Council in terms of the Contract, the Chief Executive or Corporate Directors may authorise the take-up of that option.

31.2. Where the Contract does not make provision for the extension of the Contract, the Relevant Officer shall not extend the Contract, unless the use of the procedure in CSO 31.3 has been followed.

31.3. Contracts awarded as Regulated Procurements and over Threshold Regulated Procurements may only be extended where the procedure in Regulation 72 of the Public Contracts (Scotland) Regulations 2015 is followed.

31.4. For the purposes of CSO 31.1 an extension of a Contract includes the option to increase the number of Supplies, Services or amount of Works as well as the option to lengthen the duration of the Contract.

31.5. Where the Contract does not make provision for the extension of the Contract and the initial Contract was below the Threshold, the total value of the Contract, including the value of the extension will not exceed the Threshold.

31.6. Where the Contract has been established for a low value supply, service or works below £10,000 or a Contract has been established following approval of a non-competitive action and is not a Regulated Procurement, subsequent variations to that Contract should not exceed 50% of the initial value of the Contract.

32. Dynamic Purchasing System

32.1. Establishment of a Dynamic Purchasing System (DPS) should be considered in instances where goods, services or works are commonly used by the organisation and which are readily available on the market.

32.2. The Relevant Officer shall ensure that the DPS is set up and run in accordance with the information available on the Dynamic Purchasing System (DPS) | Procurement Journey.

32.3. The Relevant Officer shall ensure that the DPS is open at all times during its operation for new suppliers to join.

32.4. The Relevant Officer may keep a list of Contractors who have been appointed to a Dynamic Purchasing System managed by the Authority and who may be invited to tender for Contracts for Supplies and Services up to maximum value of £50,000 and for Works up to £2,000,000.

32.5. The selection of tenderers from the Contractors appointed to the Dynamic Purchasing System will be the responsibility of the Chief Executive or Corporate Directors.

32.6. The Dynamic Purchasing System will contain the names of the Contractors that wish to be included on the list and whose inclusion on the list has been approved by the Relevant Officer. The Relevant Officer will not include a Contractor on the list unless a satisfactory review has been carried out to establish the technical capability of the Contractor and an assessment of the financial standing carried out by the Head of Finance/Section 95 Officer.

32.7. The Relevant Officer will review the Contractors appointed to the Dynamic Purchasing System at least once every five years and undertake an assessment of insurance and financial standing on an annual basis.

32.8. The advertisement inviting applications to be appointed to the Dynamic Purchasing System will indicate the categories of Supplies, Services and Works to be included in the Dynamic Purchasing System and will be advertised in accordance with CSO 22.

32.9. The Relevant Officer will maintain records detailing the following:

32.9.1. The rejection or exclusion of Contractors from the Dynamic Purchasing System and the reasons for such exclusion or rejection; and

32.9.2. Arrangements to monitor the financial status of Contractors included on the approved list.

32.10. In the event that a Contractor is removed from the Dynamic Purchasing System or has an application to be added to the Dynamic Purchasing System refused, the Contractor shall be advised of the decision forthwith and the Relevant Officer shall keep a record listing the name and address of the Contractor and explaining the reasons why that Contractor has been removed from the Dynamic Purchasing System or why the application was refused.

32.11. The Relevant Officer will ensure that no Contractor has been excluded from, or included on, the Dynamic Purchasing System by reasons of consideration of non-commercial matters within the meaning of Section 17 of the Local Government Act 1988 or any statutory modification or re-enactment thereof.

32.12. The Relevant Officer may suspend a Contractor from a Dynamic Purchasing System in circumstances where the Relevant Officer has serious concerns regarding the Contractor's ability to provide the Supplies, Services or Works in relation to which the Contractor is appointed to the Dynamic Purchasing System. The suspension will allow the Relevant Officer to carry out investigations regarding the Contractor's fitness to remain appointed to the Dynamic Purchasing System. The suspension shall be for a period not exceeding six months or until the end of the investigation, whichever is sooner, at which point the Relevant Officer must either reinstate the Contractor to the Dynamic Purchasing System or remove the Contractor from the Dynamic Purchasing System and CSO 32.9 will apply.

32.13. The Service Manager (Procurement) is to be consulted prior to consideration of the set up of a new Dynamic Purchasing System.

32.14. Notices for contracts awarded under a Dynamic Purchasing System, where the System was put in place prior to 31 December 2020, will require to be published on FTS. The PCS advertising portal will ensure that this happens.

33. Electronic Tendering

33.1. Unless the Relevant Officer has agreed otherwise, tendering exercises shall be conducted by electronic means, provided that:

33.1.1. Electronic tendering is to take place using a system which has been approved by the Corporate Director for Strategy, Performance and Business Solutions; and

33.1.2. To use electronic tendering would not significantly restrict or distort competition.

33.2. Where electronic tendering is in use the contract notice will be published in accordance with CSO 22 and will provide information as to the internet address which offers unrestricted and full access by electronic means to the Contract Documents.

33.3. This CSO 33.3 shall replace CSOs 35, 36 and 37 in their entirety and where electronic tendering is in use the Relevant Officer will ensure that:

33.3.1. No Tender submitted by electronic means will be considered unless it is received in the format requested by the Council and at the electronic address specified by the Council before the deadline for the receipt of tenders;

33.3.2. Each tender is kept unopened in a single secure electronic mailbox that cannot be opened before the deadline for the receipt of tenders; and

33.3.3. For each tendering exercise the electronic tendering system shall, and if required for audit purposes, produce a record to show the time and date of the receipt of tenders.

33.4. Managers with Delegated Procurement Authority to a Level 4 in consultation with the Service Manager (Procurement) may extend the deadline for the submission of tenders by notifying all tenderers of the extension in the following circumstances:

33.4.1. Before Tenders are received by the Council;

33.4.2. Following the receipt of Tenders but before the Council has opened the tenders due to the functionality of the e-procurement system, and

33.4.3. Independent evidence has been obtained by the Council that the electronic tender advertising portal used was not operational immediately prior to and during the submission of tender deadline due to technical reasons.

33.5. Where an extension of the deadline for the submission of Tenders has been granted in accordance with CSO 33.4, tenderers that have submitted Tenders may be given the opportunity to re-submit their Tenders. Where tenderers are permitted to re-submit Tenders, the same opportunity will be extended to all tenderers.

33.6. Tenders with a value of over £50,000 that have been submitted by electronic means in accordance with this CSO 33 will be opened by the appropriately qualified Service Manager (Procurement) or equivalent Service Manager in the Capital Projects or Engineering teams all with Delegated Procurement Authority (DPA) and two officers one of whom must be on a salary grade of I or above.

33.7. When recording Tenders that have been submitted by electronic means, the Tender Opening Board must check the following:

33.7.1. That the Form of Tender has been signed and dated by the tenderer;

33.7.2. That the Certificate of Bona Fide Tendering has been signed and dated by the tenderer;

33.7.3. That the Price schedule has been completed;

33.8. If a Tender is incomplete, or does not conform to the Contract Documents, the Relevant Officer may decide to disqualify the Tender. If the Tender is disqualified the Relevant Officer must inform the tenderer at the earliest opportunity that the Tender has been disqualified and the reasons for disqualification.

33.9. Formal Tender opening procedures are not required for receipt of tenders for selection stage of the Restricted Procedure, establishment of a Dynamic Purchasing System or for the establishment of a Framework Agreement where no pricing is fixed at the initial stage.

33.10. For the avoidance of doubt, for regulated procurement, formal Tender opening procedures are required for all Open Procedure Tender submissions, and for subsequent call offs or mini-competitions from a Framework Agreement or works packages awarded via the Dynamic Purchasing System in accordance with CSOs 33.6 and 33.7 above.

34. Technical and Financial Checks

34.1. No Contractor may be awarded a Contract unless, following a review of the proposed Contractor, the Relevant Officer is satisfied as to:

34.1.1. The technical capability of the proposed Contractor; and

34.1.2. The financial standing of the proposed Contractor.

34.2. The assessment of the financial standing of proposed Contractors will be undertaken by the Head of Finance/Section 95 Officer.

34.3. It shall not be necessary to review the financial standing of a Contractor where the estimated value of the Contract is £50,000 or below.

34.4. It shall not be necessary to review the financial standing of a Contractor where a Contract is awarded either following a further competition under a Framework Agreement or a Dynamic Purchasing System. Further review of the financial standing of a contractor will not be necessary where a periodic financial review is undertaken as a condition of the contractor’s appointment to the Framework Agreement or Dynamic Purchasing System.

34.5. For the avoidance of doubt, it shall be necessary to undertake a proportionate review of the financial standing and insurance requirements prior to award of a Contract and subject to a Non-Competitive Action in accordance with CSO 14.

34.6. The Relevant Officer will keep a record showing the results of each check of technical capacity and financial standing of Contractors.

34.7. Where the budget has increased following evaluation of the tenders there will be a requirement for a further review of the financial standing of the contractor by the Head of Finance/Section 95 Officer in accordance with 34.2 above.

35. Receipt and Custody

35.1. For hard copy Tenders the envelope containing the tender will be addressed to the Chief Executive as specified in the Contract Documents in whose custody it shall remain until the time arranged for its opening.

35.2. CSO 35.1 will not apply where e-procurement is used. Where e-procurement is in use CSO 33 will be complied with.

36. Late Tenders

36.1. Tenders received after the closing date and time specified in the Contract Documents will not be considered. Late Tenders will be returned to the Tenderer with a covering letter explaining why the Tender is not being considered. Late Tenders may be opened to ascertain the name of the tenderer but no details of the tender shall be disclosed.

37. Opening of Hard Copy Tenders

37.1. Tenders must be opened, simultaneously, in the presence of an Elected Member and two officers, one of whom must be on a salary grade of I or above.

37.2. When opening the Tenders, the Tender Opening Board comprising the Elected Member and two officers in accordance with CSO 37.1. must check the following:

37.2.1. That the Form of Tender has been signed and dated by the tenderer;

37.2.2. That the Certificate of Bona Fide Tendering has been signed and dated by the tenderer;

37.2.3. That the Price schedule has been completed;

37.3. If a Tender is incomplete, or does not conform to the Contract Documents, the Relevant Officer may decide to disqualify the Tender. If the Tender is disqualified the Chief Executive or Corporate Directors must inform the tenderer at the earliest opportunity that the Tender has been disqualified and the reasons for disqualification.

37.4. Electronic tenders received via an electronic post box will be opened and recorded in accordance with CSOs 33.6 to 33.8.

38. Tender Evaluation

38.1. All Contracts will be awarded in accordance with the published award criteria and no others.

38.2. Tenders will be evaluated by a Tender Evaluation Panel which consists of at least two officers with demonstrable technical ability to evaluate tenders.

38.3. Officers are required to complete a conflict of interest form for each individual tender evaluation prior to consideration and acceptance as a member of the Tender Evaluation Panel.

38.4. As a matter of good practice no member of the Tender Evaluation Panel shall assess both the quality and price aspects of a Tender.

38.5. In instances where evaluation of price requires expert analysis additional advice to be sought from the service area.

38.6. Where an Abnormally Low Tender is identified, the Service Manager (Procurement) and Legal Services will be consulted prior to any decision made as to the treatment of the Abnormally Low Tender submission.

39. Checking of Tenders and Post Tender Negotiations

39.1. All Tenders shall be subject to checking by the Relevant Officer who will prepare a written report in respect of all Tenders received in a form that complies with CSO 39 and that contains a specific recommendation as to the acceptance of the successful Tender or Tenders and the reasons for the award recommendation.

39.2. Between the last date and time for the receipt of Tenders and the date on which a decision is taken as to which, if any, Tender is to be accepted, the Relevant Officer may choose to enter into post tender negotiations. Post tender negotiations will only be undertaken in circumstances where the Relevant Officer has identified the tenderer who has submitted either the lowest price or most economically advantageous tender, and where the Relevant Officer is satisfied that there is scope for improvement in the Tender received and that such negotiations will be in the best interests of securing better value for money or improved terms to the Council. Post tender negotiations may only be used where that Tenderer is clearly identified. Post tender negotiation shall not be used to put other tenderers at a disadvantage or distort competition.

39.3. Where it is considered possible that post tender negotiations might apply, a clear indication will be given to prospective Contractors in the contract documents that post tender negotiation might be considered.

39.4. Between the last date and time for the receipt of Tenders and the date on which a decision is taken as to which, if any, Tender is to be accepted, the Relevant Officer may contact a tenderer in respect of any Contract to validate or to clarify the terms of the Tender.

39.5. Notwithstanding the other terms of this CSO 39, where examination of the Tenders reveals obvious errors and discrepancies which would affect the tender figures, errors will be dealt with as follows:

39.5.1. Any obvious arithmetical errors will be rectified by the Relevant Officer checking the tenders and the amount of tender shall be held to be correct so rectified and the tenderer informed of the corrected amount;

39.5.2. Where there is an obvious and genuine error in rates occurring, the tenderer will be given the opportunity of either confirming that he / she agrees with their tender being considered with the error remaining or withdrawing their tender. This procedure must be undertaken in writing. In the event that the tenderer decides to withdraw his / her tender, it will not be considered for acceptance. The tenderer must not be given the opportunity to submit an amended tender;

39.5.3. Tenders which include Bills of Quantities must be checked for arithmetical accuracy, and where inaccuracies are found, the tenderer must be given the opportunity to correct them in accordance with any applicable Code of Practice e.g. ACE, NEC, Institution of Civil Engineers (ICE) or Joint Contracts Tribunal (JCT).

39.6. A written record will be kept by the Relevant Officer where post tender negotiation has been used. The written record will include the justification for authorising post tender negotiations, the nature of the negotiations and the outcome of the negotiations.

40. Content of Award Recommendation Reports

40.1. For all Contracts established through a competitive procedure, a Contract award recommendation report will be prepared for consideration and approval by the Chief Executive, the Corporate Director or Chief Officer of the relevant service area detailing the following information:

40.1.1. The nature of the requirements of the Contract and date that the Procurement Plan was completed and authorised;

40.1.2. The tendering procedures adopted;

40.1.3. A comparative digest of offers received;

40.1.4. For unregulated procurements for Supplies and Services and Works, the reason, where applicable, for receiving less than three quotations:

40.1.5 For procurement of works with a value of under £50,000, where the award criteria is based solely on cost/price, a summary of the risk assessment undertaken and the outcome of this;

40.1.6. Identification of Abnormally Low Tenders where applicable and actions taken;

40.1.7. A statement to confirm that CSOs have been complied with;

40.1.8. A statement to confirm that a Sustainable Procurement Impact Assessment has been carried out where this is applicable;

40.1.9. Confirmation that the Contract is within budget and details of budget ledger code and where applicable, capital approval;

40.1.10. Details of any clarifications carried out and where post tender negotiation has been used a written record of the justification for its use, and the nature and outcome of the negotiations;

40.1.11. Benefits and savings available; and

40.1.12. A recommendation on the award of the Contract or Contracts.

41. Acceptance

41.1. Contracts will be signed by the Chief Executive, the Head of Finance/Section 95 Officer or the Head of Legal and Governance or other officer with delegated authority to sign Contracts on behalf of the Council in accordance with CSO 13.1.

41.2. In relation to all Contracts, the Chief Executive and Corporate Directors will keep a written record showing the assessment of each Tender against the published award criteria. The written record will demonstrate why the successful Tender was chosen and a statement to confirm that the Council’s CSOs have been complied with.

41.3. All Tenderers will be informed in writing of the success or otherwise of their Tender as soon as reasonably practicable after the approval of the Contract award recommendation report prepared in accordance with CSO 40.

41.4. Where the Contract exceeds the Threshold and the full procedural requirements of the Regulations apply, no Tender will be accepted until the mandatory standstill period has expired and the Chief Executive and Corporate Directors are satisfied that no valid challenge has been received in relation to the Contract award decision.

41.5. The mandatory standstill period is a period of at least 10 calendar days between the date of dispatch of the letters issued (by email) and the date when it is proposed to enter into the Contract.

41.6 Where a challenge is made to the Contract award decision before the Contract is made, the Chief Executive or Corporate Directors will refer the matter to the Head of Legal and Governance for consideration.

42. Contracts Register

42.1. The Service Manager (Procurement) will maintain a central register of all Contracts and ensure that an up to date web-based contracts register for contracts with value of £50,000 or more are available via the https://www.publiccontractsscotland.gov.uk portal. To meet the Council's statutory requirements of transparency the live Contracts Register is publicly available via the PCS Portal.

42.2. The Contract information that shall be entered into the register is as follows:

42.2.1. The date of the award of contract;

42.2.2. The name and address of the Contractor;

42.2.3. A description of the purpose of the Contract;

42.2.4. The duration of the Contract;

42.2.5. The estimated value of the Contract including any extensions available;

42.2.6. The start date;

42.2.7. The end date for the contract, or the circumstances in which the contract will end;

42.2.8. The duration of the potential extension periods to the Contract; and

42.2.9. Any other information relating to the Contract which the Chief Executive considers to be material.

42.3. The Council shall maintain a single, centrally managed internal contracts register for the purposes of business planning which shall be managed by the Council's Procurement Team.

42.4. The Chief Executive, Corporate Directors and Chief Officer shall provide a plan to the Service Manager (Procurement) no later than 1 April each year showing their plans for contracting activity in the following two calendar years, in order to allow for the publication of the Council's Annual Procurement Strategy and Plan by 31 December of each year.

42.5. For the purpose of maintaining a register in accordance with CSO 42, the Relevant Officer will send a copy of all Contract award letters to the Service Manager (Procurement).

43. Contract Award Notice

43.1. For the purpose of transparency, where the Contract has been advertised in accordance with CSO 22.2, the Relevant Officer will publish a Contract award notice on the PCS portal.

43.2. A contract award notice must be published on the PCS portal for all over Threshold Regulated Procurements, Regulated Procurements, for all Health and Social Care Contracts including direct awards, all Framework Agreement call-offs and purchases under a Dynamic Purchasing System or Negotiated Procedure where appropriate.

43.3. Where the Contract exceeds the Threshold and is subject to the Regulations a contract award notice must be published no later than 30 days after the award of the Contract.

43.4. For Regulated procurements and for over Threshold Regulated Procurements which are equal to or greater than £4,000,000 the contract must include the following:

43.4.1. A summary of the community benefit requirement that will be included in the contract, or

43.4.2. Where the public body does not intend to include any such requirements, a statement of its reasons for not including any requirements.

43.4.3. Where community benefits are included in a Regulated Procurement and / or an over Threshold Regulated Procurement the Council must include in the award notice a statement of the benefits it considers will be derived from those requirements.

44. Specifications

44.1. Where there is a recognised British, or International Standard applicable to any Contract which is current at the date of Tender, the Contract Documents shall require that the Supplies and Services shall meet the requirement of that standard.

44.2. The Relevant Officer shall avoid reference within specifications which has the effect of favouring or eliminating any particular Contractors by specifying a particular material or a specific make. In exceptional circumstances such references may be justified e.g. where the subject matter of the proposed Contract makes the use of such references as indispensable, in circumstances where the use of such references becomes indispensable, it will be accompanied by the words ‘or equivalent’.

45. Assignation, Sub-Contracting, Termination and Variation

45.1. In every Contract there shall be included a provision whereby the Contractor shall be prohibited from transferring or assigning to any persons without the prior consent of the Council.

45.2. The sub-contracting of any part of a Contract except to the extent permitted in writing by the Relevant Officer shall be prohibited.

45.3. The Relevant Officer may terminate any Contract or part of a Contract or to agree to vary or amend the terms of any Council Contract but only following consultation with the Head of Finance/Section 95 Officer and the Head of Legal and Governance being satisfied that it is reasonable and in the best interests of the Council to exercise that power.

46. Liquidated and Ascertained Damages

46.1. Where the value of a Contract exceeds £100,000 or for complex procurements assessed on a case by case basis, the Chief Executive and Corporate Directors will consider whether it is appropriate for the Contract to include a provision for liquidated and ascertained damages. The amount to be specified in the Contract will be determined by the Relevant Officer in consultation with the Head of Finance/Section 95 Officer. The assessment of liquidated and ascertained damages will be a pre-determined and genuine estimate of loss to the Council.

47. Performance Bonds

47.1. Where the contract value exceeds £1,000,000 the Relevant Officer will consider whether it is appropriate to provide for performance bonds. The amount for each performance bond will be approved by the Head of Finance/Section 95 Officer. The bond will be in a form that is acceptable to the Head of Finance/Section 95 Officer and the Head of Legal and Governance.

48. Insurance

48.1. The Relevant Officer will ensure that appropriate risk management measures are in place to protect the Council, and that Contractors hold adequate insurance for the period of the Contract. The level of insurance cover held by Contractors will be considered on a case by case basis and will be commensurate with the scale, complexity and associated risks of the Contract.

48.2. The Chief Executive, Corporate Directors, or Chief Officer will consult with the Head of Finance/Section 95 Officer where there is any doubt regarding the level of insurance cover that is required to be held by Contractors.

49. Prevention of Collusion and Corrupt or Illegal Practices

49.1. In every written Contract a clause shall be inserted to secure that the Council shall be entitled to cancel the Contract and to recover from the Contractor the amount of any loss resulting from such cancellation if the Contractor or the Contractor’s representative (whether with or without the knowledge of the Contractor), shall have practised collusion in tendering for the Contract or shall have employed any corrupt or illegal practices either in the obtaining or performance of the Contract.

50. Sustainable Procurement

50.1. Before undertaking a regulated procurement exercise the Relevant Officer shall take into account the social, economic and environmental impacts of the proposed Contract and whether the Contract will contribute to the achievement of sustainable development in accordance with the Sustainable Procurement Duty and the Council's Sustainable Procurement.

50.2. For any procurement equal to or greater than £4,000,000, the Council must consider whether to impose community benefit requirements as part of the procurement.

50.3. The Relevant Officer will consider, under CSO 50.1, factors that are relevant and proportionate to the proposed Contract, including but not limited to sustainable procurement award criteria.

50.4. The Relevant Officer will consider under CSO 50.1 whether the Contract is determined as either a 'relevant' or 'priority' contract in terms of impact on Climate Change in accordance with Scottish Government, Sustainable Procurement Tools Guidance.

50.5. The Relevant Officer will ensure that a Sustainable Procurement Impact Assessment (SPiA) s carried for all procurement exercises for all relevant goods, services and works contracts where there is potential to minimise the use of carbon-based energy and its associated emissions.

51. Consultants

51.1. The appointment of consultants is subject to these CSOs, unless the appointment is exempt in terms of CSO 14.2 or subject to an exception as per CSO 14.3, and the Council's Financial Regulations. Due to their specialist and fixed term nature consultancy appointments are closely scrutinised. Therefore, prior to the commencement of a procurement exercise, the Relevant Officer shall obtain specific Committee approval to appoint a consultant unless this applies to construction or engineering projects.

51.2. The Committee report which seeks approval for the appointment of a consultant will include:

51.2.1. A summary of the requirements, including the expected benefits and when they are likely to be delivered;

51.2.2. Details of any alternatives to consultancy e.g. in-house expertise;

51.2.3. The estimated start and end date of the proposed Contract;

51.2.4. The maximum estimated value of the Contract over its lifetime.

51.3. The Relevant Officer will ensure that effective contract management arrangements are established to ensure the delivery of cost effective consultancy services which meet the Contract, i.e. the work required is completed on time, within budget and to specification.

51.4. Where it is appropriate and possible to do so, the Relevant Officer shall procure that ownership of Intellectual Property Rights in reports and other documents generated by consultants shall be assigned to the Council on such terms as the Council may reasonably require.

52. Annual Procurement Strategy

52.1. The Chief Executive or Corporate Directors and Chief Officer will ensure a Procurement Strategy is published to set out how the Council intends to ensure that its procurement activities deliver value for money and contribute to the achievement of the authority's broader aims and objectives in line with Scotland's Public Procurement Strategy.

52.2. The Council will in its Procurement Strategy help promote the positive impacts public procurement can have on Scotland's economy and public services.

52.3. The Chief Executive or Corporate Directors and Chief Officer will ensure that Consultation and Publication of an Annual Procurement Strategy is carried out and that in order to be meaningful and effective, engagement must be proportionate, manageable, and forward looking enough to allow time to incorporate findings into individual requirement contracting / Procurement Strategies.

52.4. By 1 April of each year, the Council will therefore develop and update an annual corporate Procurement Strategy in accordance with the Statutory Guidance as at CSOs 1.3 which shall contain the following:

52.4.1. How it intends to ensure that its regulated procurements will contribute to the carrying out of its functions and the achievement of its purposes;

52.4.2. How it intends to ensure that its regulated procurements will deliver value for money;

52.4.3. How it intends to ensure that its regulated procurements will be carried out in compliance with its duties under section 8 of the Procurement Reform (Scotland) Act 2014:

52.4.3.1. Treat relevant economic operators equally and without discrimination;

52.4.3.2. Act in a transparent and proportionate manner;

52.4.3.3. Sustainable procurement duty.

52.4.4. The Council's general policy on:

52.4.4.1. The use of community benefits requirements;

52.4.4.2. Consulting and engaging with those affected by its procurements;

52.4.4.3. The living wage being paid to persons involved in producing, providing or constructing the subject matter of regulated procurements;

52.4.4.4. The promotion of compliance with Health and Safety legislation;

52.4.4.5. The procurement of fairly and ethically traded goods and services.

52.4.5. How it intends its approach to regulated procurements involving the provision of food to:

52.4.5.1. Improve the health, wellbeing and education of communities in the authorities area; and

52.4.5.2. Promote the highest standards of animal welfare.

52.4.6. How the authority intends to ensure that, so far as reasonably practicable, the following payments are made no later than 30 days after the invoice (or similar claim) relating to the payment is presented:

52.4.6.1. Payments due by the authority to a contractor;

52.4.6.2. Payments due by a contractor to a sub-contractor;

52.4.6.3. Payments due by a sub-contractor to a sub-contractor.

52.5. The Council recognises its obligation to consult stakeholders including businesses, third sector organisations, communities and citizens who may have an interest in the Council's contracting for services. In support of this, it will develop a communication plan to ensure appropriate engagement with all sectors in Orkney, and will include an annual 'meet the buyer event' to provide a platform for market consultation and engagement with suppliers.

53. Procurement Annual Report

53.1. The Chief Executive or Corporate Directors and Chief Officer will ensure that the Council's procurement activity complies with the relevant legislation and that the decisions it takes in the context of its procurement activities are in accordance with the legislation and its own procurement objectives.

53.2. The Chief Executive or Corporate Directors and Chief Officer will ensure that the Procurement Strategy is reviewed annually and the revised Procurement Strategy and Procurement Annual Report are published on an annual basis and in accordance with the Statutory Guidance as at 1.3.

54. Collaborative Procurement

54.1. The Council may enter into a joint procurement exercise with another Public body, which in its entirety, is carried out jointly and in the name of all the public bodies concerned, and shall be jointly responsible for ensuring that applicable legislation is complied with. This also applies in cases where one public body manages the procedure, acting on its own behalf and on the behalf of the other public bodies concerned.

55. Prevent Duty

55.1. The Chief Executive or Corporate Directors and Chief Officer will ensure that Tendering and Contract documentation will include a requirement for all Contractors to the Council to support the Council's PREVENT duty to prevent radicalisation and support counter-terrorism where appropriate to the subject matter of the Contract.

Appendix 1

Non Competitive Action (NCA)

1. It is Council policy that Contracts for Supplies, Services and Works should be awarded on the basis of value for money following a genuine and effective competition. This policy recognises that there may be occasions where it is appropriate to award a Contract without following a genuine and effective competition. This procedure is known as NCA and can only be applied in exceptional circumstances and after a financial and insurance assessment has been carried out.

2. Officers should refer to CSO 14 where the exemptions and exceptions are detailed; please note that an NCA is not required where the value of the Contract is less than £10,000 for Supplies and Services and Works.

   Where the NCA refers to the procurement of Services, Supplies or Works under a new Contract instead of an extension or variation to an existing Contract, CSO 16 applies and a Procurement Plan is required.

3. An NCA will only be approved when a genuine business need exists which outweighs the need to subject the requirement to competition. Evidence in support of the NCA must stand up to scrutiny or challenge.

4. Only the Chief Executive or their designated substitute has the authority for final approval of an NCA.

5. Prior to seeking authority from the Chief Executive and Corporate Director for an NCA, advice and guidance must be sought from the Service Manager (Procurement) to ensure that there is sufficient information contained within the request to enable the Chief Executive and Corporate Director to consider the NCA.

6. The Chief Executive, in consultation with the Head of Finance/Section 95 Officer, the Head of Legal and Governance and the Service Manager (Procurement), as appropriate, will decide whether or not to authorise the request to proceed without competition.

7. Following approval a scanned copy of the NCA Form must in all cases be sent to the Service Manager (Procurement) for inclusion on the NCA register.

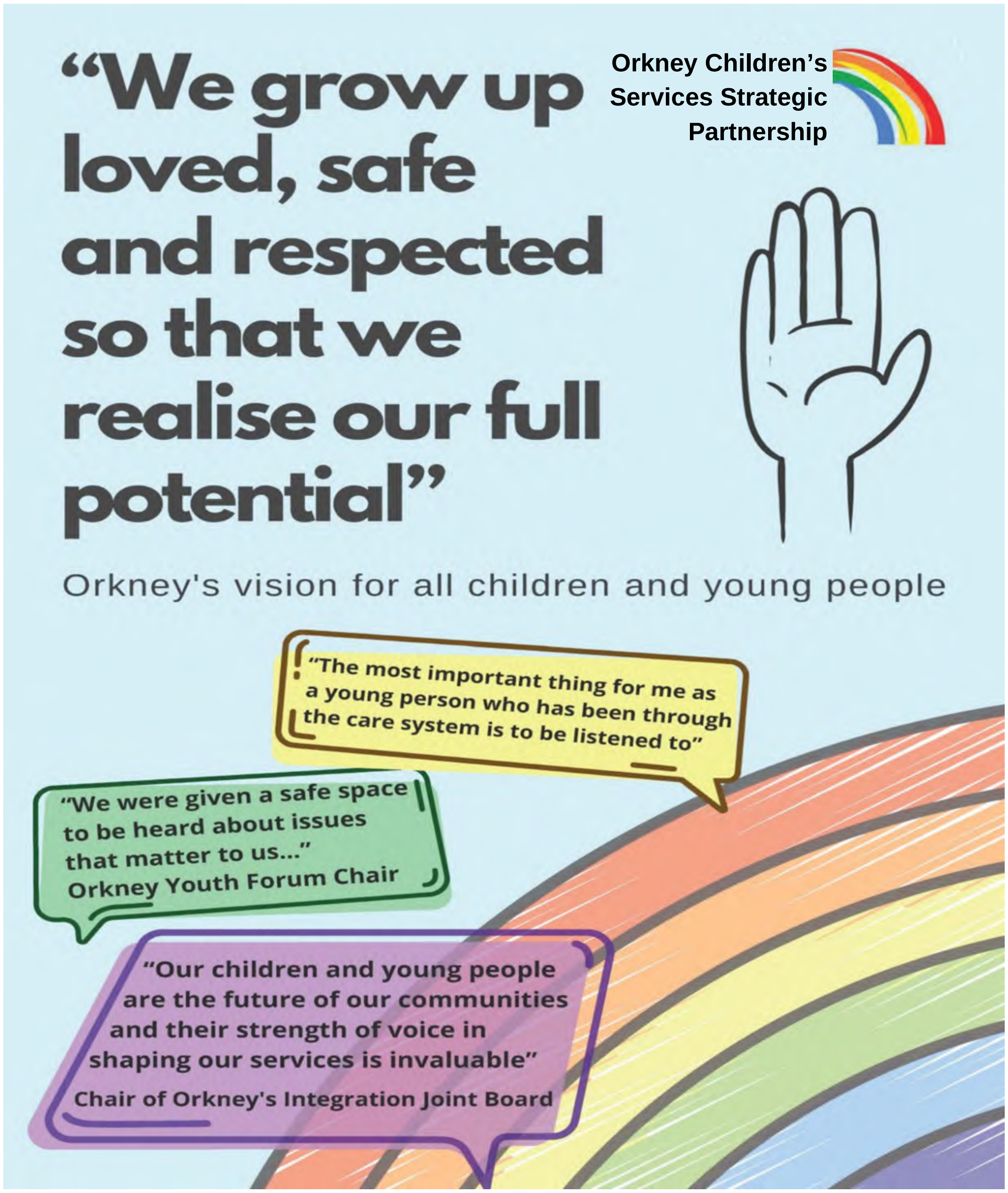
8. Where a request for NCA is rejected then a competition will be necessary. The level of competition will depend on the value, nature and complexity of the purchase.

Request for Non-Competitive Action NCA xxx

Note: Once completed and signed by the Corporate Director seeking the Exception, this form must be sent to the Chief Executive for Approval.

Details of the Service seeking Non-Competitive Action	
1. Name	
2. Service	
Details of NCA exception request	
3. Contractors Name	
4. Contract Title	
5. Type of Contract	Supplies/Services/Works
6. Value (excluding VAT)	
7. Duration	
8. Is the request an amendment to an existing contract?	Yes/No
9. If Yes, was the original contract competitively tendered?	NA
10. Has a financial and insurance assessment been carried out?	Yes/No
11. Justification for non-competitive action	
12. Include reference to CSOs – Clause 14 Exemptions and Exceptions – detailing the exemption or exception referred to in the NCA request (including full details and explanation as necessary)	

Signature	
Name of Corporate Director/Chief Officer seeking approval for NCA	
Date	
I approve the exception requested / I am unable to agree to the exception request (please delete or highlight as applicable)	
Signature	
Chief Executive	
Date	



Orkney Children's Services Plan

2023—2026

Content

1. Introduction

The guidance for the planning of children's services in Scotland specifies that Children's Services Plans must be prepared with a view to:

- safeguarding, supporting, and promoting the wellbeing of children and young people.
- ensuring any action to meet needs (including prevention) is taken at the earliest appropriate time.
- integrating services from the point of view of recipients.
- achieving the best use of available resources.

While overall responsibility for children's services planning rests with Orkney Islands Council (the local authority) and NHS Orkney (the relevant health board), the practice, ongoing expectation, and commitment is to collaboration with the whole community.

Orkney's Community Planning Partnership shared mission is: Working together for a better Orkney. With this foundation in mind, the Children's Services Strategic Plan has been prepared by the Orkney Children's Services Strategic Partnership (OCSSP; there is more about the OCSSP in section 4).

In preparing the plan, it is fully recognised that only with the help and support of the Community Planning Partnership and the wider Orkney community, as well as that of children, young people, and their families can the aspirations of the plan be fully realised. Included as part of section 3 (Our Priorities) is a reflection by young people on some of the issues that are important to them.

Orkney Children's Services Strategic Partnership

2. Summary of our Plan

2.1 Our Vision

- Children and young people grow up loved, safe, and respected, so that they can realise their full potential.

2.2 Our Priorities

- Child Protection
- Mental health and wellbeing
- Involving Young People
- Reducing poverty and disadvantage

2.3 Our Commitments

- Keeping our children safe
- Implementing 'The Promise'
- Incorporating UNCRC and human rights into all areas of our work
- Achieving a positive destination for all our young people

3. Our Priorities

3.1 Child Protection

It is everyone’s responsibility to make sure that children and young people are safe and protected from harm. While most young people in Orkney, like the rest of Scotland, grow up in safe and loving households, unfortunately, this is not always the case and it is important for everyone to be alert to signs of abuse and to respond appropriately to make sure that young people and their families get the help and support they need, when they need it.

In 2020, the Children’s Services Partners in Orkney (Police, Education, Social Work, Health Services, and voluntary organisations) were found by inspectors to be failing in their responsibilities to ensure that children were protected. Professionals across those agencies did not always recognise when a child or young person may be at risk, organisations did not work together as well as they should and many of the basic structures to support and protect young people were not in place.

Since that time, the inspectors have been back in Orkney twice to make sure that progress is being made. On both occasions they have found that practices have continued to improve but report that there is still much to do.

We have an established improvement plan that helps all agencies to focus on the things we need to do to get it right for young people. We are also working on our policies and procedures to bring them into line with Scotland’s national child protection guidance. All areas across Scotland are working on this just now.

Orkney is no different to other parts of the country in that young people, at times, need protection due to issues of domestic abuse at home, or when their parents are struggling with drug or alcohol issues or mental health problems. Some young people are physically or sexually abused by a parent or an adult they know well and some experience neglect. At such times, it is important that young people can be supported and helped to make sure that the abuse stops and that they are supported moving forward.

Our aim is to ensure that when young people need protection, our response, and the support we provide, is quick and effective. We also aim to provide early support to children and young people, parents, families and our communities, and to ensure capacity building where we assess it is required.

With reference to child protection, young people said… it would be helpful if we knew more about child protection procedures, so we know what to do if we feel we are being abused or we know it might be happening to our friends.

3.2 Mental Health and Wellbeing

A growing number of young people across Orkney are struggling with their mental health and wellbeing. The full impact of the COVID 19 pandemic and the lockdown periods, where young people missed out on normal activities with other young people, is still not fully known. In addition, some young people are having to contend with the stress and strain of exams; issues of bullying which can happen face to face or online; issues of sexuality or gender as they grow and develop; and many other issues from the cost-of-living crisis to the unstable global environment.

The transition back to school for children and young people with neurodiversity was particularly difficult, as the change from Learning without social demands to readjusting to the demands of the school day was very stressful to a number of young people. This led to the creation of guidance for schools supporting vulnerable children and young people to make a successful transition back to school education.

Orkney has experienced a rise in the numbers of young people requiring support with their mental health and wellbeing. Recently the community has been significantly affected by the death of young people by suicide. Third sector organisations who provide support and counselling to young people have growing waiting lists and our schools counselling service and Child and Adolescent Mental Health Service are both experiencing increased demand.

While Covid has created or accentuated some issues, it does not offer a complete explanation, reason, or excuse. Our engagement with young people tells us that mental health and wellbeing is the single most important issue for them. As a Children's Services Partnership, we have already provided additional funding for supports to young people; we have grown our Child and Adolescent Mental Health Service resource considerably, progressing from two to twelve members of staff with a further two posts to be filled; and taken our school counselling service in house.

At present we employ two full-time counsellors and continue to try to successfully recruit to the one vacant post. In 2022, we established a Suicide Prevention Task Force and during this time, we have worked with partners, including Community Learning, Development & Employability, to provide more early intervention activities and opportunities.

The Mental Health Guidance for Orkney Education Staff – A Framework to support Children's and young people's Emotional Wellbeing was created. It focuses on universal approaches to wellbeing for all young people as well as drawing attention to more targeted approaches for vulnerable young people. Following a launch to all schools a training needs analysis was undertaken to support implementation.

The See Me See Change Programme was introduced to the mainland secondary's schools and Junior High's in order to reduce stigma around mental health issues and build confidence across staff and pupils in talking about mental health.

Togetherall the digital mental health support platform was recommissioned with an increased age band. Now all 16-31 years olds can access mental health support online 24 hours a day, 7 days a week from any area within Orkney.

Despite the work to date, we know there is much more to do.

With reference to mental health and wellbeing, young people said…
We would like our community to have a better understanding and awareness of children and young people's mental health. We would also like to know where to access support wherever you are in Orkney. It would be good to be able to meet with organisations to discuss stigma and discrimination, mental health awareness, as well as be able to access support and support guides so individuals can improve their own mental health. We also think that greater use could be made of social prescribing, as well as getting help from other people such as friends, family, professionals, a trusted adult, NHS etc. Where there are limited things to do, taking risks with drink, drugs, cars and sex can feel like the only option.

3.3 Involving Children and Young People

Before the Pandemic, Orkney's Children's Services Partnership had built up strong links with children and young people to help shape and plan services and supports. Unfortunately, much of this work was paused during the COVID 19 pandemic period. Some of the great work that had been done before the pandemic has already resumed. For example, the Orkney Youth Conference was held in March of this year, the first time since 2019.

In collaboration with young people, we were able to launch the Growing Up in Orkney website during the pandemic and have recently established a Care Experienced Young People's Board. Our Community Learning, Development & Employability Services have increased coordination and activity to ensure inclusion of representative voices of young people, including the return of the Orkney Youth Conference, Young Islanders, support to our local MSYP's, with the July 2023 Scottish Youth Parliament Sitting taking place in Orkney, and the creation of a local employability lived experience panel who are influencing and informing the work of the Local Employability Partnership.

In addition, some young people are now actively engaged in work around our suicide prevention agenda and are involved in the development of a support app and working with NHS and Council Communications Teams in mental health awareness campaigns. Schools across Orkney have been trained in 'Talking Mats' and other non-verbal approaches to capturing the 'voice' of the child' in inclusive ways for all children and young people.

The Children's Services Partnership is committed to strengthening even further the role and voice of children and young people in developing services and support that best meet their needs. As one young person put it, this plan should be written by young people or carers.

With reference to involving children and young people, young people said… It would be good if the wider community knew more about UNCRC and that they understood that everyone has these rights and it's their (the community's) responsibility to set a standard to uphold those rights.

3.4 Reducing Poverty and Disadvantage

The current cost of living crisis is affecting families and, when families are struggling financially, this has a big impact on the lives of children and young people. The number of children living in poverty in Orkney is lower than in some areas of Scotland but is growing. This means that some children and young people are going hungry at times and living in cold houses in the winter. These hardships can have a lasting impact on children and young people's growth and development, make it harder to learn and to study and can cause health issues too.

Reducing the number of young people living in poverty means supporting things that will put money in the pockets of parents. As such, the Children's Services Partnership has supported the Child Poverty Action Plan over the last few years and will continue to look at ways to better support children, young people and their families.

There are a number of other things which can disadvantage some young people more than others. Young people who are, or have been, care experienced, for example, do not always have the support of family when growing up and becoming adults. Their chances of further and higher education, good housing and job prospects can, sometimes, be affected. It is important that care experienced young people have the additional help and support they need.

Young people living in Orkney can experience some disadvantages due to our geography. Young people living on our ferry-linked isles travel to, and live on, the Orkney mainland to attend secondary schools. Starting secondary school can be a challenging time for young people and the need to be away from home and family can make this even harder. The work of our Education Services to make the transition as easy as possible, and our Halls of Residence as homely as possible, continues to be a big priority.

Some young people who need support with their speech and language development or require autism assessments can wait a significant among of time. This is something we need to improve upon. Some children and young people with disabilities or health conditions, at times, require leaving Orkney to receive treatments and inputs from specialists on the Scottish mainland. Sometimes this is because we don't have that specialist support available on the island – we are simply too small a population to have a specialist in everything. We will, however, continue to explore opportunities to bring these specialists here whenever that is possible. Orkney needs to develop and implement a Neurodevelopmental Pathway to ensure that children, young people and their families receive appropriate services within the community throughout the life cycle.

With reference to reducing poverty and disadvantage, young people said… More needs to be done on reducing the stigma of young people in poverty or accessing support. e.g. young people not having P.E kit, being hungry. Young people need to know which places can provide support to them and their families. It needs to be non-discriminatory for them to access this support.

Maybe it works better if poverty alleviation is in disguise, e.g. support being accessed by all rather than in target groups?

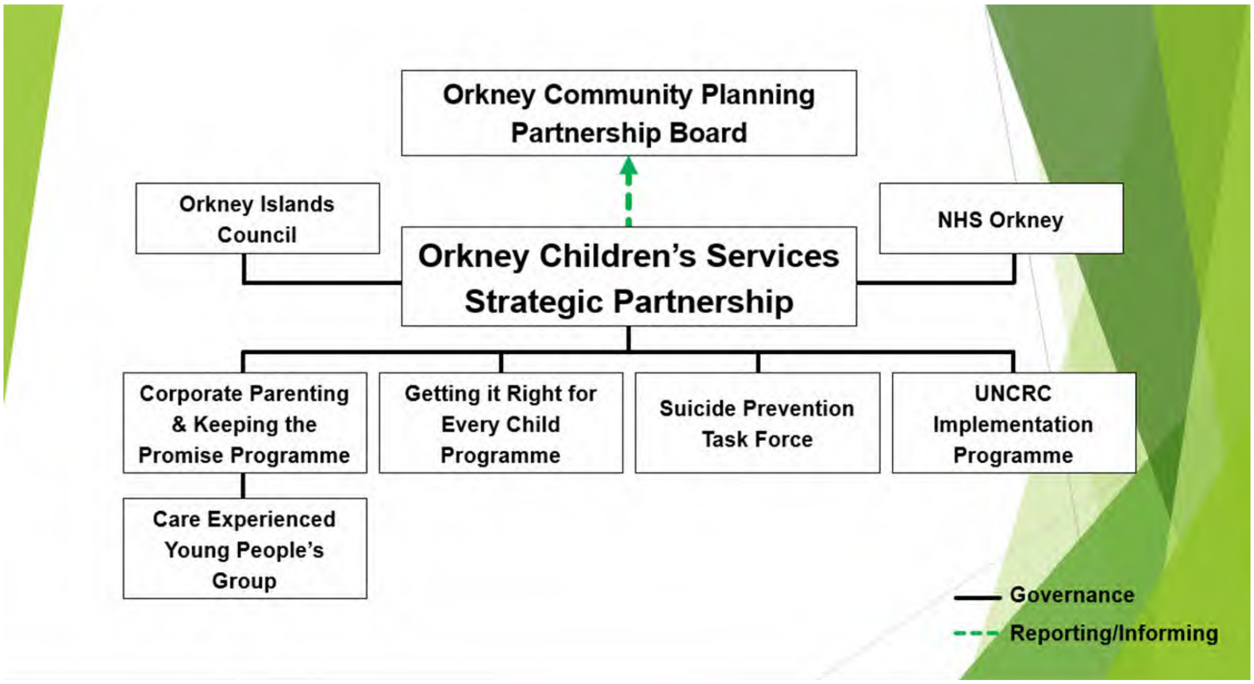
More could be done around: promoting the use of discounts etc available in Orkney ie: Young Scot Card; looking at transport for example additional buses in areas which don't have regular services so the free bus travel is more accessible; also the ferries, so that free transport is accessible for all to access services when they need to.

There needs to be more work experience from a younger age, this way young people from a younger age get the chance to try practical tasks and get used to what being in employment is like as well as know that there are other opportunities out there.

There needs to be more: opportunities for young people to access career advice; funding available to young people to attend courses etc; access to independent living skills and well-being support etc as it is felt that not all of this can be covered in school.

4. The Children's Services Planning Structure

The structures to support the work of Children's Services in Orkney have recently been reviewed, and the structure chart below represents the new arrangements.



Each group meet independently, with the chair from each group, along with representatives from the key services and agencies across the Children's Service Sector, meeting each quarter as the Orkney Children's Services Strategic Partnership (OCSSP) to:

- Support collaborative planning.
- Monitor progress with Children's Service Plan.
- Provide quality assurance and
- Prepare progress reports and updates as required.

*Note that the Suicide Prevention Task Force has a remit for all ages

5. Orkney Context

5.1 Strengths

- Orkney's small size (see 5.4) provides a unique opportunity for us to work together, as a partnership, to achieve our vision that all children and young people here grow up loved, safe and respected so that we realise our full potential.

- It is easier in Orkney to develop strong relationships with colleagues across organisations, so that we can all work together to support our children and young people.

- We, as a community, have strong collaboration across agencies, public services, third sector and voluntary to support those in need of support.

5.2 Challenges

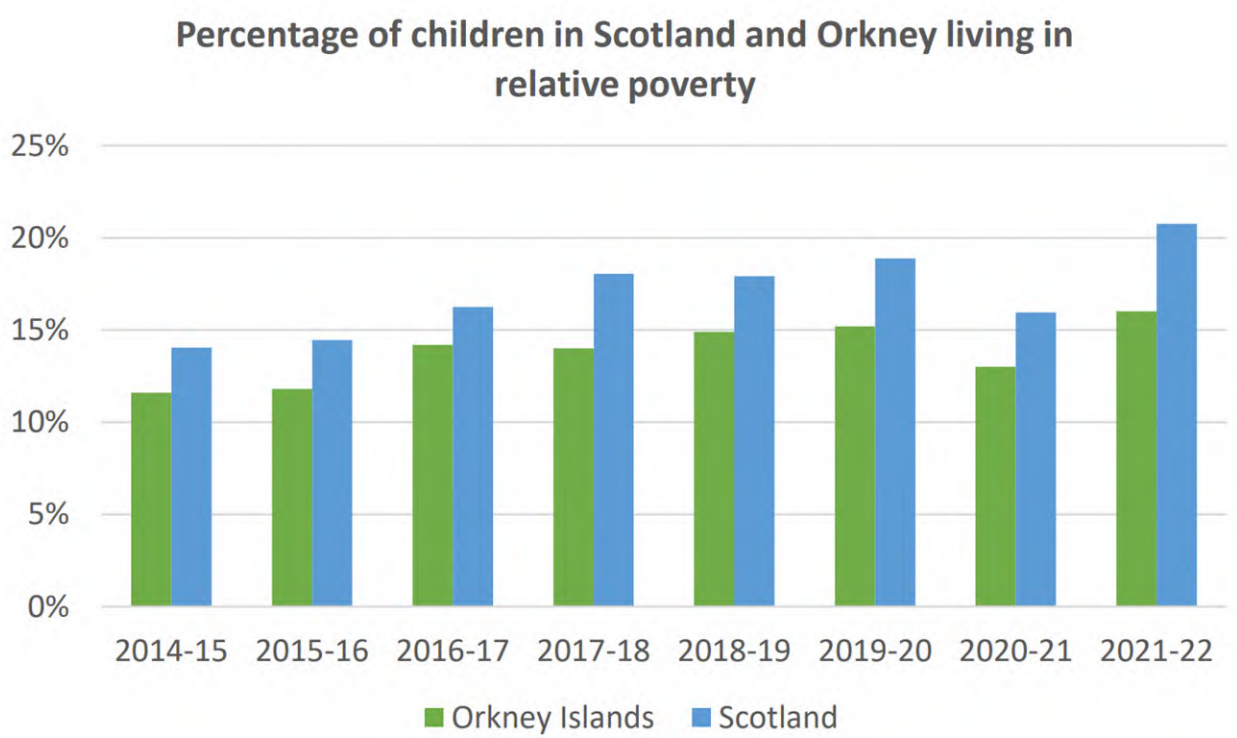
- There are workforce challenges across all services, but this presents an opportunity for us to work closer together and in creative ways that we might not have previously tried.

- Our geographical spread can make it difficult to have equality of access to services.

- Our remoteness can present additional challenge for those experiencing isolation or social exclusion within the community.

5.3 Poverty

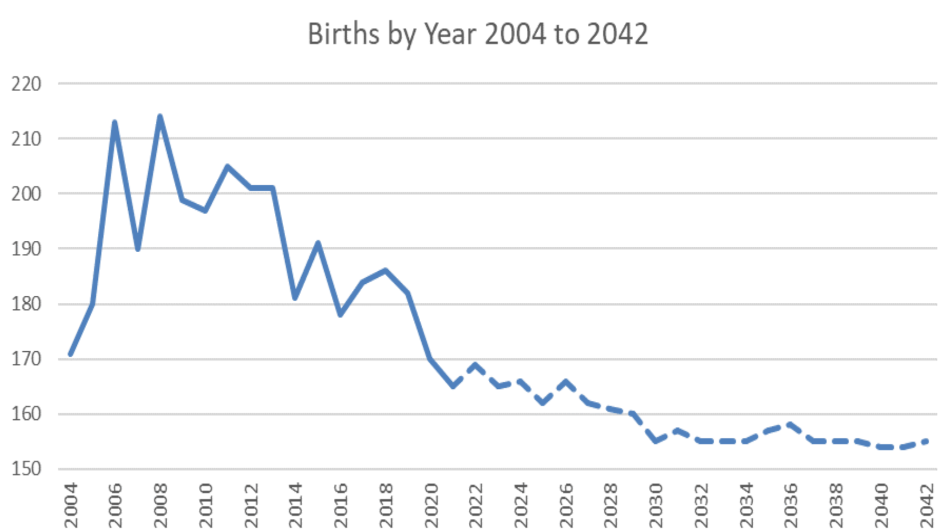
'There is a perception that Orkney is an idyllic place to live and bring up children, and for many it is. However, we cannot ignore evidence of an undercurrent of poverty in our islands. It may be less visible than in other areas, but it exists and is rising' (Orkney Child Poverty Strategy 2022 to 2026)



(Source: Orkney Local Child Poverty Action Report 2022-23)

5.4 Population

Isles populations by age group (estimated at January 2021)			
Age group	Mainland and linked south isles	Ferry-linked isles	Orkney Total
0 - 15	3,189	393	3,582
16 - 59	10,525	1,250	11,775
60 - 74	3,781	700	4,481
75+	2,032	400	2,432
Total	19,527	2,743	22,270



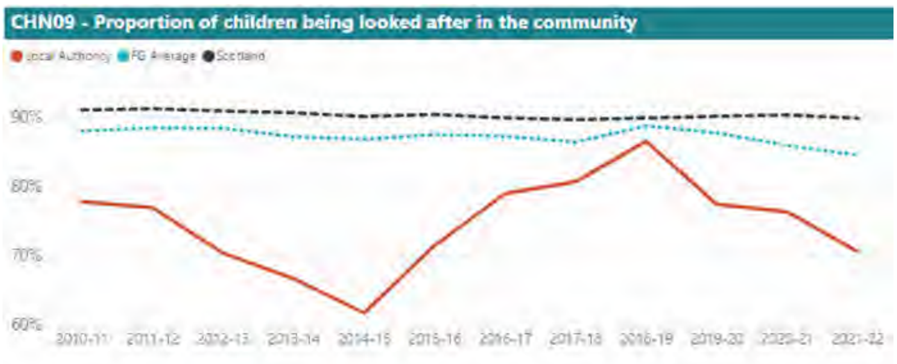
The drop and projected drop in the number of children in Orkney is reflected in school rolls and the school roll forecasts for Orkney's primary and secondary schools. The actual number on roll continues to be balanced however, to some extent by, inward migration. The net impact is short term upturn in secondary numbers and the overall nursery/school population remaining at around 3000 for planning purposes.

5.5 Performance

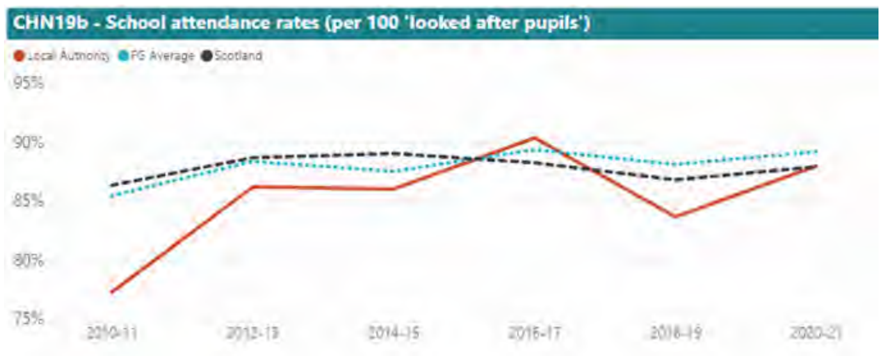
A small number of the performance measures that are included in the Local Government Benchmarking Framework (LGBF) are included here to assist with monitoring overall success.

The trend data included for reference also shows the average performance for Scotland and that of the 'family group' of local authorities that Orkney sits within.

Each indicator helps set the aims and ambitions of the plan in the context of what it means to grow up in Orkney.




CHN17 - Proportion of Children meeting developmental milestones
Local Authority FG Average Scotland
95%
90%
85%
80%
75%
2013-14
2014-15
2015-16
2016-17
2017-18
2018-19
2019-20
2020-21
2021-22


CHN19b - School attendance rates (per 100 'looked after pupils')
Local Authority FG Average Scotland
95%
90%
85%
80%
75%
2010-11
2012-13
2014-15
2016-17
2018-19
2020-21


CHN23 - Proportion of LAC with more than 1 placement in the last year
Local Authority FG Average Scotland
40%
30%
20%
10%
2010-11
2011-12
2012-13
2013-14
2014-15
2015-16
2016-17
2017-18
2018-19
2019-20
2020-21
2021-22


CHN24 - Proportion of Children Living in Poverty (After Housing Costs)
Local Authority FG Average Scotland
22%
20%
18%
16%
2014-15
2015-16
2016-17
2017-18
2018-19
2019-20
2020-21
2021-22

6. Our Action Plan

The tables (6.1-6.4) outline what we will do over the course of the first year of the plan. There is a focus on year one, in recognition of the need to review and update the plan annually. Each action we plan to take is aimed at improving things in at least one of the priority areas. However, we remain mindful of the fact that actions can and will have positive consequential impact across more than one priority area.

6.1 Child Protection

What will we do?	How will we do it?	Who will do it?	When will it be done by?	Outcome measure
Review all policies and procedures in line with the National Child Protection Guidance	All agencies will work together to bring our procedures in line with the National Guidance, ensuring that these can be delivered to meet the needs of Orkney.	The Quality Assurance Sub-Group of the Public Protection Committee	September 2024	New multi-agency child protection procedure available
Ensure that all professionals and support staff working with young people are alert to issues of neglect and know what to do	Embed specific ‘Neglect training into the Public Protection calendar	Public Protection Learning and Development Officer	March 2024	Training sessions on the issue of neglect will have been delivered to practitioners across organisations
Raise awareness of sexual exploitation amongst young people	Provide training and increase publicity around sexual exploitation of young people	Police Scotland CLDE	June 2024	Training schedule created Sessions delivered Media posts created and viewed Evaluation and feedback

6.2 Mental health and Wellbeing

What will we do?	How will we do it?	Who will do it?	When will it be done by?	Outcome measure
Create and launch a local suicide prevention app	We will work with young people to create a Suicide Orkney Support app	A short-life working sub-group of the Suicide Prevention Task Force	December 2023	An App will be developed, promoted, and engagement numbers monitored
Improve the speed of access to the Child and Adolescent Mental Health Service	We will grow the service in line with the Scottish Government funding and improve response times for assessment and treatment.	Clinical Director, Child and Adolescent Mental Health Service	March 2024	Referral to treatment times will have improved. (Baseline 80% - target 90%)
Improved support in schools	Conduct a needs analysis in relation to mental health and wellbeing support needs in schools. Create a menu of training to support the implementation of the Mental Health Guidance for Orkney Education staff. Share Save a Life Training across Education staff. Create See Me See Change Implementation Plans in secondary	Service Manager Support for Learning and Inclusion. Educational Psychology.	December 2023	Needs analysis available. Strategy agreed by Council and implemented by service.

What will we do?	How will we do it?	Who will do it?	When will it be done by?	Outcome measure
	schools and junior high schools. Establish a strategy for Support for Learning and Inclusion which further develops relationship-based approaches (nurture, restorative practice etc.			
Increase awareness and support for young people to promote and sustain positive health and wellbeing	Coordinate mental health awareness training to upskill people, reduce stigma and promote an understanding of mental wellbeing	Community Learning Development & Employability NHS Orkney Voluntary Action Orkney	Sept 2024	Programme of training developed Number of sessions delivered Number of participants Participant feedback
Expand and develop an array of opportunities and experience to support young people health and wellbeing	Work with partners to coordinate and develop health and wellbeing programmes and activities	Community Learning Development & Employability Educational Psychology	March 2026	Programmes developed Opportunities offered Sessions delivered Participants attendance Participant feedback Partner feedback

6.3 Involving Children and Young People

What will we do?	How will we do it?	Who will do it?	When will it be done by?	Outcome measure
We will establish a Care Experienced Young People's Group	We will work with young people to establish a group that has a powerful voice in the newly established Children's Services structure.	Team Manager Fostering & Adoption.	September 2023	A Care Experienced Young People's Group will be in place and linking with the Corporate Parenting Board. This group will have a clear purpose and terms of reference.
Improve youth voice opportunities and representation across Orkney.	Develop a relevant, coordinated and representative youth voice structure.	Community Learning Development and Employability and partners.	June 2024.	Youth voice structure created. Number of participants. Organisations represented. Young peoples feedback. Training events. Input into decision making.

6.4 Reducing Poverty and Disadvantage

What will we do?	How will we do it?	Who will do it?	When will it be done by?	Outcome measure
We will improve access to supports and services.	We will work with key professional groups to develop plans and improvement trajectories on waiting times Neurodevelopmental Assessment and Speech and Language Therapy, we will create a Neurodevelopmental Strategy for Orkney, ensuring children and families receive the right supports at the right times.	Lead AHP/Service Manager, Children's Health, Principal Educational Psychologist.	Sept 2023	Plan and improvement trajectories for both areas of service will be available.
Increase access to support and opportunities for priority groups to achieve positive outcomes.	Deliver life skills courses and free learning opportunities to help people most impacted by the cost-of-living crisis.	Community Learning Development & Employability.	Sept 24.	Number of life skills courses delivered Number of free learning courses. Number of participants. Participant feedback.
Maximize family's income so that everyone is aware of the benefits they are entitled to and know of support that can	Regular media and communications through OIC and schools' channels. Let's talk Money group with partner agencies.	Quality Improvement Officer, Achievement and Attainment with Let's talk money Orkney team.	Monthly from Aug 2023 – July 2024.	Agencies will report an increase in uptake of their services.

What will we do?	How will we do it?	Who will do it?	When will it be done by?	Outcome measure
be accessed when needed.				
Upskill education staff's knowledge of benefits and money support so that they can provide signposting to services for families.	Deliver poverty awareness training. Signpost schools to the Child poverty action group – ilearn courses.	Quality Improvement Officer, Achievement and Attainment with Let's talk money Orkney team.	Aug 2024	Number of participants on course Increased referrals to support agencies.
Ensure equity of access to all school activities.	Encourage schools to participate in the Cost of the School Day toolkit resulting in considered cost implications for all families	Quality Improvement Officer, Achievement and Attainment with Let's talk money Orkney team and Headteachers.		Increased number of schools using Cost of the School day toolkit Increased creative examples of equity of access being created Targeted children and young people participating in all activities.
Reduce the attainment gap for children and young people in receipt of FSM	Work in partnership with schools ensuring impactful spending of Pupil Equity Funding (PEF)	Quality Improvement Officer, Achievement and Attainment with Let's talk money Orkney team. Partnership with all.	Aug 2026	Increase attainment in literacy / numeracy reaching local authority stretch aims

7. Related Plans and Strategies


Orkney CLD Partners Plan


Orkney's Child Poverty Strategy

Orkney's Good Parenting Plan


The Raising Attainment Strategy


Orkney Schools Attainment Report

8. Context and Links to National Policies

The Scottish Government's ambition, as stated in **The Promise** is that Scotland will be the best place for children and young people to grow up – that every child will grow up loved, safe and respected so they realise their full potential.

The aim is that better outcomes for children and young people will be achieved through Getting it right for every child (GIRFEC), Scotland's approach to improving child wellbeing. The upholding of rights is the foundation for better wellbeing, and GIRFEC is underpinned by rights, and is aligned with the United Nations Convention on the Rights of the Child (UNCRC).

Our plan aligns with this ambition with its focus on improving outcomes for all those children and young people who may need additional support to achieve improved wellbeing. We have a commitment to incorporate UNCRC and human rights into all areas of our work.

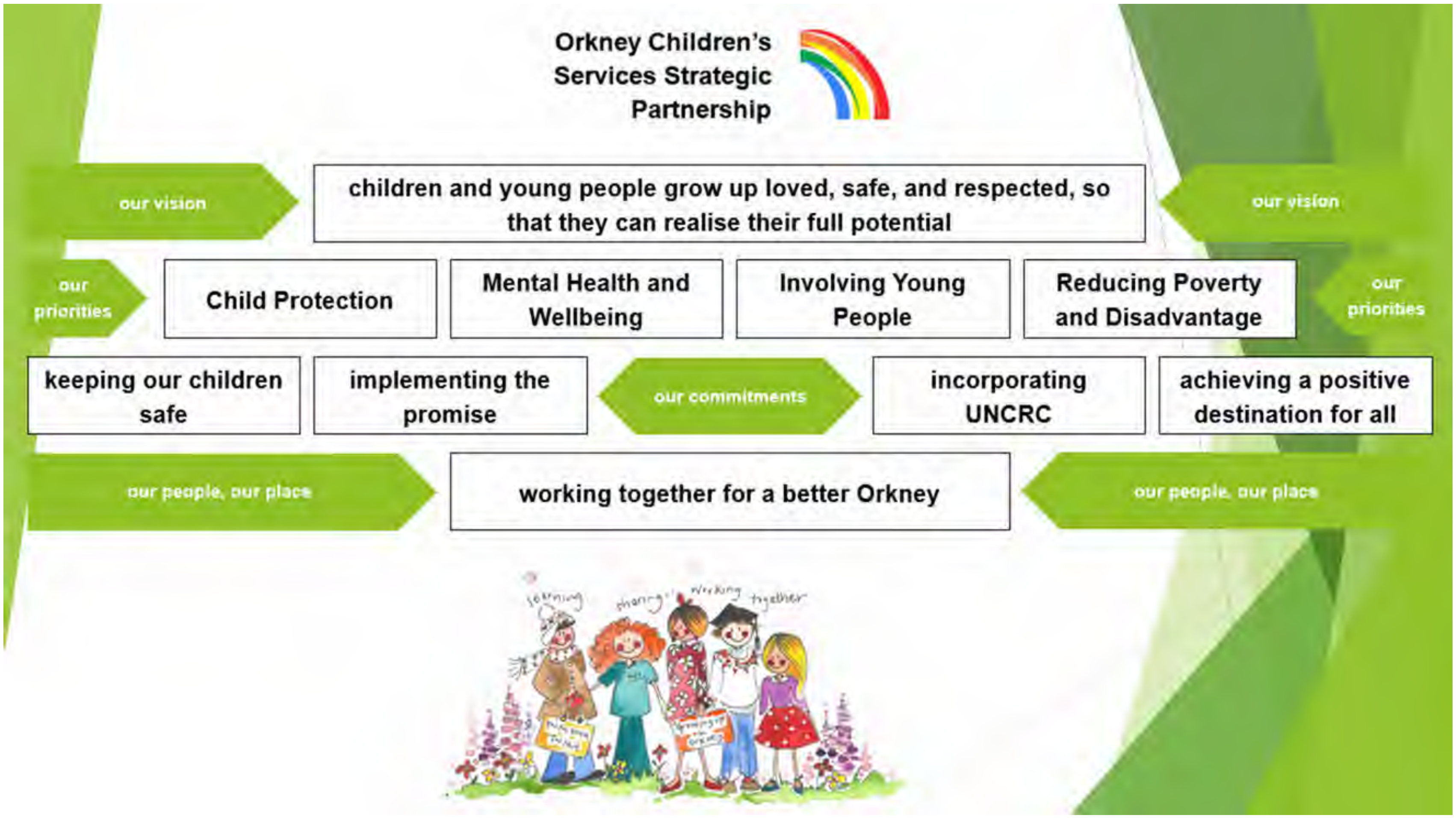
In Orkney, Getting it right for every child is well embedded, but with the release of revised guidance in late 2022 we will review our multi-agency processes and revise these where necessary to ensure that these continue to reflect national guidance.

Other national developments include Framework for Inclusion; the introduction of a **National Service Specification** for Child and Adolescent Mental Health Services (CAMHS); and The best start: five-year plan for maternity and neonatal care.

In Education, we have a Framework for Inclusion Working Group which will lead on actions aimed at improving outcomes for children and young people with additional support needs.

Orkney Children's Services Plan

2023—2026



Minute

Police and Fire Sub-committee

Tuesday, 21 November 2023, 14:00.

Council Chamber, Council Offices, School Place, Kirkwall.

Present

Councillors David Dawson, Duncan A Tullock, Graham A Bevan, Alexander G Cowie, Raymond S Peace and Mellissa-Louise Thomson.

Present via remote link (Microsoft Teams)

Councillor Jean E Stevenson.

Clerk

- Hazel Flett, Service Manager (Governance).

In Attendance

- Hayley Green, Corporate Director for Neighbourhood Services and Infrastructure.
- Donna-Claire Hunter, Service Manager (Safety and Resilience).
- Veer Bansal, Solicitor.

Scottish Fire and Rescue Service:

- Scott Gibson, Area Commander.
- David McGroarty, Group Commander.

In Attendance via report link (Microsoft Teams)

Police Scotland:

- Inspector David Hall.

Declarations of Interest

- No declarations of interest were intimated.

Chair

- Councillor David Dawson, Chair.

1. Local Fire and Rescue Plan

After consideration of a report by the Corporate Director for Neighbourhood Services and Infrastructure, copies of which had been circulated, and after hearing a report from the Service Manager (Safety and Resilience), the Sub-committee:

Noted:

1.1. That the Scottish Fire and Rescue Service had a statutory role to prepare a local fire and rescue plan for local authority approval.

1.2. That, following a review of the current Local Fire and Rescue Plan, Scottish Fire and Rescue Service aimed to share the Plan with key stakeholders, including the local authority, by the end of the calendar year.

1.3. That the review, referred to at paragraph 1.2 above, would be used to help inform the options development process for service changes in the coming year.

1.4. That Scottish Fire and Rescue Service anticipated that, once the options development process and full public consultation on the proposals had been completed, the local plan would be revised to take account of any operational changes.

1.5. That, once the steps outlined at paragraphs 1.2 to 1.4 above had been completed, the local fire and rescue plan would be presented to the Police and Fire Sub-committee for consideration.

2. Performance against Orkney Fire and Rescue Plan

After consideration of a report by Scott Gibson, Local Senior Officer, copies of which had been circulated, the Sub-committee:

Scrutinised the statistical performance of the Scottish Fire and Rescue Services, Orkney Islands area, for the period 1 July to 30 September 2023, detailed in the Quarterly Performance Report, attached as Appendix 1 to the report by the Local Senior Officer, and obtained assurance that progress was being made against the objectives.

3. Performance Against Local Policing Plan

After consideration of a report by Chief Inspector Scott Robertson, Area Commander, copies of which had been circulated, and after hearing a report from Inspector David Hall, the Sub-committee:

Scrutinised progress in respect of the Orkney Islands Local Policing Plan 2023 to 2026 Year 1, for the period 1 April to 30 September 2023, attached as Appendix 1 to the report by the Area Commander, and obtained assurance that progress was being made against the objectives.

Councillor Mellissa-Louise Thomson left the meeting during discussion of this item.

4. Conclusion of Meeting

At 15:25 the Chair declared the meeting concluded.

Signed: David Dawson.

Minute

Pension Fund Sub-committee, together with Pension Board

Wednesday, 22 November 2023, 14:00.

Council Chamber, Council Offices, School Place, Kirkwall.

Present

Pension Fund Sub-committee:

Councillors Heather N Woodbridge, P Lindsay Hall, Steven B Heddle, Rachael A King, Kristopher D Leask and Mellissa-Louise Thomson.

Pension Board:

Employer Representatives:

Councillors Graham A Bevan, James R Moar and Owen Tierney, Orkney Islands Council.

Trade Union Representatives:

Eoin Miller (Unite) and Eileen Swanney (Unison).

Present via remote link (Microsoft Teams)

Pension Fund Sub-committee:

Councillor James W Stockan.

Pension Board:

Karen Kent (Unison), Trade Union Representative.

Clerk

- Hazel Flett, Service Manager (Governance).

In Attendance

- Gareth Waterson, Corporate Director for Enterprise and Sustainable Regeneration.
- Erik Knight, Head of Finance.
- Robert Adamson, Service Manager (Payroll and Pensions).
- Shonagh Merriman, Service Manager (Corporate Finance),
- Katie Gibson, Team Manager (Corporate Finance).
- Paul Maxton, Solicitor.

Present via remote link (Microsoft Teams)

- Karen Rorie, Senior Accounting Officer (Treasury) (for Items 1 to 8).

Hymans Robertson:

- David Walker, Partner.
- Tom Hoare, Consulting Actuary (for Item 8).

KPMG:

- Michael Wilkie, Public Sector Audit Director.

Apologies

Pension Board:

Employer Representative:

Karen Ritch, Senior Finance Officer, Orkney Ferries Ltd.

Not Present

Pension Board:

Trade Union Representative:

- Mark Vincent (GMB).

Declarations of Interest

- No declarations of interest were intimated.

Chair

- Councillor Heather N Woodbridge.

1. Disclosure of Exempt Information

The Sub-committee noted the proposal that the public be excluded from the meeting for consideration of Items 7 to 9 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. Orkney Islands Council Pension Fund

Audit Report to those charged with Governance

After consideration of a report by the Corporate Director for Enterprise and Sustainable Regeneration, and after hearing a report from the Public Sector Audit Director, KPMG, the Sub-committee:

Noted:

2.1. That KPMG, as the Council’s external auditors, had concluded their audit of the Orkney Islands Council Pension Fund’s Annual Report and Accounts for the year ended 31 March 2023.

2.2. That KPMG would be providing an unqualified certificate on the Pension Fund's Annual Report and Accounts for the year ended 31 March 2023.

2.3. That the draft audit certificate stated that the accounts had been properly prepared in accordance with applicable law, accounting standards and other reporting requirements.

2.4. That, during the course of the audit, a number of disclosure misstatements and other minor presentation and typographical changes were identified within the financial statements, which had been adjusted in the final accounts.

2.5. That no material weaknesses in the accounting and internal control systems relating to the Pension Fund were identified during the audit.

2.6. Orkney Islands Council's Letter of Representation to KPMG in connection with their audit of the financial statements of Orkney Islands Council Pension Fund for the year ended 31 March 2023, attached as Appendix 1 to the report by the Corporate Director for Enterprise and Sustainable Regeneration.

2.7. The Annual Audit Report to Members of the Pension Fund Sub-committee and the Controller of Audit, in respect of the Orkney Islands Council Pension Fund, attached as Appendix 2 to the report by the Corporate Director for Enterprise and Sustainable Regeneration.

Councillor Kristopher D Leask joined the meeting during discussion of this item.

3. Pension Fund – Annual Accounts

After consideration of a report by the Corporate Director for Enterprise and Sustainable Regeneration, copies of which had been circulated, and after hearing a report from the Head of Finance, the Sub-committee:

Noted:

3.1. The requirement, in terms of the Local Authority Accounts (Scotland) Regulations 2014, for a local authority, or a committee of the authority, whose remit included audit or governance functions, to consider and approve the audited Annual Accounts for signature no later than 30 September immediately following the financial year to which the accounts related.

3.2. That, although the unaudited annual accounts were submitted to KPMG by the required deadline of 30 June 2023, as this was the first year of KPMG's 5-year appointment as the Council's external auditors and, given the pressures on the audit profession, together with changes to certain auditing standards, certain aspects of the audit were still ongoing and could not be completed in time to allow a full audit opinion to be reached before 30 September 2023.

3.3. That Audit Scotland had been notified of the situation outlined above and had been in regular contact with KPMG, and all other auditors, to monitor progress with the 2022/23 audits, as it was known that this year would prove challenging to meet the 30 September deadline.

3.4. That the signed Annual Accounts, together with an appropriate audit certificate, would be published by 30 November 2023.

3.5. The Management Commentary, comprising pages 1 to 14 of the Annual Report and Accounts of the Orkney Islands Council Pension Fund, attached as Appendix 1 to the report by the Corporate Director for Enterprise and Sustainable Regeneration, which provided an overview of the most significant matters reported in the Annual Accounts for financial year ended 31 March 2023, with the key facts and figures summarised at section 4.3 of the report by the Corporate Director for Enterprise and Sustainable Regeneration.

The Sub-committee resolved, in terms of delegated powers:

3.6. That the Annual Report and Accounts of the Orkney Islands Council Pension Fund 2022/2023, attached as Appendix 1 to this Minute, be approved.

4. Revenue Expenditure Monitoring

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

Noted:

4.1. The revenue financial summary statement in respect of service areas for which the Pension Fund Sub-committee was responsible, for the period 1 April to 30 September 2023, attached as Annex 1 to the report by the Head of Finance, indicating a budget overspend position of £7,665,600.

4.2. The revenue financial detail by service area statement in respect of service areas for which the Pension Fund Sub-committee was responsible, for the period 1 April to 30 September 2023, attached as Annex 2 to the report by the Head of Finance.

The Sub-committee scrutinised:

4.3. The explanations given and actions proposed in respect of significant budget variances, as outlined in the Budget Action Plan, attached as Annex 3 to the report by the Head of Finance, and obtained assurance that action was being taken with regard to significant budget variances.

5. Pension Administration Strategy

After consideration of a report by the Head of Finance, copies of which had been circulated, and after hearing a report from the Service Manager (Payroll and Pensions), the Sub-committee:

Noted:

5.1. That the Council, as an Administering Authority, had discretion, under the Local Government Pension Scheme regulations, to publish a Pension Administration Strategy.

5.2. That a Pension Administration Strategy set out roles and responsibilities for the Administering Authority and of the employers participating in the Pension Fund.

5.3. That the Pension Administration Strategy, once approved, must be kept under review and updated when necessary.

5.4. That, in certain circumstances, the Pension Fund might recover costs from employers that had arisen as a result of that employer's performance.

5.5. That the Pension Administration Strategy, which was approved in 2017, had been reviewed and updated, to reflect recommendations arising from an internal audit.

The Sub-committee resolved, in terms of delegated powers:

5.6. That the Pension Administration Strategy, attached as Appendix 2 to this Minute, be approved.

6. Exclusion of Public

On the motion of Councillor Heather N Woodbridge, seconded by Councillor Rachael A King, the Sub-committee resolved that the public be excluded for the remainder of the meeting, as the business to be considered involved the 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.

7. Statement of Managed Pension Funds

Under section 50A(4) of the Local Government (Scotland) Act 1973, the public had been excluded from the meeting for this item on the grounds that it involved the disclosure of exempt information as defined in paragraph 6 of Part 1 of Schedule 7A of the Act.

After consideration of a report by the Head of Finance, copies of which had been circulated, and after hearing a report from the Service Manager (Corporate Finance), the Sub-committee:

Noted:

7.1. The investment monitoring report for the Pension Fund produced by Hymans Robertson, the Council's appointed investment advisor, attached as Appendix 1 to the report by the Head of Finance, relating to the performance of managed funds for the quarter to 30 September 2023.

7.2. That the Pension Fund investments returned a loss of £16,900,000, or 2.7% over the quarter to 30 September 2023, which was 3.8% behind benchmark and therefore considered poor in both absolute and relative terms.

7.3. That the value of the Pension Fund had increased by 4.2% over the 12-month period to 30 September 2023, which was good in terms of actual return, however, was behind the benchmark of 8.3% and therefore considered poor.

7.4. That an average return of 3.6% per annum for the Pension Fund remained positive but was 2.5% behind the benchmark over the five-year period and therefore behind target, which was to outperform the aggregate benchmark.

7.5. The Baillie Gifford Global Alpha Task Force on Climate-Related Financial Disclosures report for the year ending 31 March 2023, attached as Appendix 2 to the report by the Head of Finance.

7.6. The Baillie Gifford UK Equity Task Force on Climate-Related Financial Disclosures report for the year ending 31 March 2023, attached as Appendix 3 to the report by the Head of Finance.

7.7. The IFM Infrastructure Climate Change Report 2022, attached as Appendix 4 to the report by the Head of Finance.

8. Responsible Investment Beliefs

Under section 50A(4) of the Local Government (Scotland) Act 1973, the public had been excluded from the meeting for this item on the grounds that it involved the disclosure of exempt information as defined in paragraph 6 of Part 1 of Schedule 7A of the Act.

After consideration of a report by the Head of Finance, copies of which had been circulated, and after hearing a report from the Service Manager (Corporate Finance), the Sub-committee:

Resolved, in terms of delegated powers:

8.1. That the Head of Finance, in consultation with Hymans Robertson, should develop a Responsible Investment Policy for the Orkney Islands Council Pension Fund for consideration by the Pension Fund Sub-committee in due course.

8.2. That the Head of Finance, in consultation with Hymans Robertson, should review the investment strategy of the Pension Fund, following the triennial actuarial valuation results, to take account of the Fund’s Responsible Investment Policy, once approved.

The above constitutes the summary of the Minute in terms of the Local Government (Scotland) Act 1973 section 50C(2) as amended by the Local Government (Access to Information) Act 1985.

9. Orkney Islands Council Pension Fund – Triennial Actuarial Valuation

Preliminary Results and Draft Funding Strategy Statement

Under section 50A(4) of the Local Government (Scotland) Act 1973, the public had been excluded from the meeting for this item on the grounds that it involved the disclosure of exempt information as defined in paragraph 6 of Part 1 of Schedule 7A of the Act.

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

Resolved, in terms of delegated powers, what action should be taken with regard to the principal actuarial assumptions and the funding approach in the draft Funding Strategy Statement.

The above constitutes the summary of the Minute in terms of the Local Government (Scotland) Act 1973 section 50C(2) as amended by the Local Government (Access to Information) Act 1985.

10. Conclusion of Meeting

At 15:45 the Chair declared the meeting concluded.

Signed: Heather N Woodbridge.

Appendix 1

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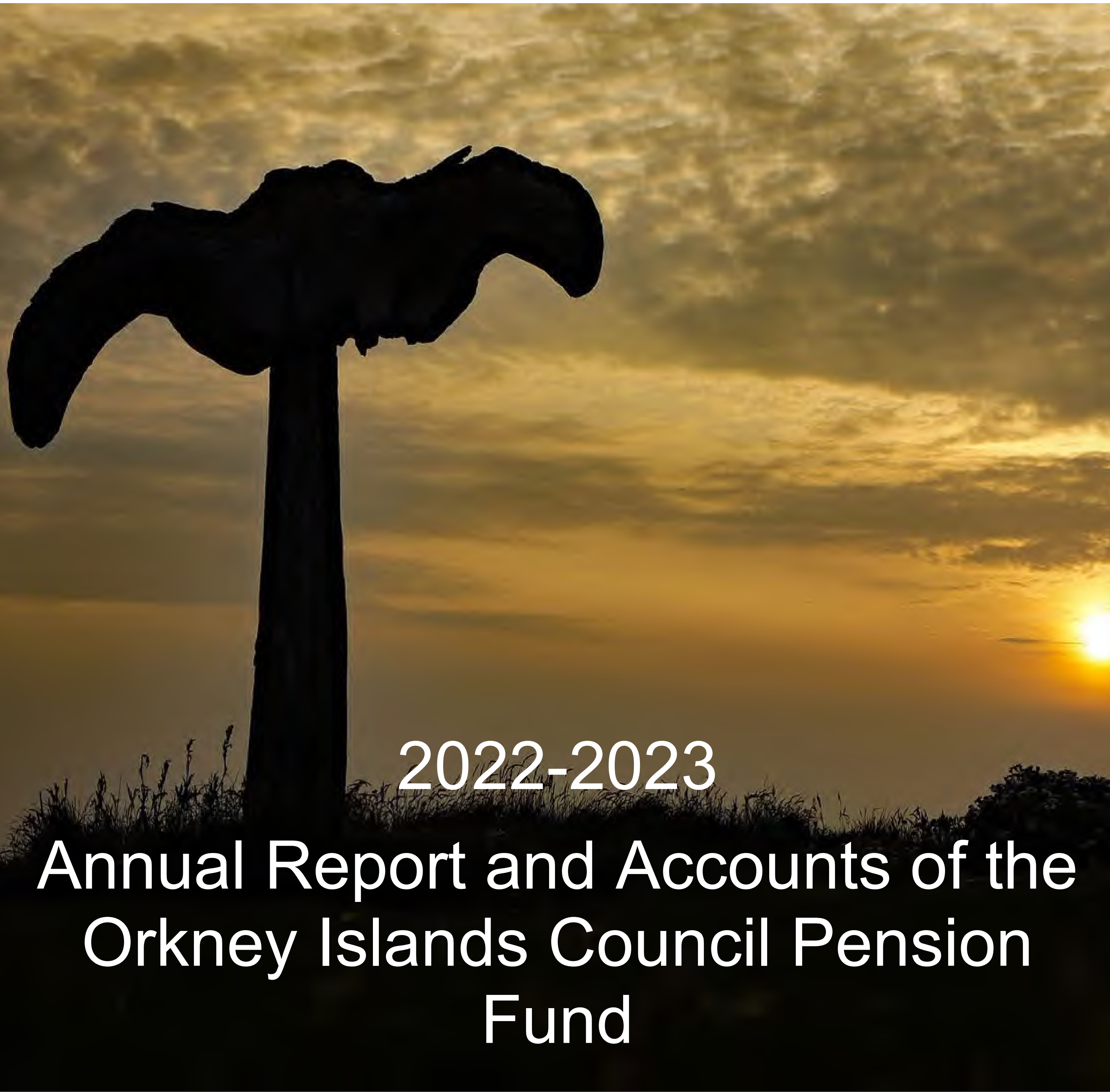
ORKNEY
ISLANDS COUNCIL



2022-2023

Annual Report and Accounts of the Orkney Islands Council Pension Fund

www.orkney.gov.uk

Contents

Management Commentary

Introduction

Welcome to the Annual Report and Accounts for the Orkney Islands Council Pension Fund for the year ended 31 March 2023.

The Local Government Pension Scheme (Scotland) Regulations 2018 require the Council, as administering authority for the Fund, to produce a separate statement of accounts for the Pension Fund and incorporate it into an Annual Report.

This Annual Report has been produced to provide Elected Members, employers, scheme members and other interested parties with information concerning the administration and performance of the fund for financial year 2022-2023 and we hope you find its content useful.

To assist in the understanding of the Annual Report and Accounts we would encourage you to make reference to the Management Commentary in the first instance.

We realise that pensions are a highly complicated subject. It is, however, important that fund members take the time to try and understand the scale of benefits that they will receive when they retire - whether this is from the Local Government Pension Scheme itself or through other pension arrangements, such as the State Pension.

Overview of Fund Business

Under the statutory provisions of the Local Government Pension Scheme, Orkney Islands Council is designated as an “Administering Authority” and is required to operate and maintain a pension fund – the Orkney Islands Council Pension Fund (“the Fund”).

The Fund is used to pay pensions, lump sum benefits and other entitlements to scheme members and their dependants. Contributions to the Fund are made by employee members and by participating employers. The Fund also receives income from its investments, which include equities and pooled investment vehicles.

The Fund operates under the terms of the Local Government Pension Scheme, which is a public sector pension arrangement. Scheme membership is made up of active, deferred and pensioner members. To be able to join the scheme, a person must be employed by a relevant employer and not eligible to join another public sector pension scheme. Teachers are not included as they have a separate national pension scheme.

Review of the Year

Key Facts and Figures:
Value of the Fund at 31 March 2023 was £479.9 million (£508.5m at 31 March 2022).
An Operational and Investment Income Loss of £28.7 million was incurred on the activities of the fund (compared to a loss of £12.3m for the year ended 31 March 2022).
The decrease in fund value over the year was largely the result of a decrease in the market value of investments of £34.8m. Outflows, including benefits payable (£10.3m) and management expenses (£2.8m) were offset by investment income of £9.6m and contributions receivable of £11.9m. A further significant outflow was incurred with a group transfer out of (£3.1m). Overall, this represents a year-on-year decrease of 5.6% in the value of the fund.
Performance of the Fund on a three-year rolling average basis has been 8.1% p.a., giving a relative return below benchmark of 1.0%.
Fund membership increased by 136 to 4,475.
Employers contributed £8.7 million to the Fund (£8.2m to 31 March 2022).
Employees contributed £3.2 million (£2.9m to 31 March 2022).
Pension and other benefits paid out were £10.3 million (£9.2m to 31 March 2022).
Transfer values paid into the Fund because staff changed employers was £1.1 million (£0.8m to 31 March 2022).
Transfer values out of the Fund because staff changed employers was £3.2 million (£0.7m to 31 March 2022), including a group transfer of £3.1 million (£0m to 31 March 2022.

Over the 2022/23 financial year, the Fund returned -5.6% as investment markets, as a whole, faced a challenging year.

The majority of mandates had negative returns this year on absolute terms except for the IFM Global Infrastructure fund. However, the overall performance over the longer term remains positive in absolute terms.

Within the Fund's growth assets, Baillie Gifford's Diversified Growth fund and Multi-asset fund (c. 19% of holdings), had the worst performance over the 12-month period, underperforming the benchmark by 15.5% and 13.6% (net of fees), respectively. Despite a sign of improvement in the first quarter of 2023, the 1-yr return remains negative in absolute terms for both mandates. Holdings in listed equities and property were the main detractor for both mandates during the year ended 31 March 2023.

In a similar fashion, the Baillie Gifford Global Alpha strategy performed poorly over the year, returning -4.4%, in absolute terms, during the last 12 months. Overweight exposure to high-duration stocks and underweight exposure to defensive names contributed heavily to the relative performance during the year.

The Baillie Gifford UK equity strategy held on better (in absolute terms) in comparison to other growth assets within the Fund over the 12-month period, albeit underperformed its benchmark by 5.6% (net of fees). Lack of exposure to energy stocks detracted dearly from the overall performance as oil companies were reporting a record profit. The energy sector outperformed the rest of the market significantly as high oil prices provided a tailwind for the sector.

The Fund's protection assets with LGIM, (fixed-interest and index-linked) also contributed negatively to the overall performance, returning -23.6% combined. Fixed income assets suffered throughout the year as high inflation and rising interest rate expectations resulted in the rise of yields and the fall in prices (bond prices fall as their yields rise). UK bonds in particular sold off following the aftermath of the "mini-budget" coupled with rapidly rising rates throughout the year as the Bank of England have been attempting to tame inflation. Both funds account for 7% of the pension Fund's AUM as of 31 March 2023.

In contrast to other mandates, IFM Global Infrastructure had a positive return over a 12-month period in absolute terms, returning 9.1%, albeit it's falling behind the benchmark by 0.8%, We note it is too early to meaningfully evaluate the manager's performance, given this is a relatively newly appointed manager.

The overall benchmark return of -1.9% generally reflects variable market conditions for investors over the 12 months to 31 March 2023.

The table shown within the investment strategy section, page 6, details the allocation of the fund within asset class or pooled investment vehicle.

The value of the fund decreased by £28.7m or 5.6% in the financial year and totalled £479.9m at 31 March 2023.

The change in value of the fund over any given period is a combination of the net money flows into or out of the Fund and any gain or loss on the capital value of its investments. During the year, a loss on member contributions receivable and transfers in over pension payments and management expenses of £3.3m (2022: £0.7m loss) was offset by income from dividends and interest of £9.6m (2022: £8.0m). The fund was further reduced by a net capital loss of £34.8m (2022: £19.6m loss).

The Accounts are based on the market value of investments at 31 March 2023. This means that they include the profit or loss that has been made, due to the change in the value of investments, over the period from the date of their purchase to 31 March 2023 even though no actual sale has taken place. This notional value is defined as "unrealised" profit or loss. By contrast "realised" profits and losses are those that have arisen from actual sales throughout the year. Of the net capital loss of £34.8m in the year, £30.6m was an unrealised loss (2022: £53.4m loss) and £4.2m realised loss (2022: £33.9m realised profit).

After allowing for projected liabilities on the fund, the funding level has increased to 159% at 31 March 2023 from its value of 137% last financial year end, calculated on an ongoing funding basis. This improved investment outlook has been partially offset by an increase to future inflation expectations.

We are pleased to report that the Fund maintains a position above its 100% funding target, being in surplus by £178m at the financial year end (2021/2022: £137m) according to the actuary's most recent funding update.

Economic and Market Background

Global growth slowed over 2022 amid soaring interest rates and inflation but falling energy prices, strong labour markets, and firm consumption have led to an unexpected resilience in recent economic data. As a result, 2023 GDP forecasts for the major advanced economies have seen upwards revisions in recent months. However, the quarterly pace of global growth is expected to ease from here as the lagged impact of interest rate increases weighs on activity and the boost from China's re-opening fades.

Year-on-year headline CPI inflation peaked at 11.1%, 10.6% and 9.1% in the UK, eurozone and US, respectively in the second half of 2022. Despite an easing in inflation, largely owing to falling energy prices, headline CPI remains elevated in March 2023, at 10.1%, 6.9% and 5.0% in the UK, eurozone and US, respectively. Core inflation measures, which exclude volatile energy and food components, also remain well in excess of central bank targets: year-on-year core CPI in the UK, eurozone and US stood at 6.2%, 5.7%, and 5.6% in March 2023.

In response, the major central banks have embarked on one of the most aggressive rate hiking cycles on record amidst concerns that core inflation might become ingrained. Interest rates were raised from historically low levels; reaching 5.0% p.a., 4.25% p.a., and 3.0% p.a., in the US, UK and eurozone, respectively.

High inflation and interest rate rises saw yields and volatility rise sharply in government bond markets. In the wake of the UK's mini-budget in September, selling of gilts by leveraged investors threatened to get out of control, with yields only falling back from their September peak following intervention by the Bank of England. UK 10-year yields increased from 1.6% p/a/ to 3.5% p.a. while equivalent US yields rose 1.2% p.a., to 3.5% p.a., and German yields increased 1.7% p.a., to 2.3% p.a. UK 10-year implied inflation, as measured by the difference between conventional and inflation-linked bonds of the same maturity, fell 0.8% p.a. to 3.6% p.a.

Despite recent tightening, inflation and growth concerns weighed on credit markets over the past year, with global investment grade credit spreads widening 0.3% p.a. to 1.5% p.a. and speculative-grade credit spreads widening 0.9% p.a., to 5.1% p.a.

Despite rallying strongly since its low in October 2022, the FTSE All World Index Total Return Index fell 5.0% over the period. Energy was the best performing sector, boosted by surging oil and gas prices during the first half of the year. Consumer discretionary and technology were among the worst performing sectors over the year amidst cost-of-living pressures and rising rates, while recent banking stresses resulted in a significant hit to financial stocks.

The improvement in consumer and business sentiment in Europe, off the back of falling gas prices towards the end of the year, led European equities to outperform. UK equities also experiences an outperformance due to above average exposure to the energy sector and sterling weakness for the most part of 2022, particularly against the dollar, which flattered the large proportion of overseas earnings in the index.

The UK sterling and Japanese yen fell 2.7% and 4.2% respectively over the past 12 months in trade-weighted terms while equivalent dollar and euro measures rose 4.2% and 2.9%, respectively.

The MSCI UK Monthly Property Total Return Index declined 14.7% year-on-year primarily due to a 18.8% fall in capital values. Values fell across the three main commercial sectors and were most pronounced in the industrial sector.

Resilient economic data has raised global growth forecasts for 2023, but quarter-on-quarter GDP growth is expected to ease beyond the first quarter as the lagged effects of ongoing monetary-policy tightening by major central banks weigh on economic activity. Against a backdrop of high headline CPI inflation and stubborn core inflation pressures, further rate hikes by the major central banks are likely and hopes that rates may start to fall in 2023 look overdone.

A challenging outlook favours higher quality bond and credit assets. While interest rates may not fall as quickly as markets expect in the near-term, bond yields remain at attractive levels relative to long-term fair value. Expectations that growth will slow and inflation will fall sharply this year should lend support to government bonds. However, upside inflation risks and a high degree of uncertainty around where inflation will settle increases the relative attraction of index-linked gilts. The extent of the relative attraction of index-linked over nominal gilts is not constant by term, with nominals preferred at longer-terms.

Property values may come under further pressure from tighter bank lending standards. Capital values continued to decline first quarter of 2023, but the rate of decline is starting to ease, and aggregate valuations saw their first monthly increase since June 2022 in March 2023, as retail and industrial values rose while office capital values continued to fall.

While nominal rental growth remains positive, high inflation means rental growth remains deeply negative in real terms. Furthermore, alongside an increase in inducements offered to tenants by proprietors and a decline in occupational demand, the latest UK Commercial Property Market Survey by the Royal Institute of Chartered Surveyors points to further declines in rent expectations.

Given the decline in capital values and rising rents, yields have risen sharply over the past 6 months. However, net initial yields remain unattractive versus longer-term history, and indeed relative to other income generating assets on a risk adjusted basis. Furthermore, the recent turmoil in the US banking sector, alongside existing affordability headwinds, may place further pressure on capital values as tighter bank lending standards deter leveraged buyers.

Investment Strategy

The investment strategy of the Fund is to invest monies in a prudent and diversified manner, in accordance with the Scheme regulations and in recognition of the inherent risks that accompany any investment in the respective asset classes. The strategy is set out in the Statement of Investment Principles which can be viewed on request.

A revised investment strategy was approved in February 2019. The process of transitioning to the revised strategy started during 2019 with the selection, appointment, and onboarding of new fund managers. The process of diversification commenced in financial year 2019/20 but was delayed due to COVID-19 related volatility being experienced in the markets and was still ongoing during financial year 2022/23. Significant steps have been taken towards the Fund's interim-target allocation during the year. The revised asset allocation and range guidelines were applied with effect from December 2019, and have been regularly reviewed with the most recent review in February 2022. The agreed interim and long-term target allocations are shown in the Asset Allocation table below together with the actual asset allocation at 31 March 2023.

Asset Class	Asset Allocation at 31/03/2023	Interim Target	Range	Long-term Target
	%	%	%	%
Growth				
UK Equities	9.6	8.0	46-56	7.0
Overseas Equities	50.0	43.0		36.0
Global Pooled - Diversified/Multi-Asset Growth	19.0	24.0	19-29	17.0
Total Growth	**78.6**	**75.0**	**65-85**	**60.0**
Income				
Infrastructure Credit	4.8	5.0	N/A	10.0
Private Debt	8.8	5.0	N/A	10.0
Total Income	**13.6**	**10.0**	**N/A**	**20.0**
Protection				
UK Gilts	3.7	7.5	2.5-12.5	10.0
UK Index-Linked Gilts	3.3	7.5	2.5-12.5	10.0
Cash	0.8	0.0	0-10	0.0
Total Protection	**7.8**	**15.0**	**5-25**	**20.0**
Total	**100.00**	**100.0**		**100.0**

In time the strategy will transition towards the relevant target allocations. As at 31 March 2023 the equities asset allocation was overweight when compared to the target range however, was within the overall range for total growth. The Fund has acted to reduce its holdings in growth–seeking assets in favour of funding a new allocation to income generating assets as part of a strategy to further diversify the Fund's investments. Nevertheless, holdings in equities still account for 59.6%, with indirect holdings in Diversified Growth and Multi-Asset Growth pooled funds accounting for a further 19.0% of the Fund's portfolio as at 31 March 2023. The remaining 21.4% is held in Infrastructure Credit, Private Debt, Bonds and Cash at 4.8%, 8.8%, 7.0% and 0.8% respectively.

Along with new allocations to infrastructure credit and private debt, other changes included an increase in the bonds allocation which is now managed on a passive basis. These changes are intended to reduce the risk profile of the fund and will be matched by a proportionate reduction in growth assets.

As a result of its exposure to equities, the relative performance of the Fund against its benchmark can be volatile over the short term. However, the Fund continues to have a strong funding position together with a net contribution from its dealings with members which allows it to take a long-term view across successive investment cycles.

The top 10 direct equity holdings within the Fund at 31 March 2023 were:

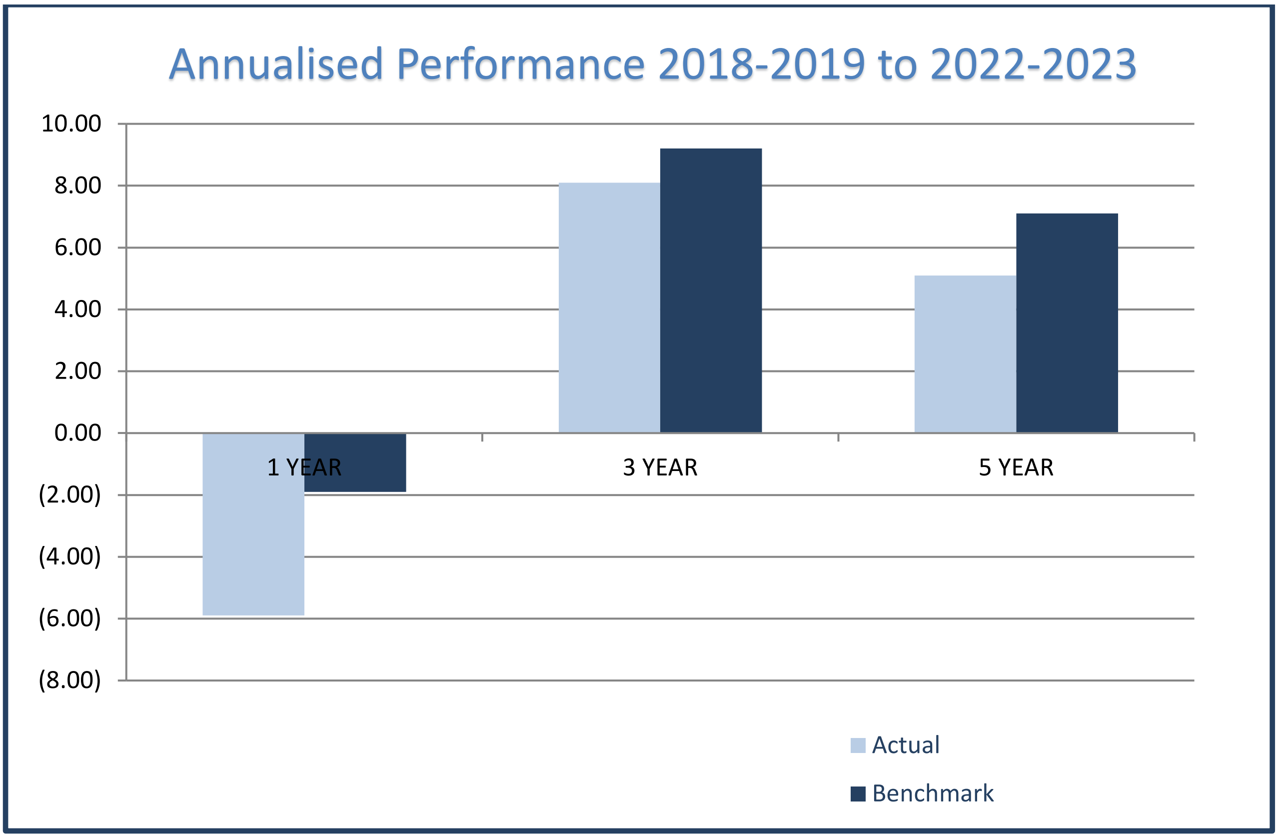
Company	**Market Value of Holding £m**
Baillie Gifford Diversified Growth Fund C Acc*	46.0
Baillie Gifford Multi Asset Growth Fund C Acc*	44.9
Prosus N.V.	8.6
Elevance Health Inc	8.5
Microsoft	7.9
Moody’s	7.3
Martin Marietta Materials	7.0
Service Corp.Intl.	6.1
Rio Tinto	5.9
Reliance Inds. GDR	5.8

* Capital Accumulated.

Investment Performance

The performance of the Pension Fund managed investments has been measured against a bespoke or fund specific benchmark since the 1 April 2017, following the closure of the previous peer group benchmark, and reflects the weighting or concentration of individual asset classes within the approved investment strategy. The benchmark is maintained by Hymans Robertson. A revised investment strategy was approved in February 2019 and included principally new allocations to infrastructure equity and private debt, funded by a further reduction in the Fund’s exposure to equities. The weightings of the fund specific benchmark were subsequently amended in December 2019 to reflect the revised investment strategy and signalled the start of the process to transition the Fund’s investments to the new strategy. The Fund’s performance target for this accounting period is to outperform the fund specific benchmark measured over a rolling 5-year period. The average performance over the last 5 years of 5.1% is behind the benchmark of 7.1%.

The following graph summarises investment performance on an annualised basis over 1, 3 and 5-year periods.



Structure of Administration

Staffing

Administration of the Scheme is carried out in-house and undertaken by the Payroll and Pensions section within Orkney Islands Council's Enterprise & Sustainable Regeneration Service.

The Pensions team within the Payroll and Pensions section has 3.7 full time equivalents, consisting of a Service Manager, one full time Senior Assistant, two part time Senior Assistants and an Administrative Assistant. In addition to maintaining Fund members' records using data supplied by all Fund employers, the Pensions team also provides frontline services to scheme members. As well as answering telephone calls and responding to electronic and written correspondence, meetings are provided where requested.

The staff resources detailed above are supplemented by shared staff resources within the Enterprise & Sustainable Regeneration Service, providing additional governance, payments, investment, and accounting expertise. In addition, the Human Resources and Organisational Development section, within Orkney Islands Council's Strategy, Performance & Business Solutions Service also supports the work of the Pension section by arranging pre-retirement workshops for scheme members who are within two years of retirement.

Systems

Fund members' records are maintained on Aquila Heywood's pensions administration system known as Altair. Every current and former employee of Fund employers, including

Orkney Islands Council, who has a pension entitlement in the Fund is included in the Altair system.

The Council's ResourceLink Payroll system is used to pay pensioner benefits. The Pensions team is restricted to read only access of the payroll system, with amendments being made to pensioner records via a formal request process to the Payroll team.

Administration Performance

Orkney Islands Council as administering authority is committed to providing a high-quality pension service to both members and employers and ensuring members receive their correct pension benefits entitlement.

Administration performance figures are monitored by the Pension Fund for financial year 2022-2023, against the key service standards set by the Pension Fund Sub-committee, as follows:

Category	Performance Standard – No of Working Days	Number of records processed within standard	Number of records processed Outwith standard	Percentage of records processed within standard	Prior Year Performance
New Entrant Information	10	286	0	100.0%	100.0%
Leaver Information	10	161	1	99.4%	100.0%
Deferred Benefit Information	1 Month	109	0	100.0%	100.0%
Pension Estimates	10	128	6	95.5%	96.8%
Retirements	5	112	0	100.0%	100.0%
Transfers In	10	47	3	94.0%	94.4%
Transfers Out	10	6	0	100.0%	100.0%
Refunds	5	33	0	100.0%	84.6%

Scheme Arrangements

Career Average Revalued Earnings Scheme (CARE) – LGPS 2015

A number of important changes have been made to the LGPS from 1 April 2015. The changes, which have been agreed between the Trade Unions, COSLA and the Scottish Government, ensure that the scheme complies with the terms of the Public Pensions Act 2013.

From 1 April 2015 the pension scheme moved away from a final salary to a career average revalued earnings scheme (CARE).

The main changes of this scheme were:

- A move towards benefits being worked out using career average revalued earnings (CARE) rather than final salary.
- Pensions being built up at a rate of 1/49th of annual pensionable pay.
- Member's normal retirement age being linked to their own State Pension Age. Members may still be able to retire from age 60 but a reduction for early payment may apply.

- Protection of benefits for members aged 55 and over at 1 April 2012 who will be guaranteed that their benefits will not be less than they would have been if the 2015 scheme had never been introduced, and
- Benefits built up before April 2015 will continue to be calculated using actual final pensionable pay at date of leaving.

Fund Update

Membership details are shown below along with a short description for each membership status:

Membership	2021-2022	2022-2023
Contributing members	2,126	2,167
Pensioners	1,161	1,227
Deferred members	1,052	1,081
Total	**4,339**	**4,475**

Contributing Member	Someone who is currently employed by a scheduled or admitted body and is making contributions from their pay to the Pension Scheme. Such a person is referred to as an “active” member.
Deferred Member	Someone who was once a contributing member and who has chosen to leave his or her accumulated contributions in the Fund to benefit from a pension in due course.
Pensioner/Dependent Member	Someone who is receiving benefits from the Fund either as a former contributor or as a dependant of a former contributor who has deceased.

Employer Bodies

The Fund invested and administered pensions on behalf of 5 current and former employers during financial year 2022-2023. These include scheduled bodies, brought into the Fund by legislation, and admitted bodies, which chose to join the Fund. The detailed listing of employers and their membership numbers is contained in Note 1 of the Annual Report and Accounts for the Fund.

Pension Increases

Pensions which are in payment and deferment are increased each April in accordance with the Pension (Increase) Act 1971. Since April 2011, this increase has been linked to the Consumer Price Index (CPI) rather than the Retail Price Index (RPI).

Actuarial Valuation

Annex 2 contains the formal Actuarial Statement for financial year 2022-2023 which is prepared in line with International Accounting Standard (IAS) 26 and supports the preparation of the Accounts for the Pension Fund.

The last triennial valuation, as at the 31 March 2020, calculated that the Fund's assets were valued at £377m, and were sufficient to meet 118.0% of the liabilities (i.e., the present value of promised retirement benefits) accrued up to that date. This compared with 113% at the previous March 2017 valuation. The resulting surplus at the 2020 valuation was £58m.

For the purpose of reporting a funding level and an associated surplus/deficit for the 2020 valuation a prudent future investment return of 2.9% p.a with a 75% likelihood of success has been used, this compared to 3.1% p.a for the 2017 valuation.

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date and makes an allowance for expected future salary growth and inflation to retirement or expected earlier date of leaving pensionable membership.

Since the previous valuation, various events have taken place which affect the value placed on the liabilities, including:

- Increase due to interest applied to the previous valuation liability value – the benefits that have been accrued to the valuation date are three years closer to payment at 31 March 2020 than they were at 31 March 2017, meaning there is less opportunity for future investment returns to help meet this cost.
- Decrease due to changes to the longevity assumptions used for the valuation resulting in a modest reduction in life expectancies.
- Decrease due to a reduction in the assumed rate of future CPI inflation, from 2.4% p.a at 31 March 2017 to 1.7% at 31 March 2020.
- Increase due to a reduction in the assumed rate of future investment returns, from 3.1% at March 2017 to 2.9% at March 2020.

This overall increase in liabilities has been offset by an increase in the Fund's assets resulting from a positive investment return and a net cash inflow over the period since the last full valuation at 31 March 2020.

As recommended by the Fund's Actuary (Hymans Robertson) the employers contribution rate has been maintained at 17.0% for the period 01 April 2021 to 31 March 2024 with reference to the future costs and also taking account of the current funding position, which is based on past service benefits.

The LGPS regulations state that a Primary Contribution Rate should also be set, which is the cost of active members accruing benefits in the scheme. There is currently an upward pressure on the Primary Rate due to a reduction in the future yields on investments, resulting from rising inflation forecasts. This means that the current Primary Rate of 24% is now less likely to meet future service costs.

The most recent funding update produced at 31 March 2023 indicates that the funding surplus has increased from 137% to 159% since 31 March 2022. The improvement has been driven by strong invested performance since 31 March 2020 and the changes to the economic outlook. A summary of these results is shown below:

	31 March 2022	31 March 2023
Assumed Future Investment Return (Based on a 75% Likelihood of Success	3.6% p.a.	5.2% p.a.
Salary Increase Assumption	3.3% p.a.	3.0% p.a.
Pension Increase Assumption	2.8% p.a.	2.5% p.a.
Assets	£507m	£479m
Past Service Liabilities	£370m	£301m
Surplus/ (Deficit)	**£137m**	**£178m**
Funding Level	**137%**	**159%**
Future Investment Return Required to be 100% Funded	2.0% p.a.	2.6% p.a.
Likelihood of Achieving This Return	90%	95%

The assessed Primary contribution rate for 1 April 2020 – 31 March 2024 at March 2020 was 24.0%. On applying a Secondary contribution rate of -7.0% to give a required minimum contribution, against the background of increased uncertainty over the future impacting on actuarial assumptions the employer contribution rate will be maintained at 17.0% for the three-year period 2021 to 2024.

Main Risks and Uncertainties facing the Fund

Awareness of risk and risk mitigation is a key facet of the Fund's strategic and operational activities. Whilst it is not possible to eliminate risk entirely, the Fund has taken steps to evaluate risk and put strategies and controls in place to minimise its adverse effects.

The Fund has its own risk register, which details some 29 risks faced by the Fund and can be viewed at the related downloads section here. The risk register is reviewed annually by the Pension Fund Sub-committee and Pension Board.

Principal risks, and the way in which they are managed, are as follows:

Financial Mismatch, the risk that the Fund's assets fail to grow in line with the cost of meeting its liabilities. The Pension Fund Sub-committee measures and manages financial mismatch in several ways. It has set a strategic asset allocation benchmark for the Fund and assesses risk relative to that benchmark by monitoring the Fund's asset allocation and investment returns. It also assesses risk relative to liabilities by monitoring benchmark returns relative to liabilities. The Pension Fund Sub-committee keeps under review demographic assumptions which could impact on the cost of benefits. These assumptions are considered formally in the triennial valuation and reviewed annually within funding update reports (Navigator) produced by the Fund's Actuary, Hymans Robertson.

Systemic Risk, the risk of an interlinked and simultaneous failure of several asset classes and/or investment managers. The Pension Fund Sub-committee seeks to manage systemic risk by the appointment of investment managers. The Pension Fund Sub-committee regularly reviews total asset values within asset class.

Liquidity Risk, the risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets. This is controlled by the regular estimation of cash flow to ensure that sufficient cash balances are available. By holding the majority of its assets in liquid assets such as equities and bonds, unexpected cash flow requirements can be met by the realisation of assets. Liquidity risk is also moderated by the Fund continuing to have a surplus of contributions receivable over pensions payable.

Custody Risk, the risk of losing rights to Fund assets when they are held in custody or being traded. The Pensions Sub-committee manages custody risk by the monitoring of custodian activities. The Fund has appointed Bank of New York Mellon's London branch as its Custodian.

Transition Risk, the risk of incurring unexpected costs or losses when assets are transferred between asset classes. When carrying out significant transitions the Pensions Sub-committee will take professional advice and consider the appointment of specialist transition managers.

Pension Fund Sub-Committee and Pensions Board

In line with scheme regulations, and the respective terms of reference for the Pension Fund Sub-committee and Pensions Board, the group met concurrently on four occasions during 2022-2023.

Training activity for the members of the Pension Fund Sub-committee and Pension Board was undertaken during the financial year 2022-2023, in accordance with the agreed training plan, to enable Councillors charged with the governance of the Fund to execute their role as quasi-trustees effectively. In recognition of the complex and ever-changing environment of Local Government Pension Scheme finance, and specifically to address the governance requirements, the Chartered Institute of Public Finance and Accountancy Code of Practice on Public Sector Pensions Finance Knowledge and Skills has been adopted.

Acknowledgement

We would like to take this opportunity to thank our colleagues in the Enterprise & Sustainable Regeneration Service and the members of the Pension Fund Sub-committee and the Pensions Board for their help and co-operation in managing the financial affairs of the Pension Fund.

Gareth Waterson, BAcc, CA Section 95 Officer	Councillor James Stockan Leader	Oliver D Reid Chief Executive

Statement of Responsibilities for the Annual Accounts

Responsibilities of the Orkney Islands Council as Administering Authority

The Council is required to:

- Make arrangements for the proper administration of the financial affairs of the Orkney Islands Council Pension Fund (the Fund) and to secure that one of its officers has the responsibility for the administration of those affairs (Section 95 of the Local Government (Scotland) Act 1973). In this Council, that officer is the Corporate Director of Enterprise & Sustainable Regeneration.

- Manage the affairs of the Fund to secure economic, efficient, and effective use of resources and safeguard its assets.

- Ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014) and the Local Authority (Capital Finance and Accounting) (Scotland) (Coronavirus) Amendment Regulations 2021, and so far, as is compatible with that legislation, in accordance with proper accounting practices (Section 12 of the Local Government in Scotland Act 2003).

- Approve the Annual Accounts for signature.

Signed on behalf of Orkney Islands Council

Councillor James Stockan
Leader

The Corporate Director of Enterprise & Sustainable Regeneration Service responsibilities

The Corporate Director of Enterprise & Sustainable Regeneration is responsible for the preparation of the Annual Accounts in accordance with proper practices as required by legislation and as set out in the CIPFA/LASAAC Code on Local Authority Accounting in the United Kingdom (the Code).

In preparing these Annual Accounts, the Corporate Director of Enterprise & Sustainable Regeneration has:

- Selected suitable accounting policies and then applied them consistently.
- Made judgements and estimates that were reasonable and prudent.
- Complied with legislation.
- Complied with the Code (in so far as it is compatible with legislation).

The Corporate Director of Enterprise & Sustainable Regeneration Service has also:

- Kept adequate accounting records which were up to date.
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the annual accounts give a true and fair view of the financial position of the Orkney Islands Council Pension Fund as at 31 March 2023, and of its transactions for the year ended 31 March 2023.

Gareth Waterson, BAcc, CA
Section 95 Officer

Remuneration Report

The Pension Fund does not directly employ any staff. We have therefore not included a remuneration report within the Annual Report.

All staff are employed by Orkney Islands Council, and their costs reimbursed by the Pension Fund.

The Councillors, who are members of the Pension Fund Sub-committee and Pension Board are also remunerated by Orkney Islands Council.

Details of Councillor and Senior Employee remuneration can be found in the statement of accounts of Orkney Islands Council on the Council's website:

https://www.orkney.gov.uk/Council/Statement_of_Accounts/Statement-of-Accounts.htm.

The Statement of Accounts of Orkney Islands Council do not form part of the Pension Fund's Annual Report and Accounts.

Annual Governance Statement

Scope of Responsibility

The Orkney Islands Council acts as Administering Authority for the Orkney Islands Council Pension Fund. The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently, and effectively. The Council has a statutory duty to make arrangements to secure best value under the Local Government in Scotland Act 2003.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions. This includes arrangements for the management of risk.

The Council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles of the Chartered Institute of Public Finance & Accountancy (CIPFA)/Society of Local Authority Chief Executives and Senior Managers (SOLACE) framework 'Delivering Good Governance in Local Government'. The Code is available on the Council's website. The authority's financial and management arrangements conform to the governance requirements of the CIPFA Statement on the role of the Chief Financial Officer in local government.

The Local Code of Corporate Governance evidences the Council's commitment to achieving good governance and demonstrates how it complies with the governance standards recommended by CIPFA. The document is regularly reviewed and updated.

Purpose of the Governance Framework

The governance framework comprises the systems and processes, and cultures and values, by which the Council is directed and controlled, and the activities used to engage with and lead the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to an acceptable level, and provide reasonable, but not absolute, assurance that the policies, aims and objectives can be delivered. The system of internal control is based on an ongoing process designed to identify and prioritise the risks being realised, and the impact should they be realised, and to manage them efficiently, effectively, and economically.

The governance framework has been in place for the year ended 31 March 2023 and up to the date of approval of the Annual Accounts.

Governance Framework

1. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
2. Ensuring openness and comprehensive stakeholder engagement.
3. Defining outcomes in terms of sustainable economic, social, and environmental benefits.
4. Determining the interventions necessary to optimise the achievement of the intended outcomes.
5. Developing the entity's capacity, including the capability of its leadership and the individuals within it.

6. Managing risks and performance through robust internal control and strong public financial management.

The Pension Fund is governed by the Local Government Pension Scheme (Scotland) Regulations. These include requirements for the preparation and production of a number of key policy documents including a Valuation Report, a Funding Strategy Statement and Statement of Investment Principles. These documents set out the Fund's objectives together with the main risks facing the Fund and the key controls to mitigate those risks.

Review of Effectiveness

Orkney Islands Council has put in place appropriate management and reporting arrangements to enable it to satisfy itself that its approach to corporate governance is adequate and effective in practice. This includes ensuring appropriate advice is available to the Pension Fund on all governance matters, providing training to all members of the Pension Fund Sub-committee and Pension Board, keeping proper administrative and financial records and accounts, and maintaining effective procedures and arrangements for the control of governance.

The Pension Fund responds to findings and recommendations of external audit, scrutiny and inspection bodies and the Council's independent internal audit section. The Pension Fund Sub-committee is integral to overseeing independent and objective assurance and monitoring improvements in internal control and governance.

Administering Authority

Orkney Islands Council is the Administering Authority for the Local Government Pension Scheme (LGPS) set up for the Orkney Islands geographic area.

The Council has delegated the management of the investments of the Pension Fund to the Pension Fund Sub-committee who fulfils the role of Scheme Manager and has established a Pension Board which is the body responsible for assisting the Scheme Manager in relation to compliance with scheme regulations, and the requirements of the Pension Regulator.

Regulatory Framework

The Pensions Regulator is the UK regulator of work-based pension schemes. It works with trustees, employers, pension specialists and business advisers, giving guidance on what is expected of them.

The Scottish Public Pensions Agency (SPPA) is responsible for regulating the LGPS in Scotland and the Council administers the pension scheme in accordance with guidance and regulations issued by the SPPA.

The Orkney Islands Council Pension Fund is open to all employees of scheduled bodies except those whose employment entitles them to belong to another statutory pension scheme (e.g., Teachers). Employees of admitted bodies can join the scheme subject to those bodies meeting the statutory requirements and, on such terms and conditions as the Council (as Administering Authority) may require. A list of scheduled and admitted bodies is attached as Annex 1.

The Pension Fund Sub-committee is a formal sub-committee of Orkney Islands Council's Policy and Resources Committee. The Scheme of Administration for the Council refers the responsibility to discharge all functions and responsibilities relating to the Council's role as administering authority for the Orkney Islands Council Pension Fund in terms of the Local Government (Scotland) Act 1994, the Superannuation Act 1972 and the Public Service Pensions Act 2013.

Financial affairs are conducted in compliance with the Council's Financial Regulations which are reviewed and updated on a regular basis.

Funds are invested in compliance with the Fund's Statement of Investment Principles.

Pension Fund Sub-Committee and Pension Board

The members of the Pensions Sub-committee together with the Pensions Board act as quasi-trustees and oversee the management of the Orkney Islands Council Pension Fund.

Their overriding duty is to ensure the best possible outcomes for the Fund, its participating employers and scheme members.

The members' knowledge is supplemented by professional advice from officers of the Council, professional advisers, and other external providers.

The Pension Fund Sub-committee is comprised of seven members of the Council:

- Leader (Chair of Policy and Resources Committee).
- Deputy Leader (Vice Chair of Policy and Resources Committee), and
- Five other elected members of the Council appointed by Policy and Resources Committee.

The Scheme Actuary, the Independent Investment Consultant, Corporate Director of Enterprise and Sustainable Regeneration, Pensions Manager and the Solicitor for the Council or their nominated representatives also attend the Pension Fund Sub-committee meetings as advisers.

The Pension Fund Sub-committee meets at least quarterly. Additional meetings are called as appropriate and papers and minutes are publicly available on the Council's website, unless they have been considered as private business in terms of Schedule 7A to the Local Government (Scotland) Act 1973. Minutes of the Pension Fund Sub-committee are also presented to the Policy and Resources Committee of the Council.

Membership of the Pensions Board consists of equal numbers made up of 4 trade union representatives and employer representatives, drawn from Orkney Islands Council and scheduled or admitted bodies who are members of the Pension Fund. Pension Board representatives may not participate in or act as members of the Pension Fund Sub-committee or the Monitoring and Audit Committee. Local Authority employer representatives will normally be Elected Members of the Council.

The Pension Board meets at least quarterly. A majority of either side, trade union or employer representatives, may requisition a special meeting of the Pension Board in exceptional circumstances.

While the statutory roles and function of the Pension Fund Sub-committee and Pension Board are separate, the normal practice is that both bodies meet at the same time to consider the same agenda, with the Chair of the Pension Fund Sub-committee chairing the concurrent meeting. The Council's Standing Orders apply at concurrent meetings. The aim is to engender a positive and proactive partnership culture where in practice the two bodies act as one.

During the year 2022/23 there was no disagreement. However, if the Pension Fund Sub-committee and Pension Board cannot reach joint agreement on any matter the process for resolving any differences between the two bodies is as follows:

- In the first instance, if at least half of the members of the Pension Board agree, then the Pension Board can defer a decision of the Pension Fund Sub-committee for further consideration if any of the defined grounds are met. Whilst this process is undertaken the decision of the Pension Fund Sub-committee is still competent.

- If there is no agreement after the matter has been referred back to the Pension Fund Sub-committee, the decision of the Pension Fund Sub-committee stands and the difference in view between the Pension Board and the Pension Fund Sub-committee will be published in the form of a joint secretarial report on the Pension Fund website, included in the Pension Fund annual report and notified to the Scottish LGPS Advisory Board, and
- The Scottish LGPS Scheme Advisory Board may also consider and take a view on the matter and, if considered appropriate, provide advice to the Scheme Manager or the Pension Board in relation to the matter.

Administration and Financial Management of the Fund

The Council's Corporate Director of Enterprise & Sustainable Regeneration is the Officer with responsibility to ensure proper administration of the Council's financial affairs in terms of Section 95 of the Local Government (Scotland) Act 1973.

The Corporate Director of Enterprise & Sustainable Regeneration is responsible for:

- The financial accounting of the Fund.
- The preparation of the Pension Fund Annual Report and Accounts.
- Being the principal advisor on management of investments to the Council in its capacity as Trustee to the Fund and as the Fund's Administering Authority.

The day-to-day management of the investment activities of the Fund is administered by the Corporate Finance Team within the Enterprise & Sustainable Regeneration Service.

The pension benefits policy oversight and day-to-day administration for the Fund is administered by the Pensions Team within the Enterprise & Sustainable Regeneration Service.

The annual accounts of the Fund is subject to external audit. The auditor is appointed by Audit Scotland, as part of the process to ensure that public funds are properly safeguarded and accounted for.

Professional Advisers and External Service Providers

Hymans Robertson is appointed to act as Actuary and Investment Consultants to the Fund. The services provided include advice on investment strategy, funding level and actuarial valuations. Hymans Robertson also provides independent performance measurement services for the Fund and has responsibility for measuring and reporting on the performance of the Fund during the year.

The implementation of the revised investment strategy approved in February 2019 involved Fund Manager appointments to new Infrastructure Equity, Private Debt and Bonds mandates. The Bonds mandate was fully funded in May 2020, while the Infrastructure Equity was fully drawn down in December 2021. The drawdowns to the Private Debt funds continued throughout 2022/2023 financial year.

In February 2022, when considering a review of the investment strategy, the Pension Fund Sub-committee agreed to allocate up to 4% to a new renewable focussed infrastructure mandate, to be managed by a renewable focussed manager. Following interviews in September 2022 fund managers were successfully appointed for the new renewable focussed infrastructure mandate. The onboarding process was completed in March 2023, there has been no drawdown of funds to the new mandate as yet.

The Fund's appointed investment managers have responsibility for the selection, retention, and disposal of individual investments. Where appropriate, they also implement the Pension Fund Sub-committee's policy in relation to socially responsible investment and corporate governance. All fund managers are required to be signatories of the United Nations' Principles for Responsible Investment.

The Bank of New York Mellon is the Fund's appointed global custodian and is responsible for the safekeeping of the assets including the processing of transactions and submission of tax claims.

Internal and External Control and Review

The system of internal financial controls is based on a framework of delegation and accountability for officers and elected members embodied in procedural standing orders, financial regulations, scheme of delegation, scheme of administration, committees, and sub-committees. It is supported by a framework of administrative procedures including the segregation of duties, and regular financial management information. In particular this includes:

- Comprehensive accounting systems that record income and expenditure for both member and investment activities.
- Regular reviews of investment reports that measure investment returns against agreed benchmarks.
- Regular reviews of investment manager reports that measure performance against agreed targets.
- Independent performance reviews of the Fund by the Fund's investment consultant and performance monitoring services provider.

The system can provide only reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

The Pension Fund responds to findings and recommendations of external audit, scrutiny and inspection bodies and the Orkney Islands Council's independent internal audit section. The Monitoring and Audit Committee is integral to overseeing independent and objective assurance and monitoring improvements in internal control and governance.

The Pensions team within the Payroll and Pension section consists of 3.7 full time equivalents.

The Corporate Director of Enterprise & Sustainable Regeneration (Section 95 officer) for the Council as Administering Authority is responsible for ensuring the proper administration of the financial affairs of the Pension Fund. This includes ensuring appropriate advice is made available to the Pension Fund on all financial matters, keeping proper financial records and accounts, and maintaining an effective system of internal financial control.

The Chief Internal Auditor (CIA) reports to the Monitoring and Audit Committee and functionally to the Head of Legal and Governance who is also the Council's Monitoring Officer. He is in regular contact with the Head of Finance and Monitoring Officer. The CIA provides an independent and objective internal audit annual report and assurance statement on the effectiveness of internal control, risk management and governance based on the delivery of an approved plan of systematic and continuous internal audit review of the Council's arrangements.

Given the structural size of the Council, there are common controls over Council systems and pension systems. Internal audit's work on Council systems also contributes to providing management assurance that Pension Fund operations and transactions are appropriately controlled.

Counter Fraud and Anti-Corruption

Effective counter fraud and anti-corruption arrangements are developed and maintained in accordance with the Code of Practice on Managing the Risk of Fraud and Corruption. This includes, but is not limited to, ensuring established systems of internal controls and security are in place, segregation of duties and supervisory checking of all calculations, and internal audit and monitoring arrangements.

The increased risk of fraud and scams is also being managed on an ongoing basis, focusing on staff support, communication of potential scams and close monitoring of checks prior to any transfers out being completed. These steps are further enhanced by the development of a new on-line training course which is mandatory for all Finance staff.

Risk Management

The Fund's Risk Register was last reviewed and updated at the concurrent meetings of the Pension Fund Sub-committee together with the Pensions Board on 15 February 2023. The risk register incorporates a risk matrix to clearly demonstrate the Pension Funds current threats relative to the individual risks anticipated, and a summary and prioritisation of risks to indicate the descriptive risks ranking.

Risk awareness is embedded into the investment performance management process.

The main changes identified in the last review of the risk register were as follows:

- The risk added in 2021 regarding working from home whenever possible in accordance with Government COVID-19 mitigation measures has been removed following the removal of Government guidance to work from home and the return to the workplace.
- The likelihood of the risk regarding short-term and long-term impacts on the investment returns due to the COVID-19 pandemic has been lowered to 4 due to the reducing impact of the pandemic while it remains a risk due to the continuing uncertainty on the long-term impact on the investment returns of the Fund.
- The likelihood of the risk regarding Committee and Board members having inadequate knowledge and understanding has been increased to 4 to reflect the fact that four members of the Pension Fund Sub-Committee and two members of the Pension Board were only nominated in 2022 and have had limited time to build up their knowledge and understanding of the Pension Fund. This risk should reduce over the term of the Council and as the members attend more training events.
- The impact of the risk regarding Brexit risks potentially impacting the Fund's assets and liabilities has been reduced to 1 which reflects the fact that the initial impact of leaving the European Union on 31 January 2020 has now passed. However, it has been left on the Risk Register to recognise the fact that a custom deal and the Northern Ireland Protocol still has to be agreed.
- A risk has been added regarding significant disruption of global stock markets. This risk has been given a rating of 8 as the Fund has already experienced large market fluctuations in the value of the investments but should be protected by a robust investment strategy.

The full risk register is available under the related download section via the following link to the Council's website:

https://www.orkney.gov.uk/Service-Directory/S/pension-fund-sub-committeepension-board.htm.

Significant Governance Issues

The system of governance aims to provide reasonable, but not absolute, assurance that assets are safeguarded, transactions are authorised and properly recorded, material errors or irregularities are either prevented or detected within a timely period and significant risks impacting on the achievement of our objectives have been mitigated to an acceptable level. A review of effectiveness of the governance framework has not identified any significant governance issues or control weaknesses in the Pension Fund's governance arrangements.

The following issues were highlighted in the Audit Report for financial year 2021-2022:

- The accounts were not advertised in accordance with the Local Authority Accounts (Scotland) Regulations 2014.

  Agreed action - The accounts closure timetable has been updated to include this date and ensure it is met going forward.

- Details of the internal control reports received on our investment managers and custodian are not currently provided to members of the pension fund sub-committee.

  Agreed action – Details of investment manager internal control reports will be provided to members of the pension fund sub-committee along with any observations raised by management going forward.

- The custodian covers investments held by only one of the four fund managers. The custodian holds the Fund's securities for safekeeping in order to minimise the risk of their misappropriation, misuse, theft and loss.

  Agreed action – A review of existing operations will include expanding the role of custodian.

Access to Information

Pension Fund Sub-committee papers, minutes and the Funds Annual Audit Report and Accounts are available via the Council's website https://www.orkney.gov.uk/.

Opinion

Our review of the effectiveness of the system of internal financial control is informed by:

- The work of Internal Audit and the professional pensions and accountancy staff within the Council.
- The External Auditor's reports.
- The Corporate Director of Enterprise & Sustainable Regeneration (Section 95 Officer), whose duties include putting in place the arrangements for the proper administration of financial affairs of the Pension Fund.

The internal financial control environment was enhanced through the adoption in 2015 of a Risk Register, Procedural Standing Orders, and the establishment of a scheme of delegation for the Pension Fund Sub-committee and supported by the Pension Board.

It is our opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Council’s internal financial control systems during the year ended 31 March 2023.

Councillor James Stockan	Oliver D Reid
Leader	Chief Executive

Governance Compliance Statement

The Regulations that govern the management of LGPS funds in Scotland require that a Governance Compliance Statement is published. The following compliance statement sets out the extent to which the Orkney Islands Council Pension Fund governance arrangements comply with best practice.

Principle	Compliance and Comments
1. Structure	
a) The management of the administration of benefits and strategic management of Fund assets clearly rests with the main committee established by the appointing Council.	Compliance in Full: Yes On 17 February 2015, the Policy and Resources Committee (PRC) established a Pension Fund Sub Committee (PSC) and delegated to it the power to discharge all functions and responsibilities relating to the Council's role as administering authority for Orkney Islands Council Pension Fund (the Fund). The PSC is the main committee in terms of the Local Government (Scotland) Act 1994, the Superannuation Act 1972, and the Public Services Act 2013. The PRC further agreed to establish a Pensions Board (PB) as a secondary committee to underpin the work of the main committee.
b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Compliance in Full: Yes There are no admitted bodies or deferred members represented on the PSC. Orkney Ferries Limited, an admitted body, currently has a representative on the PB. The existing membership of the PSC includes both active and pensioner members of the Orkney Island Council Pension Fund.
c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Compliance in Full: Yes The agreed terms of reference for operation of the PSC include the requirement to produce a formal minute of all meetings. The PSC sit at the same time as the PB allowing them to communicate with each other on the day they sit.

d) That where a secondary committee or panel has been established; at least one seat of the main committee is allocated for a member from the secondary committee or panel.	Compliance in Full: Yes The PSC and PB sit at the same place and time to assist with the formation of a consensus. The aim is to engender a positive and proactive partnership culture where in practice the two bodies act as one.
2. Representation	
a) That all key stakeholders are afforded the opportunity to be represented within the Pensions Board. These include: • Employing authorities including non-scheme employers, e.g., admitted bodies. • Scheme members including deferred and pensioner scheme members • Where appropriate, independent professional observers, and • Expert advisors (on an ad-hoc basis).	Compliance in Full: Yes In accordance with the terms of reference for the operation of the PB, membership comprises 8 members: four trade union representatives and four employer representatives. Input from Hymans Robertson as expert advisors to the Pension Fund is routinely sought on policy matters.
b) That where lay members sit on a main or secondary committee, they are treated the same as elected Members in terms of access to papers, meetings and training, and are given full opportunity to contribute to the decision-making process, with or without voting rights.	Compliance in Full: Yes In accordance with the terms of reference, all members of the PB and PSC are treated equally. The two bodies sit at the same time to facilitate equal opportunity.
3. Selection and Role of Lay Members	
a) That committee or panel members are made fully aware of the status, role, and function that they are required to perform on either a main or secondary committee.	Compliance in Full: Yes At the inaugural meeting of the PSC and PB, held concurrently on 24 April 2015, respective Terms of Reference were duly approved for each body. In addition, an induction programme has been provided to members. Induction training was provided in June 2022 to new members following the local elections in May 2022. During 2022, 2 members participated in 2 training seminars provided by the Local Government Chronicle and Baillie Gifford.
b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	Compliance in Full: Yes The declaration of Member's interests is a standard item on the agenda of the PSC and PB.

4. Voting	
The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Compliance in Full: Yes Full voting rights are given to all members of the PSC.
5. Training/ Facility Time/ Expenses	
a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	Compliance in Full: Yes The CIPFA Code of Practice for Public Sector Pensions Finance Knowledge and Skills, together with a Knowledge and Skills Framework to support the Code has been adopted as the basis for training and development of members and officers involved in Pension Fund financial matters. CIPFA Framework Members' training is funded from the Council's Pension Fund. The training policy was approved in 2015/16 and is aligned to CIPFA's Knowledge and Skills Framework.
b) That where such a policy exists it applies equally to all members of committees, sub-committees, advisory panels, or any other form of secondary forum.	Compliance in Full: Yes All elected and lay members are treated equally under the training policy.
c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training.	Compliance in Full: Yes The Administering Authority of the PSC and PB has to date considered the training requirements of committee members collectively and provided training on that basis. A log has been established of all training provided to members and this is monitored and reported as appropriate. The annual training plan for 2022-23 was approved by the PSC at its meeting of 23 February 2022.
6. Meeting Frequency	
a) That an administering authority's main committee or committees meet at least quarterly	Compliance in Full: Yes The PSC and PB are scheduled to meet at least four times a year.
	Compliance in Full: Yes

b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committees sits.	The PSC and PB are scheduled to meet at least four times a year.
c) That an administering authority that does not include lay members in their formal governance arrangements must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Compliance in Full: Yes On 17 February 2015, the PSC agreed to establish a PB, with representatives from Trade Unions and admitted bodies.
7. Access	
That subject to any rules in the Council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	Compliance in Full: Yes All members are treated equally.
8. Scope	
That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Compliance in Full: Yes. The PSC deal with all matters relating to both the administration and investment of the Pension Fund. The PSC is formed from members of the Policy and Resources Committee of the Council.
9. Publicity	
That administering authorities have published details of their governance arrangements in such a way that stakeholders, can express an interest in wanting to be part of those arrangements.	Compliance in Full: Yes. The Orkney Islands Council Pension Fund governance documents are available on the Council website using the following link:. Pension_Board_Terms_of_Reference (orkney.gov.uk) The Council as administering authority communicates regularly with employers and scheme members.

Gareth Waterson, BAcc, CA
Section 95 Officer

Councillor James Stockan
Leader

Oliver D Reid
Chief Executive

Annual Accounts 2022-2023

Pension Fund Account

The Pension Fund Account sets out all income and expenditure of the Pension Fund.

2021-2022 £'000		2022-2023 £'000	Notes
	Dealings with members, employers and others directly involved in the scheme		
11,103	Contributions Receivable	11,857	**4**
833	Transfers In	1,145	**5**
11,936		**13,002**	
(9,171)	Benefits Payable	(10,276)	**6**
(739)	Payments to and on account of leavers	(3,212)	**7**
(9,910)		**(13,488)**	
2,026	**Net additions/(withdrawals) from dealings with members**	**(486)**	
(2,678)	Management expenses	(2,783)	**8**
(652)	**Net withdrawals including management expenses**	**(3,269)**	
	Return on Investments		
8,005	Investment Income	9,577	**9**
(19,596)	Loss on disposal of investments and changes in the market value of investments	(34,813)	**10**
(74)	Taxes on Income	(159)	
(11,665)	**Net Loss on Investments**	**(25,395)**	
(12,317)	**Net decrease in the net assets available for benefits during the year**	**(28,664)**	
520,848	Opening Net Assets of the Scheme	508,531	
508,531	**Closing Net Assets of the Scheme**	**479,867**	**13**

Net Assets Statement as at 31 March 2023

The Net Assets Statement sets out the value, as at the statement date, of all assets and current liabilities of the Fund. The net assets of the Fund (assets less current liabilities) represent the funds available to provide for pension benefits as at 31 March 2023.

31 March 2022 £'000		31 March 2023 £'000	Notes
	Managed Funds		
298,603	Equities	284,853	
205,061	Pooled Investment Vehicles	190,653	
3,252	Cash Equivalents	3,901	
506,916		**479,407**	**11**
	Current Assets		
6	Cash Balances	6	
99	Contributions due	98	
1,953	Current Debtors	1,039	
2,058		**1,143**	**20**
	Current Liabilities		
(443)	Current Creditors	**(683)**	**21**
1,615	**Net Current Assets/(Liabilities)**	**460**	
508,531	**Net Assets of the Scheme available to fund benefits at the year end**	**479,867**	

The Fund Account and Net Assets Statement do not show any liability to pay pensions or other benefits in the future. The liability to pay pensions is detailed in Note 19 Actuarial Present Value of Promised Retirement Benefits.

The unaudited accounts were issued on 30 June 2023.

Gareth Waterson, BAcc, CA
Section 95 Officer

Notes to the Annual Accounts

1. Description of Fund

a) The Local Government Pension Scheme

The Local Government Pension Scheme is a funded defined benefit scheme, established under the Superannuation Act 1972, with pensioners receiving index-linked pensions. It is administered by Orkney Islands Council in accordance with The Local Government Pension Scheme (Scotland) Regulations 2018 (as amended) and was contracted out of the State Second Pension until the 6 April 2016 when the new State Pension was introduced. The Pension Fund is subject to a triennial valuation by an independent, qualified actuary, whose report indicates the required future employer's contributions.

b) Membership Details

Under the Local Government Pension Scheme (LGPS), member contributions are paid on a tiered basis, the contribution rate being determined by the amount of salary falling into each earnings tier.

Eligibility to join the scheme

Orkney Islands Council employees with a contract for 3 months duration or more are automatically entered into the LGPS. Employees with a contract of less than 3 months duration will be automatically enrolled into the LGPS if they satisfy the automatic enrolment criteria, however they can opt in if they do not meet the automatic enrolment criteria.

A person employed by a community admission body, or a person employed by a transferee admission body is eligible to be a member if the person, or class of employees to which the person belongs, is designated in the admission agreement by the body as being eligible for membership of the Scheme.

If they satisfy the above statement, they should be automatically entered into the LGPS if they have a contract for 3 months or more otherwise, they can opt in if they have a contract for less than 3 months.

Employees of community admission bodies and transferee admission bodies are also enrolled into the Local Government Pension Scheme if they satisfy the auto enrolment criteria.

The following table gives details of the various bodies' membership.

Membership Details at 31/03/2023	Active	Deferred	Pensioner	Dependant	Total
Orkney Islands Council	2,002	989	1,015	158	**4,164**
Orkney Islands Property Development	3	3	5	0	**11**
Pickaquoy Centre Trust	51	44	10	0	**105**
HIE Orkney	0	0	0	0	**0**
Orkney Ferries Limited	111	45	33	6	**195**
Summary of Members					
OIC	2,002	989	1,015	158	**4,164**
Admitted Bodies	165	92	48	6	**311**
Totals	**2,167**	**1,081**	**1,063**	**164**	**4,475**

c) Benefits

Prior to 1 April 2015, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. From 1 April 2015, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Prices Index.

A range of other benefits are also provided including early retirement, disability pensions and death benefits, as explained on the LGPS website – see www.scotlgpsmember.org.

2. Basis of Preparation of the Accounts

The Accounts summarises the Pension Fund's transactions for the 2022/23 financial year and its position at year-end as at 31 March 2023.

The accounts for the Fund have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2022-2023, which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts have been prepared on an accruals basis and do not take account of liabilities to pay pensions and other benefits after the year end. However, the actuarial position does account for such obligations. This is disclosed in Note 4 of the accounts and should be read in conjunction with the Actuarial Statement (Annex 2). The accounts have been prepared on a going concern basis. The going concern concept assumes that the Pension Fund has adequate resources to realise its assets and meet benefit obligations in the normal course of affairs (continue to operate) for at least twelve months from the date of approval of these Accounts.

3. Statement of Accounting Policies

A summary of the more important accounting policies has been set out below:

3.1. Contributions Income

Normal contributions, both from the members and employers, are accounted for on an accruals basis as follows:

- Employee contribution rates are set in accordance with LGPS regulations, using common percentage rates for all schemes that rise according to pensionable pay.
- Employer contributions are set at the percentage rate recommended by the Fund Actuary for the period to which they relate.

Employers' augmentation contributions and pension strain costs are accounted for in the period in which the liability arises. Any amounts due in the year but unpaid will be classed as current financial assets.

Augmentation contributions are contributions paid to the Fund by an employer where that employer awards compensatory added years to a scheme member at retirement. Strain costs are contributions paid to the Fund by an employer where a scheme member, aged 55 or over, chooses to retire prior to normal pension age and the employer elects to waive any reductions normally applied to the member's pension benefits. Strain costs are also paid to the Fund by an employer where a scheme member, aged 55 or over, retires prior to normal pension age and the grounds for retirement are redundancy or efficiency.

3.2. Transfers to and from Other Schemes

Transfer values represent the amounts receivable and payable during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the LGPS Regulations.

Individual transfers in/out are accounted for when receivable/payable, which is normally when the member liability is accepted or discharged.

Transfers to the Fund from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receivables basis and are included in Transfers in.

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

3.3. Investment Income

i) Income from fixed interest, index linked securities and other interest receivable is taken into account on an accruals basis.

ii) Income from all other marketable securities is taken into account on the date when stocks are quoted ex-dividend.

iii) Distributions from pooled funds are recognised at the date of issue. Where income generated by the pooled investment vehicles is not distributed but is retained within the funds this is reflected in the market value of the units.

iv) Changes in the value of investments are recognised as income and comprise all realised and unrealised profit/losses during the year.

3.4. Benefits Payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities, providing that payment has been approved.

3.5. Management Expenses

The Fund discloses its management expenses in line with the CIPFA guidance Accounting for Local Government Pension Scheme Management Expenses (2016), as show below. All items of expenditure are charged to the fund on an accruals basis as follows:

Administrative expenses	All staff costs relating to the pensions administration team are charged direct to the fund. Council recharges for management, accommodation and other overhead costs are also accounted for as administrative expenses of the fund.
Oversight and governance	All costs associated with governance and oversight are separately identified, apportioned to this activity and charged as expenses to the fund.
Investment management expenses	Investment fees are charged directly to the fund as part of the management expenses and are not included in, or netted off from, the reported return on investments. Where fees are netted off returns by investment managers, these expenses are grossed up to increase the change in value of investments. Fees charged by external investment managers and custodians are set out in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change. The costs of the council's in-house fund management team are also charged to the fund as well as a proportion of the time spent by officers on investment management activity.

Management expenses includes direct management fees from external fund managers appointed to manage a segregated portfolio(s) of investments, indirect management charges levied on pool funds, transactions costs and expenses associated with the administration and governance of the Fund.

3.6 Taxation

The Fund is a registered public service scheme under Section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

3.7 Financial Instruments

Investments

Investment assets are included in the accounts on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the asset are recognised in the fund account.

The values of investments as shown in the net assets statement have been determined at a fair value in accordance with the requirements of the Code and IFRS 13 (see note 14). For the purposes of disclosing levels of fair value hierarchy, the fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures. Market values, are assessed as follows:

3.7.1 Market quoted securities are valued at bid market prices on the final day of the accounting period.

3.7.2 Fixed interest securities are valued at a market value based on current yields at 31 March 2023.

3.7.3 Pooled investments, which comprise the fund manager's unit trusts and open-ended investment companies, are valued at closing bid prices where bid and offer prices are published or closing single price where single price is published, as provided by the investment manager. Shares in other pooled arrangements have been valued at the latest available net asset value (NAV), determined in accordance with fair value principles, provided by the pooled investment manager.

3.7.4 Unquoted equity/debt and infrastructure asset valuations are provided by fund administrators following independent validation.

Since investments are all held for trading, disclosure in the accounts is at fair value through profit and loss. Fair values are derived from unadjusted quoted prices in active markets.

3.8 Foreign Currency

Income and expenditure arising from transactions denominated in a foreign currency are translated into £ sterling at the exchange rate in operation on the date on which the transaction occurred. Where the transaction is to be settled at a contracted rate, that rate is used.

3.9 Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in less than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

3.10 Recognition of Income and Expenditure

Activity is accounted for in the year in which it takes place, not simply when cash payments are made or received. In particular:

3.10.1 Expenses in relation to services received (including services provided by Orkney Islands Council) are recorded as expenditure when the services are received rather than when payments are made.

3.10.2 Dividend income is recognised when the right to receive payment is established.

3.10.3 Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Net Assets Statement.

3.11 Administrative Overheads

The Payroll and Pensions section of Orkney Islands Council is responsible for administering the Pension Fund. The Section receives an allocation of the overheads of the Council which is based on its direct cost and the amount of central services consumed.

3.12 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e., in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Fund's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

3.13 Acquisition Cost

Any acquisition costs of investments are included in the book cost of the investment.

3.14 Critical Judgements in Applying Accounting Policies Pension Fund Liability

The Pension Fund liability is calculated every three years by the appointed actuary. The methodology used is in line with accepted guidelines and in accordance with International Accounting Standard IAS 26. The judgements which have the greatest impact on pension fund liabilities are those around the discount rate, the inflation rate, and the life expectancy of members.

3.15 Assumptions made about the future and other major sources of estimation and uncertainty

The Accounts contain estimated figures that are based on assumptions made by the Pension Fund about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends, and other relevant factors. However, because such factors cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the accounts at 31 March 2023 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied.
Unquoted Private Debt	Unquoted private debt investments are valued by the underlying administrators of the specialist pooled Fund using various valuation techniques that require significant judgement in determining appropriate assumptions. In recognition that these investments are relatively illiquid and to ensure objectivity in the valuation process the results are then validated by independent administrators. Nevertheless, as these investments are not publicly listed there is a greater degree of subjectivity and estimation involved in the valuation process. Pooled Investment – Private Debt £42.076m – there is a risk that this investment may be under or overstated in the accounts.
Unlisted Infrastructure	For infrastructure preferred equity or infrastructure debt investments held within an Infrastructure equity fund, the method of valuation of assets is market value provided by an underlying approved data provider, unless there is no market, or it does not represent fair value in which case another method will be determined. As these investments are also not publicly listed there is a greater degree of subjectivity and estimation involved in the valuation process. Pooled Investment – Infrastructure Equity £22.992m – there is a risk that this investment may be under or overstated in the accounts.

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Change in assumptions at year ended 31 March 2023	Approximate % increase to Employer Liability	Approximate monetary amount £'000
0.1% decrease in Real Discount Rate	2%	6,053
1 year increase in member life expectancy	4%	12,456
0.1% increase in the Salary Increase Rate	0%	585
0.1% increase in the Pension Increase Rate	2%	5,558

3.16 Accounting Standards that were issued but not yet adopted

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. The following new or amended standards have been published but not yet adopted:

- IAS 8 Amendments – Definition of Accounting Estimates.
- IAS 1 Amendments – Disclosure of Accounting Policies.
- IAS 12 Amendments – Deferred Tax relating to Assets and Liabilities arising from a Single Transaction.

These amendments help give clarification or are generally minor in nature, and as such are not expected to have a significant impact on the Pension Fund.

3.17 Events after the Balance Sheet

Events after the net assets statement date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- 3.16.1. those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events.
- 3.16.2. those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

The draft annual accounts were signed by the Corporate Director of Enterprise & Sustainable Regeneration on 30 June 2023. Events taking place after the date of authorisation for issue have not been reflected in the financial statements. Material events between the balance sheet date and the date of signing have been considered and where necessary reflected in the accounts.

4. Analysis of Contributions Receivable

	2021-2022			2022-2023		
	Orkney Islands Council £000	Admitted Bodies £000	Total	Orkney Islands Council £000	Admitted Bodies £000	Total
Employee Contributions	2,592	329	**2,921**	2,794	345	**3,139**
Employer Contributions	7,222	849	**8,071**	7,813	905	**8,718**
Strain Costs	111	0	**111**	0	0	**0**
Total	**9,925**	**1,178**	**11,103**	**10,607**	**1,250**	**11,857**

5. Transfers In

Transfers into the Fund during 2022-2023 were £1.1m (2021-2022: £0.8m). This represents the total of transfer values in respect of individual members joining the scheme.

6. Analysis of Benefits Payable

	2021-2022			2022-2023		
	Orkney Islands Council £000	Admitted Bodies £000	Total	Orkney Islands Council £000	Admitted Bodies £000	Total
Pensions Paid	6,449	266	**6,715**	7,028	284	**7,312**
Dependants Pensions	475	21	**496**	506	25	**531**
Lump Sums Paid	1,688	43	**1,731**	1,831	66	**1,897**
Death Grants Paid	135	94	**229**	536	0	**536**
Total	**8,747**	**424**	**9,171**	**9,901**	**375**	**10,276**

7. Payments to and on Account of Leavers

2021-2022		2022-2023
£'000		£'000
(13)	Contributions Returned	(22)
(726)	Individual Transfers to other Schemes	(116)
(0)	Group Transfers *	(3074)
(739)		**(3,212)**

*Highlands and Islands Enterprise Orkney transferred out during 2022/2023

8. Management Expenses

	2021-2022 £'000	2022-2023 £'000
Investment Management Expenses		
Investment managers fees	1,941	1,836
Custodian fees	27	66
Other Investment management expenses	186	183
Stamp Duty	7	0
Other Transaction Taxes and Levies	32	24
Broker Commission	38	22
Total Investment Management Expenses	**2,231**	**2,131**
Administration Costs		
Staff time and Support allocations	314	542
Total Administration Costs	**314**	**542**
Governance		
Audit costs	22	23
Professional fees	111	87
Total Governance Costs	**133**	**110**
Total	**2,678**	**2,783**

9. Investment Income

	2021-2022 **£'000**	2022-2023 **£'000**
Equities		
Equities UK	2,266	1,466
Equities Global	2,056	2,560
Total Equities	**4,322**	**4,026**
Pooled Investment Vehicle - Multi-Asset Growth	1,330	1,009
Pooled Investment Vehicle - Diversified Growth	1,107	1,086
Pooled Investment Vehicle - Private Debt	1,103	2,889
Pooled Investment Vehicle – Infrastructure	142	521
Interest on Cash and Deposits	**1**	**46**
Totals	**8,005**	**9,577**

10. Change in the Market Value of Investments

	2021-2022 **£'000**	2022-2023 **£'000**
Realised	33,853	(4,239)
Unrealised	(53,449)	(30,574)
Total	**(19,596)**	**(34,813)**

11. Analysis of Investments

As at 31 March 2023 the market value of the assets under management is as follows:

	31 March 2022 £'000	31 March 2023 £'000
Equities		
UK		
Quoted	45,334	44,873
Overseas		
Quoted	253,268	239,980
Total Equities	**298,603**	**284,853**
Pooled Fund – British Small Companies	1,551	1,205
Pooled Fund - Multi-Asset Growth	62,575	44,908
Pooled Fund - Diversified Growth	50,165	46,000
Pooled Fund – Infrastructure	21,125	22,992
Pooled Fund - Private Debt	25,857	42,076
Pooled Fund - Fixed Income	43,789	33,472
Total Pooled Fund	**205,062**	**190,653**
Cash and Deposits	3,252	3,901
Totals	**506,916**	**479,407**

The following table provides an analysis of investments by fund manager:

	31 March 2022 £'000	%	31 March 2023 £'000	%
Baillie Gifford	416,145	82.1	380,867	79.4
Barings	25,857	5.1	42,076	8.8
IFM	21,125	4.2	22,992	4.8
LGIM	43,789	8.6	33,472	7.0
Totals	**506,916**	**100.0**	**479,407**	**100.0**

12. Reconciliation of Movements in Investments

Investments decreased in value to £479.4m as at 31 March 2023 (2022: £506.9m) a movement of £27.5m.

During 2022-2023, sales of investments totalled £45.1m and purchases totalled £51.8m, including £14.8m and £15.2m respectively relating to the transitioning to the revised investment strategy. Transaction costs are included in the cost of purchases and sales proceeds.

The following individual investments exceed 5% of the total value of the net assets of the Pension Fund at 31 March 2023.

	31 March 2022 £'000	31 March 2023 £'000
Baillie Gifford & Company – (Multi Asset Growth)	62,575	44,908
Baillie Gifford & Company – (Diversified Growth)	50,165	46,000

13. Investment Transactions

2022-2023	Opening Market Value £'000	Purchases £'000	Sales £'000	Change in Market Value £'000	Closing Market Value £'000
Investment Assets – Managed Funds					
Equities	298,603	31,182	(30,511)	(14,421)	284,853
Pooled Investment – British Small Companies	1,551	31	0	(377)	1,205
Pooled Investment - Private Debt	25,856	17,939	(1,848)	129	42,076
Pooled Investment – Infrastructure	21,125	548	(480)	1,799	22,992
Pooled Investment – Fixed Income	43,789	0	0	(10,317)	33,472
Pooled Investment – Multi-Asset Growth	62,575	1,008	(12,300)	(6,375)	44,908
Pooled Investment – Diversified Growth	50,165	1,086	0	(5,251)	46,000
Total Transactions	**503,664**	**51,794**	**(45,139)**	**(34,813)**	**475,506**
Cash Deposits	3,252				3,901
	506,916				**479,407**
Internal Net Current Assets / (Liabilities)	**1,615**				**460**
Total	**508,531**				**479,867**

2021-2022	Opening Market Value £'000	Purchases £'000	Sales £'000	Change in Market Value £'000	Closing Market Value £'000
Investment Assets – Managed Fund					
Equities	344,032	57,806	(82,296)	(20,939)	298,603
Pooled Investment – British Small Companies	1,910	14	(17)	(356)	1,551
Pooled Investment - Private Debt	15,366	11,503	(1,144)	131	25,856
Pooled Investment - Infrastructure	0	20,148	(167)	1,144	21,125
Pooled Investment – Fixed Income	43,891	0	(2)	(99)	43,789
Pooled Investment – Multi-Asset Growth	61,641	1,330	0	(397)	62,575
Pooled Investment – Diversified Growth	48,139	1,107	0	919	50,165
Total Transactions	**514,979**	**91,908**	**(83,626)**	**(19,596)**	**503,664**
Cash Deposits	5,321				3,252
	520,300				**506,916**
Internal Net Current Assets / (Liabilities)	**548**				**1,615**
Total	**520,848**				**508,531**

14. Fair Value Hierarchy

Assets and liabilities have been classified into three levels, according to the quality and reliability of information used to determine fair value.

Level 1

Assets and liabilities at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. The products classified as Level 1 are comprised of quoted equities.

Level 2

Assets and liabilities at Level 2 are those where quoted market prices are not available, for example where an instrument is traded in a market that is not considered to be active or where valuation techniques are used to determine fair value based on observable data.

Level 3

Assets and liabilities at Level 3 are those where at least one input that could have a significant effect on the instruments' valuation is not based on observable market data.

The fund manager uses various valuation techniques that require significant judgement in determining appropriate assumptions.

The following table provides an analysis of the financial assets of the Fund, grouped into Levels 1, 2 and 3, based on the level at which the fair value is observable.

Fair Value Through Fund Account	31 March 2022 £'000	31 March 2023 £'000
Level 1: Quoted Market Price	301,855	288,753
Level 2: Using Observable Inputs	158,080	125,586
Level 3: With Significant Unobservable Inputs	46,981	65,068
Net Investment Assets	**506,916**	**479,407**

Transfers Between Levels 1 and 2

There have been no transfers between Levels 1 and 2 during 2022/2023.

Reconciliation of Fair Value Measurements Within Level 3

The following table provides a reconciliation of fair value measurements within level 3.

	Market Value 31 March 2022 £'000	Transfers Into Level 3 £'000	Transfers Out Of Level 3 £'000	Purchases During the Year £'000	Sales During the Year £'000	Unrealised Gains/ (Losses) £'000	Realised Gains/ (Losses) £'000	Market Value 31 March 2023 £'000
Private Debt	25,856	0	0	17,939	(1,848)	129	0	42,076
Infrastructure	21,125	0	0	548	(480)	1,799	0	22,992

Basis of Valuation

The basis of valuation of each class is set out below. There have been no changes in the valuation techniques used during the year. All assets have been valued using fair value techniques which represents the highest and best price available at the reporting date.

Description of Asset	Valuation Hierarchy	Basis of Valuation	Observable and Unobservable Inputs	Key Sensitivities Affecting the Valuations Provided
Market Quoted Investments	Level 1	Published bid market prices ruling on the final day of the accounting period.	Not required.	Not required.
Pooled Funds – Multi Assets, Equity and Bond Funds	Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price is published.	NAV-based pricing set on a forward pricing basis.	Not required.
Pooled Funds – Private Debts and Infrastructure Equity	Level 3	Valuation provided by investment managers on fair value basis each year using PRAG guidance.	NAV based pricing set on a forward pricing basis.	Valuations are affected by changes to expected cashflows or by differences between audited and unaudited accounts.

Sensitivity of Assets Valued at Level 3

Having analysed historical data, current market trends and consulted with independent advisors, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges and has set out the consequent potential impact on the closing value of investments held at 31 March 2023.

Asset Type	Assessed Valuation Range (+/-)	Value at 31 March 2023 £'000	Value on Increase £'000	Value on Decrease £'000
Private Debt	9.6%	42,076	45,863	38,289
Infrastructure Equity	16.0%	22,992	26,349	19,635

The underlying assets in the private debt fund are a series of privately originated loans. The underlying assets in the infrastructure fund are high quality, essential and long-duration infrastructure. As such the valuations of these loans could move due to changes in a number of factors and assumptions including short term interest rates, inflation, the outlook for the profitability of the component companies and the likelihood of these companies to repay the loans. The potential movement of +/- 9.6% reflects the extent to which this value could vary based on each of these factors and assumptions.

15. Financial Instruments

Categories of Financial Instruments.

The following categories of financial instrument are carried in the Net Assets Statement:

31 March 2022				31 March 2023		
Fair value through profit and loss	Assets at amortised cost	Liabilities at amortised cost		Fair value through profit and loss	Assets at amortised cost	Liabilities at amortised cost
£000	£000	£000		£000	£000	£000
			Financial Assets			
298,603			Equities	284,853		
205,061			Pooled Investment Vehicles	190,653		
3,252	6		Cash	3,901	6	
	99		Contributions due		98	
	1,953		Debtors		1,039	
506,916	**2,058**	**0**		**479,407**	**1,143**	**0**
			Financial Liabilities			
		(443)	Current Creditors			(683)
0	**0**	**(443)**		**0**	**0**	**(683)**
506,916	**2,058**	**(443)**		**479,407**	**1,143**	**(683)**
	508,531				**479,867**	

Financial Instruments Balances	31 March 2022 £'000	31 March 2023 £'000
Investments		
Financial Assets at fair value through profit/loss	503,664	475,506
Cash and cash equivalents at fair value through profit/loss	3,252	3,901
Total Investments	**506,916**	**479,407**
Current Assets and Liabilities		
Debtors at amortised cost	2,058	1,143
Financial liabilities at amortised cost	(443)	(683)
Total Current Assets and Liabilities	**1,615**	**460**

16. Income, Expenses, Gains and Losses

All realised gains and losses arise from the sale or disposal of financial assets that have been derecognised in the financial statements. The Fund has not entered into any financial guarantees that are required to be accounted for as financial instruments.

Financial Instruments Gains/Losses	31 March 2022	31 March 2023
	Financial Assets	
	£'000	£'000
Net gains/(losses) on financial assets at fair value through profit and loss	(19,596)	(34,813)
Investment Income	8,005	9,577
Investment management expenses including taxation	(2,753)	(2,942)
Total Investment Gains and Losses	**(14,344)**	**(28,178)**

17. Risk and Risk Management

The Fund's primary long-term risk is that the Fund's assets fall short of its liabilities (i.e., promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. Responsibility for managing the Fund's risk rests with the Pension Fund Sub-committee, who approved the revised investment strategy in February 2019.

17.1 Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. The objective of the Funding Strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Council and its Investment Advisors undertake appropriate monitoring of market conditions and benchmark analysis.

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or by factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored to ensure it is within limits specified in the fund investment strategy.

Sensitivity analysis

In consultation with the Fund's independent provider of performance and analytical data (Hymans Robertson), the Council has determined that the following movements in market price risk are reasonably possible for the reporting period.

Asset Type	Potential Market Movement +/- (%p.a.)
UK Equities	18.2
Global Equities	19.0
UK Index-Linked Gilts (long term)	8.9
UK Fixed Interest Gilts (medium term)	6.0
Diversified Growth	13.3
Private Debt	9.6
Infrastructure Equity	16.0
Cash	0.3
Total Fund Volatility	**15.0**

Potential price changes are determined based on the observed historical volatility of asset class returns. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years. Had the market price of the Fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits would have been as follows:

			Potential change in year in the net assets available to pay benefits	
Asset Type	Value	Change	Favourable Market Movement	Unfavourable Market Movement
	£'000	%	£'000	£'000
UK Equities	46,078	18.2	54,465	37,692
Global Equities	239,980	19.0	285,575	194,383
UK Index-Linked Gilts (long term)	15,663	8.9	17,057	14,269
UK Fixed Interest Gilts (medium term)	17,809	6.0	18,878	16,741
Diversified Growth and Multi Asset Growth	90,908	13.3	102,999	78,818
Private Debt	42,076	9.6	46,115	38,037
Infrastructure Equity	22,992	16.0	26,671	19,313
Cash	3,901	0.3	3,913	3,889
Total Fund Volatility	**479,407**	**15.0**	**551,319**	**407,496**

17.2 Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the Council and its Investment Advisers, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

The Fund's direct exposure to interest rate movements as at 31 March 2023 and 31 March 2022 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

	31 March 2022 £'000	31 March 2023 £'000
Cash and cash equivalents	3,252	3,901
Pooled Fund – Multi-Asset Growth	62,575	44,908
Pooled Fund – Diversified Growth	50,165	46,000
Pooled Fund – Fixed Income	43,789	33,472
Pooled Fund – Private Debt	25,857	42,076

Sensitivity analysis

The Council recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a 1% change in interest rates:

Asset Type	Carrying amount as at 31 March 2023	Potential change in year in the net assets available to pay benefits	
		1% Interest Movement	-1% Interest Movement
	£'000	£'000	£'000
Cash and Cash Equivalents	3,901	39.0	(39.0)
Total Change in Assets Available	**3,901**	**39.0**	**(39.0)**

17.3 Currency Exposure Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£UK). The Fund is invested in both private debt and equities overseas that are denominated in currencies other than £UK. The Fund also holds a low level of bonds denominated in overseas currencies.

The following table summarises the Fund's currency exposure at 31 March 2023:

Currency exposure - asset type	Asset value 31 March 2022 £'000	Asset value 31 March 2023 £'000
Overseas Quoted Equities	248,785	228,253
Overseas Pooled Funds	25,857	42,076
Cash	1,972	2,083
Total	**276,614**	**272,412**

Sensitivity analysis

Following analysis of historical data in consultation with Hymans Robertson, the council considers the likely volatility associated with foreign exchange movements to be 9.9%.

A 9.9% fluctuation is considered reasonable based on Hyman's analysis of long-term historical movements. This analysis assumes that all other variables, in particular interest rates, remain constant.

A 9.9% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Assets exposed to currency risk	Asset Value as at 31 March 2023 £'000	Potential Movement %	Value on Increase £'000	Value on Decrease £'000
Overseas Quoted Equities	228,253	9.9%	250,850	205,656
Total Change in Assets Available to Pay Benefits	**228,253**	**9.9%**	**250,850**	**205,656**

17.4 Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. Direct credit risk from pooled investment vehicles is mitigated by the underlying assets of the pooled investment vehicles being ring fenced from the pooled managers. Indirect credit risk arises in relation to the underlying investments held in the pooled funds. The selection of high-quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner. The pooled investment vehicles are unrated.

Credit risk may also occur if an employing body not supported by central government does not pay contributions promptly, or defaults on its obligations.

The Council's Annual Treasury Management Strategy Statement sets out the Fund's approach to credit risk for internally managed funds. Deposits are not made with banks and financial institutions unless they are rated independently and meet the Council's credit criteria. The Strategy has also set limits as to the maximum percentage of the deposits placed with any one class of financial institution.

The Fund believes it has managed its exposure to credit risk, and the Fund has had no experience of default or uncollectable deposits over the past five financial years. The Fund's cash holding under its treasury management arrangements at 31 March 2023, including current account cash, was £0.006m. (31 March 2022: £0.006m). The Fund also held cash under its investment management arrangement. This was held with the following institutions:

	Rating (Fitch)	Balance 31 March 2023 £'000
Bank current accounts		
Royal Bank of Scotland	A+	6
Cash held in Portfolio		
Bank of New York Mellon (BNY)	AA	3,901

17.5 Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council therefore takes steps to ensure that the Pension Fund has adequate cash resources to meet its commitments.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2023, the Fund had illiquid assets of £65.068m (2021-2022: £46.981m).

17.6 Refinancing Risk

The key risk is that the pension fund will need to replenish a significant proportion of its financial instruments at a time of unfavourable interest rates. The Fund does not have any financial instruments that have a refinancing risk as part of its investment strategy.

18. Funding and Valuation Note

In line with the Local Government Pension Scheme (Scotland) Regulations 2018, the Fund's Actuary undertakes a funding valuation every three years. The actuarial valuation assesses the health of the fund and provides a check that the funding strategy and assumptions used are appropriate. It also sets the future rates of contributions payable by employers. The most recent full actuarial valuation by the Fund's actuaries Hymans Robertson was to 31 March 2020. The next valuation will take place as at 31 March 2023.

The key elements of the funding policy are:

- To ensure the long-term solvency of the Fund, i.e., that sufficient funds are available to meet all pension liabilities as they fall due for payment.
- To ensure that employer contribution rates are as stable as possible.
- To minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return.
- To reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so.
- To use reasonable measures to reduce the risk to other employers and ultimately to the council taxpayer from an employer defaulting on its pension obligations.

The aim is to maintain 100% solvency over a period of 20 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Solvency is achieved when the funds held, plus future expected investment returns, and contributions are sufficient to meet expected future pension benefits payable.

At the 2020 actuarial valuation, the Fund was assessed as 118.0% funded (112.7% at the March 2017 valuation). This corresponded to a surplus of £58m (2017 valuation: surplus of £38m) at that time.

The assessed Primary contribution rate for 1 April 2021 – 31 March 2024 at March 2020 was 24.0%. On applying a Secondary contribution rate of -7.0% to give a required minimum contribution, against the background of increased uncertainty over the future impacting on actuarial assumptions the employer contribution rate will be maintained at 17.0% for the three-year period 2021 to 2024.

In accordance with the Funding Strategy Statement the administering authority has adopted employer contributions of 17.0% for 2022-2023. The valuation of the Fund has been undertaken using a 'risk based' approach which considers how each employer's assets and liabilities may evolve over the future. The principal assumptions were:

	31 March 2017	31 March 2020
Financial Assumptions:		
Salary and Benefit Increases & Investment Return		
Benefit Increases & CARE Revaluation (CPI)	2.40%	1.70%
Salary Increases	2.80%	2.20%
Investment Return ('Discount Rate')	3.10%	2.90%
Demographic Assumptions:		
Longevity		
Baseline Longevity	Club Vita	Club Vita
Future Improvements	CMI 2016, Peaked, 1.25% p.a. long term	CMI 2019, Smoothed, 1.5% p.a. long term

Mortality assumptions

The mortality assumptions used and applied to all members are based on the Self-Administered Pension Schemes year of birth tables with no further improvements in lifespans estimated from 2020.

19. Actuarial Present Value of Promised Retirement Benefits

The Fund's Actuary undertakes a valuation of the Fund's liabilities to pay future retirement benefits. This is calculated in line with the IAS 19 every year using the same base data as the triennial funding valuation, rolled forward to the current financial year and taking into account changes in membership numbers and updated assumptions.

In order to assess the value of liabilities on this basis, the Actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Annex 2).

The actuarial present value of promised retirement benefits at 31 March 2023 was £324m (2022: £485m).

This figure is used for statutory accounting purposes by Orkney Islands Council Pension Fund and complies with the requirements of IAS 26 Accounting and Reporting by Retirement Benefit Plans. The IAS 26 valuation is not used for calculations undertaken for funding purposes and setting contributions payable to the Fund and has no validity in other circumstances.

Financial Assumptions

Year Ended	31 March 2022 **% p.a.**	31 March 2023 **% p.a.**
Inflation/Pensions Increase Rate	3.20%	2.95%
Salary Increase Rate	3.70%	3.45%
Discount Rate	2.70%	4.75%

Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 18.

Longevity Assumptions

	31 March 2022		31 March 2023	
	Males	Females	Males	Females
Current Pensioners	21.3 years	23.7 years	20.9 years	23.4 years
Future Pensioners*	22.9 years	25.9 years	22.5 years	25.6 years

*Future pensioners are assumed to be aged 45 as at the last formal valuation.

Commutation assumption

An allowance is included for future retirees to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2009 service and 75% of the maximum tax-free cash for post-April 2009 service.

20. Current Assets

	31 March 2022 £'000	31 March 2023 £'000
Income Due	793	597
Recoverable Tax	231	312
Cash Balances	6	6
Transfer Values Receivable	140	75
Contributions Due - Employers	71	71
Contributions Due - Employees	28	27
Orkney Islands Council	788	0
Sundry Debtors	1	55
Total Current Assets	**2,058**	**1,143**

21. Current Liabilities

	31 March 2022 £'000	31 March 2023 £'000
Orkney Islands Council	0	138
Sundry Creditors	401	396
Benefits Payable	41	149
Provision For Liabilities	1	0
Total Current Liabilities	**443**	**683**

22. Code of Transparency

The Code of Transparency enables a greater understanding of the investment process and better cost management through the fund managers disclosure of transaction costs.

Total transaction costs for each asset class held with Baillie Gifford are detailed below:

2022-2023	Transaction Taxes £	Broker Commission £	Implicit Costs £	Indirect Transaction Costs £	Total Transaction Costs £
Equities	23,744	22,028	(52,707)	0	(6,935)
Pooled Funds	0	0	28,077	623,968	652,045
Foreign Exchange	0	0	6,150	0	6,150
Total	**23,744**	**22,028**	**(18,480)**	**623,968**	**651,260**

2021-2022	Transaction Taxes £	Broker Commission £	Implicit Costs £	Indirect Transaction Costs £	Total Transaction Costs £
Equities	38,797	38,117	(80,864)	0	**(3,950)**
Pooled Funds	0	0	93	447,553	**447,646**
Foreign Exchange	0	0	1,312	0	**1,312**
Total	**38,797**	**38,117**	**(79,459)**	**447,553**	**445,008**

The nature of the transaction costs groups are as follows:

- Transaction Taxes – includes stamp duty and any other financial transaction taxes.
- Broker Commissions – payments for execution services, including exchange fees, settlement fees and clearing fees.
- Implicit Costs – indirect costs associated with buying and selling securities, being an estimate of market impact.
- Indirect Transaction Costs – transaction costs incurred within pooled funds when they buy and sell their underlying investments.

In addition to the transaction costs, the portfolio has incurred indirect fees of £210,705 (2021-2022: £281,014) paid from the Net Asset Value of the pooled funds.

23. Audit Fees

In 2022-2023 the agreed audit fee for the year was £24,860 (2021-2022: £22,090).

24. Agency Arrangements

The Orkney Islands Council Pension Fund pays discretionary pensions to former employees of Orkney Islands Council who were awarded compensatory added years in accordance with the Orkney Islands Council's Early Retirement and Severance Scheme, but subject to limitations set out in the Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulation 1998. The amounts paid are not included within the Fund Account but are provided as a service and fully reclaimed from the Council. The total amount of these payments was £225k in 2022-2023 (2021-2022: £245k).

Members of the Fund who elected before 1 April 2008 to purchase added years of membership can continue to do so unless the member elects to cease the contract. Administration of added years' contracts is carried out by the Orkney Islands Council Pension Fund on behalf of Orkney Islands Council. Costs borne by the Fund relating to added years are incorporated into the overall administration cost and are immaterial in value.

25. Statement of Investment Principles and Funding Strategy Statement

The Council as Administering Authority approved its current Statement of Investment Principles in November 2022. The Statement defines the Fund's operational framework insofar as investments are concerned. It is reviewed periodically to ensure that it continues to reflect the needs of the Fund and the views of its stakeholders.

The Funding Strategy Statement defines how the Fund intends to meet its financial obligations and was effective from 10 May 2018.

Both these documents are available on the Council website under the related download section here, and are also available on request from the Council's Head of Finance.

26. Stock Lending

In accordance with the Statement of Investment Principles 2020, stock lending is not permitted within any of its segregated investment mandates. As at 31 March 2023 no stock had been released to a third party under a stock lending arrangement.

27. Related Party Transactions

Orkney Islands Council Pension Fund is administered by Orkney Islands Council. The Council incurred costs of £0.542m (2021-2022: £0.314m) in relation to administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Fund had a balance due to Orkney Islands Council of £0.14m as at 31 March 2023 (£0.79m due from Orkney Islands Council as at 31 March 2022).

The Council is also the single largest employer of members of the Pension Fund and contributed £7.81m to the fund in 2022-2023 (2021-2022: £7.33m).

All the members of the Pensions Sub-committee and the members of the Pensions Board are active members of the pension scheme. Each Councillor is required to declare any financial or pecuniary interest related to specific matters on the agenda at each meeting.

The employees who hold key positions in the financial management of the Pension Fund; and their financial relationship with the fund (expressed as cash-equivalent transfer values) are set out below:

	Accrued pension benefits 2021-2022		Accrued pension benefits 2022-2023	
	Pension £	Lump Sum £	Pension £	Lump Sum £
Corporate Director of Enterprise & Sustainable Regeneration / (Section 95 Officer)	43,148	56,035	43,920	58,167
Interim Head of Finance (to 12/09/2022) *	43,442	78,399	45,714	80,961
Head of Finance (from 15/08/2022) *	-	-	1,510	0

* Interim Head of Finance retired on 12/09/2022. New Head of Finance took up post on 15/08/2022.

28. Additional Voluntary Contributions

Under Inland Revenue rules, scheme members are permitted to make contributions towards retirement and death in service benefits in addition to those which they are required to make as members of the Local Government Pension Scheme. These contributions are known as Additional Voluntary Contributions and are treated separately from the scheme's assets under arrangement with Prudential Assurance Company Limited.

During the year 2022-2023 member contributions amounted to £0.426m (2021-2022: £0.517m).

Member’s contributions are invested in a “with profits” Fund or a “deposit” Fund. The value of AVC investments increased by £0.258m to £1.431m as at 31 March 2023 (2021.22: £1.173m) excluding the final bonus.

29. Contingent Liabilities and Contractual Commitments

In recognition of legal judgements, the funding valuation position included an allowance for full Guaranteed Minimum Pension equalisation (indexation) treatment since 31 March 2020. A further ruling on Guaranteed Minimum Pension historical transfers is unlikely to be significant in terms of impact on the pension obligations. An allowance for the estimated impact of the McCloud judgement is also included within the funding valuation position noted above. Whilst there is still uncertainty surrounding the potential remedy to the Goodwin judgement the approximate impact is likely to be minimal, therefore there has been no adjustment applied to the valuation.

The results of the 2017 cost cap were finalised in 2021/22 and suggest no changes to employer contribution rates recently certified and put in place by the LGPS administering authority from 1 April 2021.

As at the 31 March 2023, as part of the transitioning arrangements to the revised investment strategy, the Fund had contractual commitments to invest up to £1.9m and £17.3m across two new mandates to Private Debt. The drawdowns of these commitments are expected to continue over the next year and will be funded from within the Fund's portfolio of investments. A further contractual commitment to invest up to £20.0m was made during the year to a new renewable focussed infrastructure mandate. The onboarding process was complete by 31 March 2023 however, there have been no drawdowns to this new mandate to date.

Independent Auditor’s Report

Independent auditor’s report to the members of Orkney Island Council as administering authority for the Orkney Islands Council Pension Fund and the Accounts Commission

Reporting on the audit of the financial statements

Opinion on financial statements

We certify that we have audited the financial statements in the annual report of Orkney Islands Council Pension Fund (the fund) for the year ended 31 March 2023 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Pension Fund Account, the Net Assets Statement, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards, as interpreted, and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (the 2022/23 Code).

In our opinion the accompanying financial statements:

- give a true and fair view of the financial transactions of the fund during the year ended 31 March 2023 and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted, and adapted by the 2022/23 Code, and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Our responsibilities under those standards are further described in the auditor’s responsibilities for the audit of the financial statements section of our report. We were appointed by the Accounts Commission on 18 May 2022. Our period of appointment is five years, covering 2022/23 to 2026/27. We are independent of the fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council’s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the council as administering authority for the fund. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern basis of accounting

We have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

These conclusions are not intended to, nor do they, provide assurance on the fund's current or future financial sustainability. However, we report on the fund's arrangements for financial sustainability in a separate Annual Audit Report available from the Audit Scotland website.

Risks of material misstatement

We report in our Annual Audit Report the most significant assessed risks of material misstatement that we identified and our judgements thereon.

Responsibilities of the Corporate Director of Enterprise and Sustainable Regeneration and Orkney Islands Council Pension Fund Sub Committee for the financial statements

As explained more fully in the Statement of Responsibilities, the Corporate Director of Enterprise and Sustainable Regeneration is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Corporate Director of Enterprise and Sustainable Regeneration determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Corporate Director of Enterprise and Sustainable Regeneration is responsible for assessing the fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention to discontinue the fund's operations.

The Orkney Islands Council Pension Fund Sub Committee is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities outlined above to detect material misstatements in respect of irregularities, including fraud. Procedures include:

- using our understanding of the local government sector to identify that the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, the Local Government in Scotland Act 2003, and The Local Government Pension Scheme (Scotland) Regulations 2018 as amended are significant in the context of the fund.

- inquiring of the Corporate Director of Enterprise and Sustainable Regeneration as to other laws or regulations that may be expected to have a fundamental effect on the operations of the fund.
- inquiring of the Corporate Director of Corporate Finance of Enterprise and Sustainable Regeneration concerning the fund's policies and procedures regarding compliance with the applicable legal and regulatory framework.
- discussions among our audit team on the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

The extent to which our procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the fund's controls, and the nature, timing and extent of the audit procedures performed.

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result from error as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Reporting on other requirements

Other information

The Corporate Director of Enterprise and Sustainable Regeneration is responsible for the other information in the annual report. The other information comprises the Management Commentary, Statement of Responsibilities for the Annual Accounts, Remuneration Report, Annual Governance Statement, Governance Compliance Statement, and other reports included in the annual report other than the financial statements and our auditor's report thereon.

Our responsibility is to read all the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on the Management Commentary, Annual Governance Statement and Governance Compliance Statement to the extent explicitly stated in the following opinions prescribed by the Accounts Commission.

Opinions prescribed by the Accounts Commission on the Management Commentary, Annual Governance Statement and Governance Compliance Statement

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003;
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016): and
- the information given in the Governance Compliance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with The Local Government Pension Scheme (Scotland) Regulations 2018.

Matters on which we are required to report by exception

We are required by the Accounts Commission to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to our responsibilities for the annual report, our conclusions on the wider scope responsibilities specified in the Code of Audit Practice are set out in our Annual Audit Report.

Use of our report

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 108 of the Code of Audit Practice, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Julie Radcliffe,
(for and on behalf of KPMG LLP, Statutory Auditor)
Chartered Accountants
1 St Peter's Square
Manchester
M2 3AE

Annex 1 – Pension Fund Sub Committee, Pension Board, Scheduled and Admitted Bodies

Pension Fund Sub Committee

Members

Councillor S Heddle

Councillor J Stockan

Councillor R King

Councillor L Hall

Councillor K Leask

Councillor M Thomson

Councillor H Woodbridge

Pension Board Members

Membership

Councillor G Bevan

Councillor J Moar

Councillor O Tierney

Union Representatives:

K Kent – Unison

E Millar – Unite

E Swanney – Unison

M Vincent - GMB

Employer Representative:

K Ritch – Orkney Ferries Ltd

Orkney Islands Council Pension Fund

Scheduled Bodies

- Orkney Islands Council

Admitted Bodies - Active

- Orkney Ferries Limited
- Pickaquoy Centre Trust
- Orkney Islands Property Development Limited

Admitted Bodies – Transferred Out During Year

- Highlands and Islands Enterprise

Annex 2 – Actuarial Statement for 2022-2023

Orkney Islands Council Pension Fund (“the Fund”) Actuarial Statement for 2022/23

This statement has been prepared in accordance with Regulation 55(1)(d) of the Local Government Pension Scheme (Scotland) Regulations 2018. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The funding policy is set out in the Administering Authority’s Funding Strategy (FSS), dated March 2021. In summary, the key funding principles are as follows:

To ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members’/dependants’ benefits as they fall due for payment.

- To ensure that employer contribution rates are reasonably stable where appropriate.
- To minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this will also minimise the costs to be borne by Council Taxpayers).
- To reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- To use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to have a sufficiently high likelihood of achieving the funding target over 20 years. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is at least a 70% chance that the Fund will return to full funding over 20 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2018 was as at 31 March 2020. This valuation revealed that the Fund’s assets, which at 31 March 2020 were valued at £377 million, were sufficient to meet 118% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2020 valuation was £58 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers’ contributions for the period 1 April 2021 to 31 March 2024 were set in accordance with the Fund’s funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2020 valuation report.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth and inflation to retirement or expected earlier date of leaving pensionable membership.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

Financial assumptions	31-Mar-20
Discount rate	2.9%
Pay increases	2.2%
Price inflation/Pension increases	1.7%

The key demographic assumption was the allowance made for longevity. The life expectancy assumption was based on the Fund's Vita Curves alongside future improvements based on the CMI 2019 model with an allowance for smoothing of recent mortality experience and a long term rate of improvement of 1.5% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.5 years	23.9 years
Future Pensioners*	23.2 years	26.1 years

*Currently aged 45

Copies of the 2020 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2020

Markets were severely disrupted by COVID-19 at the 31 March 2020 funding valuation date, resulting in depressed asset values but recovered very strongly in 2020 and 2021. Markets have continued to be disrupted by the ongoing war in Ukraine and inflationary pressures, impacting on investment returns achieved by the Fund’s assets. High levels of inflation in the UK (compared to recent experience), have resulted in a higher than expected LGPS benefit increase of 10.1% in April 2023. Despite this, the funding level of the Fund is likely to be higher than reported at the 31 March 2020 funding valuation due to the significant rise in interest rates which reduces the value placed on the Fund’s liabilities.

The next actuarial valuation will be carried out as at 31 March 2023. The Funding Strategy Statement will also be reviewed at that time.

Tom Hoare FFA
For and on behalf of Hymans Robertson LLP
6 June 2023

Annex 3 - Glossary of Terms

Active Management

An investment management style that seeks to outperform by way of self-selected decisions on stock choice, timing of market incursions, or asset allocation. Compare this with Passive Management.

Asset Allocation

The division of the Fund's assets between different classes of assets, for example, UK Equities, Japanese Equities, UK Bonds. In the long run the asset allocation choices should support the Fund's strategic financial objectives. In the short-term tactical changes might be made to achieve short- term advantage.

Balanced Management

An arrangement under which investments are spread over a range of asset classes at the manager's discretion. The manager controls investments over as many classes as are available under the Fund's overall strategy. Compare this with specialist management.

Growth Manager

An investment manager who fundamentally believes in picking stocks that he believes will achieve an above-average growth in profits. This is sometimes caricatured as buying stock irrespective of price because the price will rise. Compare this with value manager.

Mandate

An agreement between an investment manager and his client as to how investments are to be managed, specifying whatever targets and investment limitations are to apply.

Passive Management

A style of investment management that seeks performance equal to market returns or to some appropriate index. Such investment entails a more mechanical approach to asset allocation and stock selection because such decisions are largely dictated by general market shifts rather than individual manager discretion. Compare this with active management.

Pooled Fund

A fund in which a number of investors hold units rather than owning the underlying assets. This is a useful way for smaller funds to diversify investments without exposing them to undue risks. Unit Trusts are pooled funds as are Open-ended Investment Companies. Compare this with segregated fund.

Return

The value of capital enhancement and income received by a fund in a year, expressed as a percentage of the opening value of the fund. If values fall "Return" would be negative.

Risk

The danger or chance that returns will vary against benchmarks or targets. If risks are high the expected return should be higher still (the risk premium).

Segregated Fund

The management of a particular fund's assets independently of those of other funds managed by the same investment house. Compare this with a pooled fund.

Specialist Management

The use of a number of managers, each specialising in a particular asset class. Such managers have no say in asset allocation, being only concerned with stock selection.

Value Manager

A manager who selects stocks that he believes to have potential that is not reflected in the price. This is sometimes caricatured as buying stock because it is cheap. Compare this with growth manager.

Vested/Non- Vested Obligations

Vested obligations refer to employee benefits that are not conditional on future employment. Non- vested obligations refer to employee benefits that are conditional on future employment.

Pension Fund Strain

The cost to employers of the early release of pension benefits.

Operating Surplus/Deficit

The surplus/deficit arising from dealing with members, employers and others directly involved in the scheme.

Additional Information

Key Documents Online

You can find further information on our website:

Pension Fund Annual Reports (orkney.gov.uk), Including the following documents:

- Annual Report and Accounts

Auditor:	KPMG
Fund Actuaries:	Hymans Robertson
Banker:	Royal Bank of Scotland
Investment Advisor:	Hymans Robertson
Investment Custodians:	Bank of New York Mellon
Performance Measurement:	Hymans Robertson
Additional Voluntary Contributions (AVC) Managers:	Prudential
Investment Managers:	Baillie Gifford & Co
	Barings
	LGIM
	IFM

Contact Details

For further information and advice on administration, benefits and scheme membership please contact:

Robert Adamson	Telephone: 01856 873535.	Extension: 2108.
Pensions Manager	Email: robert.adamson@orkney.gov.uk	

Scheme members should have a copy of the "Employees' Guide to the Local Government Pension Scheme Administered by the Orkney Islands Council" and can obtain their own copy of an Annual Report on request or visit Orkney Islands Council Pension Fund website at: https://www.orkney.gov.uk/.

For further information on the Fund's Investments, please contact:

Gareth Waterson	Telephone: 01856 873535.	Extension: 2521.
Corporate Director of Enterprise & Sustainable Regeneration	Email: gareth.waterson@orkney.gov.uk	
Erik Knight	Telephone: 01856 873535.	Extension: 2127.
Head of Finance	Email: erik.knight@orkney.gov.uk	

Pension Administration Strategy

November 2023

Contents

1. Introduction

Orkney Islands Council is the administering authority responsible for overseeing the Local Government Pension Scheme (LGPS) for Council employees and for employees of various other scheduled and admitted bodies who have been allowed to participate in the Scheme.

The Local Government Pension Scheme (Scotland) Regulations 2018 state that an administering authority may prepare a written pension administration strategy, setting out:

- The roles and responsibilities of the administering authority and scheme employers.
- Performance levels which the administering authority and scheme employers are expected to achieve in carrying out their functions.

Whilst formulating and publishing such a policy is not mandatory, the Council has prepared a pension administration strategy statement to assist with service delivery and has published it in the interests of transparency and good governance.

The strategy recognises that both the Council and scheme employers must co-operate to provide an efficient and effective service to scheme members.

2. The Pension Administration Strategy

The strategy statement is a result of consultation with employers and a copy of the statement will be issued to each scheme employer. The Fund will review and revise the policy where appropriate with employers being consulted on any changes.

3. Strategy Objectives

Key objectives are:

- To ensure the delivery of a high-quality pension service to all members.
- To ensure that each party is fully aware of its roles and responsibilities not only in accordance with LGPS regulations but also in accordance with other overriding legislation and the Pensions Regulator’s Codes of Practice.
- To develop a close and successful working partnership between the Council and scheme employers.
- To ensure that performance standards are understood, achieved and reported on.

4. Orkney Islands Council

Appendix A outlines the Council’s roles and responsibilities and expected performance standards.

Performance is continually monitored to ensure improvements are made in all areas. Key performance indicators are reported to the Pension Fund Sub-committee and the Pension Board on a biannual basis.

Performance data on key targets is also included in the Council’s Annual Pension Fund Report.

5. Scheme Employers

Appendix B outlines employers' roles and responsibilities and expected performance standards.

The Council will monitor the areas where timescales have been agreed to ensure that the level of performance continues to be satisfactory.

The Council will, at the earliest opportunity, work with an employer if an area of poor performance is identified. A member of the Pension Section will offer to meet with the employer to discuss the poor performance and will provide the necessary assistance to rectify the situation.

6. Discretions

Regulation 58 of the Local Government Pension Scheme (Scotland) Regulations 2014 requires an employer to publish, and keep under review, a policy statement relating to the exercise of certain discretionary powers in relation to members.

Each employer must send a copy of its statement to the Council. The Council's published policy statement on its discretions as the Administering Authority will be located at:

www.orkney.gov.uk/Service-Directory/S/pensions.htm

7. Costs or Penalties

Each employer is responsible for providing the Council with all of the information detailed in Appendix B. Where the information provided is inaccurate and results in an incorrect calculation of benefits, any costs or penalties incurred will be charged to the employer.

Regulation 68 allows the administering authority to recover additional costs which it has incurred as a result of an employer's poor performance. The Council will notify the employer and will recover these additional costs from the employer.

Where the Pensions Regulator, Pensions Ombudsman or any other Regulatory Authority imposes financial compensation or a fine on the administering authority due to default, omission or other negligent act caused by an employer, then that sum will be recharged to the employer. If the employer is not at fault, such costs will be met in full by the administering authority.

The Council will require an employer to pay interest on any late payment of contributions where a payment is made one month after the due date. Any interest will be calculated at one percent above the Royal Bank of Scotland's base rate on a day to day basis from the due date to the date of payment, compounded with three-monthly rests.

After due investigation, the Council will report an employer to the Pensions Regulator where it has failed to pay over contributions and where, after adequate warning, it has failed to rectify the situation.

8. Development

The Finance Service is also working closely with the Council's Digital Communications Co-ordinator to enhance the Pension information section on the Council's website.

Appendix A - Orkney Islands Council – Roles, Responsibilities and Performance Standards

The Council will be responsible for:

- Managing the investment of the Orkney Islands Council Pension Fund in accordance with the Regulations and ensuring that proper governance arrangements of the Fund are in place.
- Submitting a triennial valuation to the Fund Actuary.
- Delivering a service which meets statutory requirements and complies with current professional standards.
- Ensuring compliance with data protection legislation.
- Providing a properly maintained software system to deliver a pensions administration service.
- Ensuring the integrity of the software system in which member records are held.
- Advising employees and employers on any Local Government Pension Scheme related matters as and when requested.
- Providing regular and appropriate communications to all members.
- Notifying employers of any relevant changes to Local Gooverment Pension Scheme regulations.
- Providing information to, and communicating with, HMRC, banks, solicitors, other pension schemes, actuaries and any other appropriate bodies as required.
- Creating new member records within 10 working days of notification of members joining the scheme.
- Updating a member’s record within 10 working days of notification of a change of circumstances by an employer or a member.
- Providing members with details of their additional service or pension within 10 working days of receiving a transfer value from another pension provider.
- Paying a transfer value over to a new pension provider within 10 working days of receiving all the necessary transfer forms.
- Providing information for divorce proceedings and calculating and maintaining pension credits when they arise.
- Providing all active and deferred members with an Annual Benefit Statement within the statutory timescale.
- Providing pension estimates within 10 working days of a request.
- Providing bulk pension estimates (more than 10) but this will be subject to negotiations to agree turnaround times, depending on current workloads.
- Processing a member’s pension benefits within 3 working days of retirement provided all necessary information has been received.
- Processing a refund of contributions within 3 working days of receipt of all the necessary information.

- Providing the necessary information in order to comply with the National Fraud Initiative (NFI) and thereafter, in conjunction with the employer, investigate all pension matches identified in the reports provided.

With regard to pension benefits and payroll processing, the Council will:

- Pay pensions by BACs in accordance with the Council's payroll processing timetable.
- Deduct Income Tax from each member's pension in accordance with statutory requirements.
- Pay existing Compensatory Added Year pensions on behalf of Employers and re-charge these pensions on a quarterly basis.
- Apply Pension Increases as per Treasury Orders.
- Provide a P60 at year-end.
- Maintain statutory tables with the payroll system.
- Process and submit payroll year-end returns in accordance with HMRC deadlines.
- Maintain payslip and P60 stationery in accordance with HMRC legislation.
- Process and submit any annual returns in accordance with the relevant deadlines.

Appendix B – Employer – Roles, Responsibilities and Performance Standards

The employer will be responsible for:

- Ensuring compliance with data protection legislation.
- Providing details of all new starts to the administering authority within 10 working days of commencement.
- Deciding who is eligible to become a member of the scheme, the date membership commences and notifying the administering authority using the appropriate forms.
- Deciding if the member is full-time, part-time, variable-time or is a casual employee, and if not full-time, deciding the proportion which the employee's contractual hours bear to a comparable full-time employee.
- Completing the appropriate form when there has been a change of circumstances, and forwarding it to the administering authority within 10 working days of the change.
- Completing a leaver form and forwarding it to the administering authority within 10 working days of a member's leaving date.
- Providing all necessary documentation required by the administering authority (e.g. ill health certificate, certificate of protection etc.) in a timely manner.
- Providing all necessary information to the administering authority in the correct format in order to update members' records on the pension administration system.
- Providing a copy of the employer's policy on the exercise of its discretionary powers within the regulations and keeping the policy under regular review.
- Providing the necessary information in the correct format and within the agreed timescales to allow the calculation of retirement benefits and, if required, advising the administering authority of any additional discretionary benefits being awarded.
- Notifying the administering authority at least one month prior to a member's intended retirement so that the member can be provided with an indication of their pension benefits. Details of the actual pensionable pay received by the member must then be forwarded to the administering authority on the appropriate form within 3 days of the member's final pay date.
- Forwarding all necessary documents to the administering authority as soon as possible after a death in service in order to avoid any delay in notifying dependants of their entitlement to pension benefits.
- Issuing details of a member's right of appeal under the LGPS along with any statement regarding a decision the employer has made about the LGPS in regard to that member.
- Appointing an independent doctor, qualified in Occupational Health Medicine, to assist in determining ill health retirements. Alternatively, an employer may choose to use the services of the Council's appointed doctor.
- Ensuring that the correct rate of member and employer pension contributions are collected for both the main scheme and the 50/50 scheme and are paid over to the administering authority in accordance with statutory timescales, i.e. within 19 days following the month of payment.
- Ensuring that their payroll provider accurately assesses Pensionable and Assumed Pensionable Pay for both the main scheme and 50/50 scheme.

- Ensuring that their payroll provider collects all additional voluntary contributions (AVC’s) and pays them over to the specified AVC provider as instructed by the member and the administering authority.
- Being fully compliant with and adhering to Auto Enrolment legislation.
- Paying over the associated strain costs to the Pension Fund within 30 days of the member’s benefits being paid when a member has been awarded any additional membership, pension or compensatory added years.

Minute

Investments Sub-committee

Thursday, 23 November 2023, 14:00.

Council Chamber, Council Offices, School Place, Kirkwall.

Present

Councillors Heather N Woodbridge, Rachael A King, Kristopher D Leask and Mellissa-Louise Thomson.

Present via remote link (Microsoft Teams)

Councillor P Lindsay Hall and James W Stockan.

Clerk

- Hazel Flett, Service Manager (Governance).

In Attendance

- Gareth Waterson, Corporate Director for Enterprise and Sustainable Regeneration.
- Erik Knight, Head of Finance.
- Katie Gibson, Team Manager (Corporate Finance).
- Michael Scott, Solicitor.

Apology

- Councillor Steven B Heddle.

Declarations of Interest

- No declarations of interest were intimated.

Chair

- Councillor Heather N Woodbridge

1. Disclosure of Exempt Information

The Sub-committee noted the proposal that the public be excluded from the meeting for consideration of Item 4 as the business to be discussed involved the potential disclosure of exempt information of the class described in the relevant paragraph of Part 1 of Schedule 7A of the Local Government (Scotland) Act 1973 as amended.

2. Revenue Expenditure Monitoring

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

Noted:

2.1. The revenue financial summary statement in respect of service areas for which the Investments Sub-committee was responsible, for the period 1 April to 30 September 2023, attached as Annex 1 to the report by the Head of Finance, indicating a budget overspend position of £2,904,200.

2.2. The revenue financial detail by service area statement in respect of service areas for which the Investments Sub-committee was responsible, for the period 1 April to 30 September 2023, attached as Annex 2 to the report by the Head of Finance.

The Sub-committee scrutinised:

2.3. The explanations given and actions proposed in respect of significant budget variances, as outlined in the Budget Action Plan, attached as Annex 3 to the report by the Head of Finance, and obtained assurance that action was being taken with regard to significant budget variances.

3. Temporary Loans

After consideration of a report by the Head of Finance, copies of had been circulated, the Sub-committee:

Noted:

3.1. The status of the temporary loan portfolio as at 30 September 2023, as detailed in section 3 of the report by the Head of Finance.

3.2. That, for the period 1 April to 30 September 2023, the temporary loans portfolio made a return of £274,583.02 at an average interest rate of 4.68%.

The Sub-committee scrutinised:

3.3. The temporary loans portfolio, detailed in sections 3 and 4 of the report by the Head of Finance, and obtained assurance that the Treasury Management Strategy was being adhered to by the Finance Service and the temporary loans portfolio was producing an acceptable rate of return.

4. Statement of Managed Funds

On the motion of Councillor Heather N Woodbridge, seconded by Councillor P Lindsay Hall, the Sub-committee resolved that the public be excluded from the meeting for this item on the grounds that it involved the disclosure of exempt information as defined in paragraph 6 of Part 1 of Schedule 7A of the Local Government (Scotland) Act 1973 as amended.

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

Noted:

4.1. The investment monitoring report for the Strategic Reserve Fund produced by Hymans Robertson, the Council's appointed investment advisor, attached as Appendix 1 to the report by the Head of Finance, relating to the performance of managed funds for the quarter to 30 September 2023.

4.2. That the Strategic Reserve Fund investments returned a loss in value of £400,000 over the quarter ending 30 September, however, overall, the Fund returned a gain of 0.1%, which was 0.9% behind the benchmark of 1.0%, and therefore considered poor.

4.3. That the investment returns on the Strategic Reserve Fund had been positive over the 12-month period to 30 September 2023, with the value of the Fund increasing by 3.5% which was 2.3% behind benchmark and therefore considered poor.

4.4. The Barings Global High Yield Credit Strategies Fund ESG report for the quarter ending 30 September 2023, as attached as Appendix 2 to the report by the Head of Finance.

4.5. The BlackRock UK Property and Diversified Growth Fund Commentary for the quarter ending 30 September 2023, attached as Appendix 3 to the report by the Head of Finance.

The above constitutes the summary of the Minute in terms of the Local Government (Scotland) Act 1973 section 50C(2) as amended by the Local Government (Access to Information) Act 1985.

5. Conclusion of Meeting

At 14:45 the Chair declared the meeting concluded.

Signed: Heather N Woodbridge.

Minute

Asset Management Sub-committee

Tuesday, 30 January 2024, 09:30.

Council Chamber, Council Offices, School Place, Kirkwall.

Present

Councillors Heather N Woodbridge, P Lindsay Hall, Steven B Heddle, Jean E Stevenson and Ivan A Taylor.

Present via remote link (Microsoft Teams)

Councillor Mellissa-Louise Thomson.

Clerk

- Sandra Craigie, Committees Officer.

In Attendance

- Hayley Green, Corporate Director for Neighbourhood Services and Infrastructure.
- Kenny MacPherson, Head of Property, Asset Management and Facilities.
- Lorna Richardson, Head of Neighbourhood Services.
- Thomas Aldred, Service Manager (ICT).
- Graeme Christie, Service Manager (Estates).
- Michael Foubister, Service Manager (Fleet).
- Shonagh Merriman, Service Manager (Corporate Finance).
- Glen Thomson, Service Manager (Property and Capital Projects).
- Michael Scott, Solicitor.
- Gwyn Evans, Strategic Projects.

Apology

Councillor James W Stockan.

Declarations of Interest

- No declarations of interest were intimated.

Chair

- Councillor Heather N Woodbridge.

1. Revenue Expenditure Monitoring

After consideration of a report by the Head of Finance, copies of which had been circulated, and after hearing a report from the Service Manager (Corporate Finance), the Sub-committee:

Noted:

1.1. The revenue financial summary statement, in respect of service areas for which the Asset Management Sub-committee was responsible, for the period 1 April to 31 December 2023, attached as Annex 1 to the report by the Head of Finance, indicating a budget overspend position of £51,300.

1.2. The revenue financial detail by service area statement, in respect of service areas for which the Asset Management Sub-committee was responsible, for the period 1 April to 31 December 2023, attached as Annex 2 to the report by the Head of Finance.

The Sub-committee scrutinised:

1.3. The explanations given and actions proposed in respect of significant budget variances, as outlined in the Budget Action Plan, attached as Annex 3 to the report by the Head of Finance, and obtained assurance that action was being taken with regard to significant budget variances.

Councillor Steven B Heddle joined the meeting during discussion of this item.

2. Corporate Asset Improvement Programmes

Expenditure Monitoring

After consideration of a report by the Head of Finance, copies of which had been circulated, and after hearing a report from the Service Manager (Corporate Finance), the Sub-committee:

Noted:

2.1. The summary position of expenditure incurred, as at 31 December 2023, against the approved corporate asset capital improvement and replacement programmes for 2023/24, as detailed in section 4.1 of the report by the Head of Finance.

The Sub-committee scrutinised:

2.2. The detailed analysis of expenditure figures and project updates, attached as Appendix 1 to the report by the Head of Finance, and obtained assurance with regard to significant budget variances and progress being made with delivery of the approved corporate asset capital improvement and replacement programmes for 2023/24.

3. Corporate Asset Maintenance Programmes

Revenue Expenditure Monitoring

After consideration of a report by the Head of Finance, copies of which had been circulated, and after hearing a report from the Service Manager (Corporate Finance), the Sub-committee:

Noted:

3.1. The summary position of expenditure incurred, as at 31 December 2023, against the approved corporate asset maintenance programmes for 2023/24, as detailed in section 4.1 of the report by the Head of Finance.

The Sub-committee scrutinised:

3.2. The detailed analysis of expenditure figures and project updates, attached as Appendix 1 to the report by the Head of Finance, and obtained assurance with regard to significant budget variances and progress being made with delivery of the approved corporate asset maintenance programmes for 2023/24.

4. Information Technology Strategy – Delivery Plan Update

After consideration of a report by the Corporate Director for Neighbourhood Services and Infrastructure, copies of which had been circulated, and after hearing a report from the Service Manager (ICT), the Sub-committee:

Scrutinised actions contained in the updated Delivery Plan, attached as Appendix 1 to the report by the Corporate Director for Neighbourhood Services and Infrastructure, and obtained assurance with regard to progress being made in implementing the Information Technology Strategy.

5. Exclusion of Public

On the motion of Councillor Heather N Woodbridge, seconded by Councillor P Lindsay Hall, the Sub-committee resolved that the public be excluded for the remainder of the meeting, as the business to be considered involved the 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.

6. Plant and Vehicle Replacement Programme

Under section 50A(4) of the Local Government (Scotland) Act 1973, the public had been excluded from the meeting for this item on the grounds that it involved the disclosure of exempt information as defined in paragraph 8 of Part 1 of Schedule 7A of the Act.

After consideration of a report by the Corporate Director for Neighbourhood Services and Infrastructure, copies of which had been circulated, and after hearing a report from the Head of Neighbourhood Services, the Sub-committee:

Noted:

6.1. That a multi-year approach to the replacement of plant and vehicles allowed for greater flexibility to vary the timing of individual transactions where constraints and/or pressures emerged.

6.2. That, in addition to the planned purchases for General Fund services, a total of £306,000 was to be spent on the purchase of vehicles on behalf of Non-General Fund services during 2024/25, the cost of which would be fully reimbursed by the relevant trading service, as detailed within Appendix 1 to the report by the Corporate Director for Neighbourhood Services and Infrastructure.

The Sub-committee resolved, in terms of delegated powers:

6.3. That the Plant and Vehicle Replacement Programmes for 2024/25 and 2025/26, together with the indicative programme for 2026/27, attached as Appendix 1 to this Minute, be approved.

6.4. That powers be delegated to the Corporate Director for Neighbourhood Services and Infrastructure, in consultation with the Head of Finance, to adjust the programmes, referred to at paragraph 6.3 above, as variations arose and in order to maximise use of the annual capital allocations.

7. Site at Garson Industrial Estate, Stromness

Under section 50A(4) of the Local Government (Scotland) Act 1973, the public had been excluded from the meeting for this item on the grounds that it involved the disclosure of exempt information as defined in paragraph 9 of Part 1 of Schedule 7A of the Act.

After consideration of a joint report by the Corporate Director for Neighbourhood Services and Infrastructure and the Corporate Director for Enterprise and Sustainable Regeneration, copies of which had been circulated, and after hearing a report from the Service Manager (Estates), the Sub-committee:

Resolved, in terms of delegated powers, what action should be taken with regard to a site at Garson Industrial Estate, Stromness.

The above constitutes the summary of the Minute in terms of the Local Government (Scotland) Act 1973 section 50C(2) as amended by the Local Government (Access to Information) Act 1985.

8. Conclusion of Meeting

At 10:24 the Chair declared the meeting concluded.

Signed: H N Woodbridge.

Appendix 1.

Plant and Vehicle Replacement Programmes

Pages 1971 to 1975.

Resolved that, under section 50A(4) of the Local Government (Scotland) Act 1973, the public were excluded from the meeting for this item on the grounds that it involved the disclosure of exempt information as defined in paragraph 8 of Part I of Schedule 7A of the Act.

This constitutes a summary of the Appendix in terms of the Local Government (Scotland) Act 1973 section 50C(2) as amended by the Local Government (Access to Information) Act 1985.

Local Government (Scotland) Act 1973 – Schedule 7A

Access to Information: Descriptions of Exempt Information

Paragraph 8. The amount of any expenditure proposed to be incurred by the authority under any particular contract for the acquisition of property or the supply of goods or services.