

Minute

Policy and Resources Committee

Tuesday, 18 February 2020, 10:30.

Council Chamber, Council Offices, School Place, Kirkwall.



Present

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

Clerk

- John W Mundell, Interim Chief Executive.

In Attendance

- Gavin Barr, Executive Director of Development and Infrastructure.
- Gillian Morrison, Executive Director of Corporate Services.
- Sally Shaw, Chief Officer/Executive Director, Orkney Health and Care.
- James Wylie, Executive Director of Education, Leisure and Housing.
- Gareth Waterson, Head of Finance.
- Brian Archibald, Head of Marine Services, Engineering and Transportation (for Items 1 to 3).
- Gavin Mitchell, Head of Legal Services.
- Alex Rodwell, Senior Project Officer, Change Team.
- Hazel Flett, Senior Committees Officer.

Observing

- Hayley Green, Head of IT and Facilities.
- Andrew Groundwater, Head of HR and Performance.
- Darren Richardson, Head of Infrastructure and Strategic Projects (for Items 1 to 5).
- Ian Rushbrook, Capital Programme Manager (for Items 1 to 3).

Apology

- Councillor Norman R Craigie.

Declaration of Interest

- Councillor Graham L Sinclair – Item 7.

Chair

- Councillor James W Stockan.

1. Disclosure of Exempt Information

The Committee noted the proposal that the public be excluded from the meeting for consideration of Items 14 to 16, 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. Revenue Expenditure Monitoring

2.1. Policy and Resources

After consideration of a joint report by the Chief Executive, the Executive Director of Corporate Services, the Executive Director of Development and Infrastructure and the Head of Finance, copies of which had been circulated, the Committee:

Noted:

2.1.1. The revenue financial summary statement in respect of the undernoted services for the period 1 April to 31 December 2019, attached as Annex 1 to the joint report by the Chief Executive, the Executive Director of Corporate Services, the Executive Director of Development and Infrastructure and the Head of Finance, indicating an underspend position of £991,100:

- Central Administration.
- Law Order and Protective Services.
- Other Services.

2.1.2. The revenue financial detail by Service Area statement for the period 1 April to 31 December 2019, attached as Annex 2 to the joint report by the Chief Executive, the Executive Director of Corporate Services, the Executive Director of Development and Infrastructure and the Head of Finance.

2.1.3. 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 joint report by the Chief Executive, the Executive Director of Corporate Services, the Executive Director of Development and Infrastructure and the Head of Finance.

2.2. Summary

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

Noted:

2.2.1. The summary revenue expenditure statement for the period 1 April to 31 December 2019, attached as Annex 1 to the report by the Head of Finance, indicating the following:

- A total General Fund underspend of £1,259,900.
- A surplus in Sources of Funding of £105,100.
- A net Non-General Fund surplus of £8,349,700.

2.2.2. The financial detail across individual Sources of Funding for the period 1 April to 31 December 2019, including significant variances identified as Priority Actions, attached as Annex 2 to the report by the Head of Finance.

2.2.3. 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.

3. Capital Expenditure Monitoring

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

Noted:

3.1. The summary financial position, as at 31 December 2019, 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 2019 of £12,473,000.
- Revised budget of £26,300,000, as a result of reprofiling the capital programmes in order to reflect slippage and current timescales for completion of individual projects.
- Probable outturn as at 31 March 2020 of £23,601,000.

The Committee scrutinised:

3.2. The detailed analysis of capital expenditure, together with project updates in respect of the General Fund and the Non-General Fund capital programmes, for the period 1 April to 31 December 2019, attached as Appendix 1 to the report by the Head of Finance, and obtained assurance on progress being made with delivery of the approval capital programmes.

4. Treasury Management Strategy Statement and Annual Investment Strategy

After consideration of a report by the Head of Finance, together with an Equality Impact Assessment, copies of which had been circulated, the Committee:

Resolved to **recommend to the Council** that the Treasury Management Strategy Statement and Annual Investment Strategy, attached as Appendix 1 to this Minute, be approved for financial year 2020 to 2021, including the following specific approvals sought within the Treasury Management Strategy Statement and Annual Investment Strategy:

- The capital expenditure forecasts set out in section 2.1 to be effective as at 1 April 2020.
- The Capital Financing Requirement projections set out in section 2.2.
- The policy on repayment of loans fund advances for 2020 to 2021 being to apply the Asset Method, with all loans fund advances being repaid in equal instalments of principal with reference to the life of the asset.
- The authorised limit for external debt set out in section 3.2(b).
- The treasury indicator and limit set out in section 4.3.
- The ratio of financing costs to net revenue streams to assess the affordability of the capital investment plans for the General Fund, Scapa Flow Oil Port, Miscellaneous Piers and the Housing Revenue Account set out in section 5.1.2.
- The upper limit of 35% for the cost of capital relative to net revenue on the Housing Revenue Account, for the term of the current 5-year capital programme.
- The treasury indicators and limits to the maturity structure of borrowing set out in section 5.1.3.
- The forms of investment instrument for use as permitted investments as set out in Tables 1 and 2 in section 5.4.
- The explanations of the objectives for the types of investment instrument which the authority approved as being 'permitted' as set out in section 5.4.
- The countries in which investments may be made, which had sovereign ratings of AA- or higher, as set out in section 5.4.

5. National Audit Report

Local Government in Scotland – Financial Overview 2018/19

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

Noted:

5.1. The national audit report, Local Government in Scotland – Financial Overview 2018/19, published in December 2019 by Audit Scotland, attached as Appendix 1 to the report by the Head of Finance.

5.2. The key messages in the national audit report, a summary of which was detailed in section 4 of the report by the Head of Finance.

5.3. That references to Orkney in the national audit report generally presented the Council as being in a favourable financial position, with low levels of debt and generous levels of reserves, despite receiving a lower per head level of income than the other island authorities.

5.4. The negative comment on the Council's performance in relation to capital programme slippage at paragraph 38 of the national audit report.

6. Corporate Risk Register

After consideration of a report by the Executive Director of Corporate Services, copies of which had been circulated, the Committee:

Resolved to **recommend to the Council** that the updated Corporate Risk Register as at January 2020, attached as Appendix 2 to this Minute, be approved.

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

7. Vacancies on Committees and Sub-committees

Councillor Graham L Sinclair declared a non-financial interest in this item, in that the vacancies had arisen as a result of him wishing to reduce his commitments, and was not present during discussion thereof.

After consideration of a report by the Chief Executive, copies of which had been circulated, the Committee:

Noted:

7.1. That Councillor Graham L Sinclair had intimated a wish to reduce his commitments, including demitting his position on the following Committees and Sub-committees:

- Planning Committee and Local Review Body.
- Asset Management Sub-committee.
- Human Resources Sub-committee and Staff Appeals Sub-committee.
- Investments Sub-committee and Pension Fund Sub-committee.

7.2. That, in terms of the constitutional arrangements of the Planning Committee, Councillor Stephen G Clackson, being the third member of the North Isles electoral ward, should fill the vacancy created by Councillor Sinclair's resignation.

7.3. The options available for filling the vacancy, summarised as follows, should Councillor Clackson decline the appointment to the Planning Committee:

- Option 1 – amend the constitutional arrangements to “at least one member” from each electoral ward and make an appointment, noting the implications for the three 3 member wards.
- Option 2 – make no appointment, thereby reducing membership of the Planning Committee to 11 members for the period up to May 2022.

7.4. That, as membership of the Local Review Body was the same as the Planning Committee, whoever was appointed to the vacancy on the Planning Committee would also serve on the Local Review Body.

7.5. That, should no appointment be made to the Planning Committee, the Local Review Body would also be reduced to 11 members for the period up to May 2022.

7.6. That appointments made to fill the vacancies on the various Sub-committees would last for the remainder of the term of this Council, namely until May 2022.

On the motion of Councillor Barbara Foulkes, seconded by Councillor John A R Scott, the Committee resolved to **recommend to the Council**:

7.7. That, as Councillor Stephen G Clackson, being the third member of the North Isles electoral ward, had intimated his wish to decline the appointment, no appointment be made to the vacant positions on the Planning Committee and the Local Review Body, thereby reducing membership of both Committees to 11 members for the period up to May 2022.

The Committee resolved, in terms of delegated powers:

7.8. That the following appointments be made to the vacancies on the undernoted sub-committees:

- Asset Management Sub-committee – Councillor Andrew Drever.
- Human Resources Sub-committee and Staff Appeals Sub-committee – Councillor Alexander G Cowie.
- Investments Sub-committee and Pension Fund Sub-committee – Councillor Barbara Foulkes.

8. Climate Change

After consideration of a joint report by the Chief Executive and the Executive Director of Development and Infrastructure, copies of which had been circulated, the Committee:

Noted:

8.1. That the Climate Change (Emissions Reduction Targets)(Scotland) Act 2019 was enacted in October 2019 committing Scotland to a target of net-zero emissions of all greenhouse gases by 2045.

8.2. The current project activity, outlined in section 5 of the joint report by the Chief Executive and the Executive Director of Development and Infrastructure, which was underway and would contribute to a carbon neutral Orkney.

8.3. The current actions in the Council Delivery Plan, outlined in section 6 of the joint report by the Chief Executive and the Executive Director of Development and Infrastructure, which would also contribute positively to mitigating or adapting the impacts of climate change and the opportunity, through the impending mid-term review of the Council Plan, to embed climate change as a new Council priority with associated actions.

8.4. The scale of the tasks associated with development, implementation and monitoring of effective and target orientated climate change actions, as detailed in section 7 of the joint report by the Chief Executive and the Executive Director of Development and Infrastructure.

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

8.5. That the Chief Executive should give further consideration to the governance required to deliver the Council's response to climate change legislation and thereafter submit a report to the Committee by June 2020.

Councillor James W Stockan, seconded by Councillor W Leslie Manson, moved that:

- Notwithstanding Council policy of a moratorium on staff establishment increases, a post of Climate Change Project Officer, G10, be established, initially for a period of up to two years, to co-ordinate all climate change related policy and project work across the full range of Council services.
- All costs associated with the post of Climate Change Project Officer, estimated at £70,000 per annum, be met from the Crown Estate net revenue allocation, in the event that no other specific Government funding was received by the Council in respect of climate change duties.

Councillor Duncan A Tullock, seconded by Councillor David Dawson, moved an amendment that the Council should not establish a post of Climate Change Project Officer.

The result of a recorded vote was as follows:

For the Amendment:

Councillors David Dawson, Andrew Drever, Barbara Foulkes, John A R Scott, Magnus O Thomson, Owen Tierney and Duncan A Tullock (7).

For the Motion:

Councillors Alexander G Cowie, Robin W Crichton, Steven B Heddle, J Harvey Johnston, Rachael A King, W Leslie Manson, John T Richards, Stephen Sankey, Gwenda M Shearer, Graham L Sinclair, James W Stockan and Kevin F Woodbridge (12).

The motion was therefore carried.

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

8.6. That, notwithstanding Council policy of a moratorium on staff establishment increases, a post of Climate Change Project Officer, G10, be established, initially for a period of up to two years, to co-ordinate all climate change related policy and project work across the full range of Council services.

8.7. That all costs associated with the post of Climate Change Project Officer, estimated at £70,000 per annum, be met from the Crown Estate net revenue allocation, in the event that no other specific Government funding was received by the Council in respect of climate change duties.

9. House Build Programme

The Committee noted that this item had been withdrawn.

10. Police and Fire Sub-committee

After consideration of the draft Minute of the Meeting of the Police and Fire Sub-committee held on 19 November 2019, copies of which had been circulated, the Committee:

Resolved, on the motion of Councillor Andrew Drever, seconded by Councillor David Dawson, to approve the Minute of the Meeting of the Police and Fire Sub-committee held on 19 November 2019, attached as Appendix 3 to this Minute, as a true record.

11. 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 27 November 2019, copies of which had been circulated, the Committee:

Resolved, on the motion of Councillor W Leslie Manson, seconded by Councillor James W Stockan, to approve the Minute of the Meeting of the Pension Fund Sub-committee, together with the Pension Board, held on 27 November 2019, attached as Appendix 4 to this Minute, as a true record.

12. Investments Sub-committee

After consideration of the draft Minute of the Meeting of the Investments Sub-committee held on 27 November 2019, copies of which had been circulated, the Committee:

Resolved, on the motion of Councillor W Leslie Manson, seconded by Councillor James W Stockan, to approve the Minute of the Meeting of the Investments Sub-committee held on 27 November 2019, attached as Appendix 5 to this Minute, as a true record.

13. Exclusion of Public

On the motion of Councillor James W Stockan, seconded by Councillor W Leslie Manson, the 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.

Councillors David Dawson and Owen Tierney left the meeting at this point.

14. Asset Management Sub-committee

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 paragraphs 2, 6 and 9 of Part 1 of Schedule 7A of the Act.

After consideration of the draft Minute of the Meeting of the Asset Management Sub-committee held on 28 January 2020, copies of which had been circulated, the Committee:

Resolved, on the motion of Councillor W Leslie Manson, seconded by Councillor James W Stockan, to approve the Minute of the Meeting of the Asset Management Sub-committee held on 28 January 2020, attached as Appendix 6 to this Minute, as a true record.

Councillors David Dawson and Owen Tierney rejoined the meeting at this point.

15. Change 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 1 of Part 1 of Schedule 7A of the Act.

After consideration of a report by the Chief Executive, copies of which had been circulated, and after hearing a report from the Head of Finance, the Committee:

Noted:

15.1. That, on 26 November 2013, the Policy and Resources Committee recommended establishment of a Change Management Programme to support the Council in identifying options for change and thereafter supporting implementation of agreed changes, including staff development.

15.2. That a review of the Change Programme and the Change Team had been undertaken, with the conclusion and recommendations for future direction detailed in Appendix 1 to the report by the Chief Executive.

15.3. The proposal that the Change Team be retitled the Improvement Support Team, with the following posts established on a permanent basis:

- 1 full-time equivalent post of Programme Manager.
- 1.5 full-time equivalent posts of Project Officer.
- 1 full-time equivalent post of Systems Developer and Business Intelligence Analyst.

15.4. That, as the budget associated with the Change Team had now been baselined, the costs associated with the permanent posts, proposed at paragraph 15.3 above, could be met from within existing resources.

15.5. That, should the staffing structure, proposed at paragraph 15.3 above, be approved, it was further proposed that powers be delegated to the Chief Executive, in consultation with the Head of HR and Performance, to approve individual job descriptions, which would confirm job titles and pay grades, following completion of the job evaluation process.

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

15.6. That the undernoted Change Programme projects be delivered by services:

- Staff and Workforce Planning (CR03).
- Leisure and Cultural Trusts (CR05a).
- Single Authority Model (CR05b).
- Partnership Arrangements (CR05d).
- Orkney's Learning Landscape (CR07).

15.7. That the undernoted Change Programme projects be formally closed, as they were either now 'business as usual' activities or no further action was required:

- Property Asset Management (CR01).
- Fees and Charges (CR04).
- Social Care Delivery Model (CR05c).
- Harbour Authority activities (CR05e).
- Outwith Orkney Travel (P0001).

15.8. That, as each Change Programme project had its own governance, including reporting through the relevant service Committee, the Change Forum be disestablished.

15.9. That the undernoted projects be approved as priorities for the Change Team:

- Purchasing and Procurement (CR02).
- Modernising IT (CR06) (including system development projects):
 - Customer Service Platform (P0023).
 - HR System Development (P0027).
 - Integra System Development (P0176).
- Ground Maintenance (support and co-ordination of stage 1) (P0311).
- Electronic Document and Records Management System (EDRMS) (P0314).
- Strategic Data Warehouse (stage 1 related to Customer Service Platform project) (P0305).
- Internal communications review (P0310).
- Controls for Household Waste Recycling Centres (P0309).
- Roads, Waste and Environmental Services efficiencies (P0317):
 - Discovery (review of current New Horizon system).
 - Implementation (New Horizon replacement, dependant on review findings).

15.10. That the Change Team be renamed the Improvement Support Team, with the purpose to support services in the delivery of projects, improvements and initiatives; be they incremental or transformational in nature.

15.11. That the Improvement Support Team be established on a permanent basis, initially comprising the following posts:

- 1 full-time equivalent post of Programme Manager.
- 1.5 full-time equivalent posts of Project Officer.
- 1 full-time equivalent post of Systems Developer and Business Intelligence Analyst.

15.12. That powers be delegated to the Chief Executive, in consultation with the Head of HR and Performance, to approve individual job descriptions, which would confirm job titles and pay grades, following completion of the job evaluation process.

16. Staff Appeals Sub-committee

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 1 of Part 1 of Schedule 7A of the Act.

After consideration of the draft Minute of the Meeting of the Staff Appeals Sub-committee held on 22 November 2019, copies of which had been circulated, the Committee:

Resolved, on the motion of Councillor W Leslie Manson, seconded by Councillor James W Stockan, to approve the Minute of the Meeting of the Staff Appeals Sub-committee held on 22 November 2019, attached as Appendix 7 to this Minute, as a true record.

17. Conclusion of Meeting

At 13:10 the Chair declared the meeting concluded.

Signed: James W Stockan.

Treasury Management Strategy Statement and Annual Investment Strategy

Orkney Islands Council
2020/2021

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1. Introduction

1.1. Background

The Council is required to operate a balanced 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 Council'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 Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council 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 Council 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.

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

CIPFA defines treasury management as:

"The management of the local authority's borrowing, investments and cash flows, 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."

Revised reporting is required for the 2020/21 reporting cycle due to revisions of the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes include the introduction of a capital strategy, to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity if that is going to be undertaken. The capital strategy is being reported separately.

1.2. Reporting Requirements

1.2.1. Capital Strategy

The CIPFA 2017 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 this capital strategy is to ensure that all elected members on the full council 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 Council 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 for the statutory repayment of debt, (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.
- A permitted 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 Council 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 above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Policy and Resources Committee.

1.3. Treasury Management Strategy for 2020/21

The strategy for 2020/21 covers two main areas:

- Capital issues:
 - The capital expenditure plans and the associated prudential indicators.
 - The loans fund repayment policy.
- Treasury management issues:
 - The current treasury position.
 - Treasury indicators which limit the treasury risk and activities of the Council.
 - Prospects for interest rates.
 - The borrowing strategy.
 - Policy on borrowing in advance of need.
 - Debt rescheduling.
 - The investment strategy.
 - Creditworthiness policy.
 - 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.

1.4. Training

The CIPFA 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. The members have undertaken training during 2019/2020 in respect of developing a long-term capital investment strategy, ethical investments, investment strategy and treasury management. Further training will be arranged as required.

The training needs of treasury management officers are periodically reviewed.

1.5. Treasury Management Consultants

The Council uses Link Asset Services, Treasury solutions as its external treasury management advisors.

The Council 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 in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed, documented and subjected to regular review.

2. The Capital Prudential Indicators 2020/21 – 2022/23

The Council'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.

2.1. Capital Expenditure

This prudential indicator is a summary of the Council'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 effective as at 1 April 2020:

Capital expenditure £m	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Non-HRA	14.863	24.885	24.704	12.661	5.266
HRA	0.220	1.415	2.530	0.084	0.000
Total	15.083	26.300	27.234	12.745	5.266

Other long-term liabilities - the above financing need excludes other long-term liabilities, such as PFI and leasing arrangements that already include borrowing instruments.

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	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Capital receipts	0.871	0.305	0.150	0.150	0.150
Capital grants	8.924	12.336	8.258	6.073	6.030
Capital reserves	0.325	0.662	8.713	0.444	0.000
Revenue	1.773	0.709	0.866	0.569	0.569
Net financing need for the year	3.190	12.288	9.247	5.509	(1.483)

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

The second prudential indicator is the Council'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 Council'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 Council's borrowing requirement, these types of scheme include a borrowing facility by the PFI, PPP lease provider and so the Council is not required to separately borrow for these schemes. The Council currently has no such schemes within the CFR.

The Council is asked to approve the CFR projections below:

£m	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Capital Financing Requirement					
CFR – non housing	33.648	44.698	50.861	54.296	50.658
CFR – housing	12.607	12.204	13.097	12.624	12.065
Total CFR	46.255	56.902	63.958	66.920	62.723
Movement in CFR	(1.303)	10.647	7.056	2.962	(4.197)

Movement in CFR represented by					
Net financing need for the year (above)	3.190	12.288	9.247	5.509	(1.483)
Less loan fund repayments and other financing movements	(4.493)	(1.641)	(2.191)	(2.547)	(2.714)
Movement in CFR	(1.303)	10.647	7.056	2.962	(4.197)

The capital expenditure figures shown in 2.1 and the details above demonstrate the scope of this activity and, by approving these figures, consider the scale proportionate to the Authority's remaining activity.

2.3. 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	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Strategic Reserve Fund	240.959	240.768	243.751	247.272	249.912
Other Fund balances/reserves	20.577	20.600	20.600	20.600	20.600
Capital receipts	2.555	2.600	2.600	2.600	2.600
Provisions	0.000	0.000	0.000	0.000	0.000
Other	9.739	9.800	9.800	9.800	9.800
Total core funds	273.830	273.768	276.751	280.272	282.912
Working capital*	(5.238)	(5.300)	(5.300)	(5.300)	(5.300)
Under/over borrowing**	(16.084)	(31.759)	(28.844)	(31.835)	(32.667)
Expected investments	252.508	236.709	242.607	243.137	244.945

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

2.4. Statutory Repayment of Loans Fund Advances

The Council 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 Council 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 Councils so long as a prudent provision is made each year. The Council is recommended to approve the following policy on the repayment of loans fund advances for 2020/21:

For all loan 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 the asset.

3. Borrowing

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council'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 2019 and the position as at 31 December 2019 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
	31.3.19	31.3.19	31.12.19	31.12.19
Treasury investments	£000	%	£000	%
banks	13,442	5%	12,267	4%
building societies - unrated	0	0%	0	0%
building societies - rated	0	0%	0	0%
local authorities	10,000	4%	7,000	2%
DMADF (H.M.Treasury)	0	0%	0	0%
money market funds	2,700	1%	3,500	1%
certificates of deposit	8,000	3%	2,000	1%
Total managed in house	34,142	12%	24,767	8%
property investments	19,803	7%	21,427	7%
local investments	6,122	2%	6,622	2%
Strategic Reserve Fund managed in house	25,925	9%	28,049	10%
bond funds	49,667	18%	53,032	18%
diversified growth fund	38,522	14%	40,437	14%
equity fund	91,548	32%	100,323	34%
credit strategies fund	20,628	7%	21,379	7%
property funds	22,402	8%	22,489	8%
global private debt fund	0	0%	2,700	1%
Strategic Reserve Fund managed externally	222,767	79%	240,360	82%
Total treasury investments	282,834	100%	293,176	100%
Treasury external borrowing				
local authorities	0	0%	0	0%
PWLB	30,000	99%	25,000	99%
other	171	1%	143	1%
LOBOs	0	0%	0	0%
Total external borrowing	30,171	100%	25,143	100%
Net treasury investments / (borrowing)	252,663		268,033	

The Council'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	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
External Debt					
Debt at 1 April	30.171	30.171	25.143	35.114	35.085
Expected change in Debt	(0.028)	(5.028)	(0.029)	(0.029)	(5.029)
Other long-term liabilities (OLTL)	0.000	0.000	0.000	0.000	0.000
Expected change in OLTL	0.000	0.000	10.000	0.000	0.000
Actual gross debt at 31 March	30.171	25.143	35.114	35.085	30.056
The Capital Financing Requirement	46.255	56.902	63.958	66.920	62.723
Under / (over) borrowing	16.084	31.759	28.844	31.835	32.667

Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council 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 2020/21 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 Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account 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	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Debt	60.000	65.000	65.000	65.000
Other long term liabilities	0.000	0.000	0.000	0.000
Total	60.000	65.000	65.000	65.000

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.

- a) The authorised limits for external debt for the current year and two subsequent years are the legislative limits determined under Regulation 6(1) of the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016.
- b) The Council is asked to approve the following authorised limit:

Authorised limit £m	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Debt	75.000	75.000	75.000	75.000
Other long term liabilities	0.000	0.000	0.000	0.000
Total	75.000	75.000	75.000	75.000

3.3. Prospects for Interest Rates

The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives our central view.

Link Asset Services Interest Rate View														
	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.30	2.40	2.40	2.50	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.10	3.20	3.20
10yr PWLB Rate	2.60	2.70	2.70	2.70	2.80	2.90	3.00	3.10	3.20	3.20	3.30	3.30	3.40	3.50
25yr PWLB Rate	3.20	3.30	3.40	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00	4.10	4.10
50yr PWLB Rate	3.10	3.20	3.30	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90	4.00	4.00

The above forecasts have been based on an assumption that there is an agreed deal on Brexit, including agreement on the terms of trade between the UK and EU, at some point in time. The result of the general election has removed much uncertainty around this major assumption. However, it does not remove uncertainty around whether agreement can be reached with the EU on a trade deal within the short time to December 2020, as the prime minister has pledged.

It has been little surprise that the Monetary Policy Committee (MPC) has left Bank Rate unchanged at 0.75% so far in 2019 due to the ongoing uncertainty over Brexit and the outcome of the general election. In its meeting on 7 November, the MPC became more dovish due to increased concerns over the outlook for the domestic economy if Brexit uncertainties were to become more entrenched, and for weak global economic growth: if those uncertainties were to materialise, then the MPC were likely to cut Bank Rate. However, if they were both to dissipate, then rates would need to rise at a “gradual pace and to a limited extent”.

Brexit uncertainty has had a dampening effect on UK GDP growth in 2019, especially around mid-year. There is still some residual risk that the MPC could cut Bank Rate as the UK economy is still likely to only grow weakly in 2020 due to continuing uncertainty over whether there could effectively be a no deal Brexit in December 2020 if agreement on a trade deal is not reached with the EU. Until that major uncertainty is removed, or the period for agreeing a deal is extended, it is unlikely that the MPC would raise Bank Rate.

Bond yields / PWLB rates. There has been much speculation during 2019 that the bond market has gone into a bubble, as evidenced by high bond prices and remarkably low yields. However, given the context that there have been heightened expectations that the US was heading for a recession in 2020, and a general background of a downturn in world economic growth, together with inflation generally at low levels in most countries and expected to remain subdued, conditions are ripe for low bond yields. While inflation targeting by the major central banks has been successful over the last thirty years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last thirty years. We have therefore seen over the last year, many bond yields up to ten years in the Eurozone actually turn negative. In addition, there has, at times, been an inversion of bond yields in the US whereby ten-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession. The other side of this coin is that bond prices are elevated, as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities. However, stock markets are also currently at high levels as some investors have focused on chasing returns in the context of dismal ultra-low interest rates on cash deposits.

During the first half of 2019-20 to 30 September, gilt yields plunged and caused a near halving of longer term PWLB rates to completely unprecedented historic low levels. (See paragraph 3.7 for comments on the increase in the PWLB rates margin over gilt yields of 100bps introduced on 9.10.19.) There is though, an expectation that financial markets have gone too far in their fears about the degree of the downturn in US and world growth. If, as expected, the US only suffers a mild downturn in growth, bond markets in the US are likely to sell off and that would be expected to put upward pressure on bond yields, not only in the US, but also in the UK due to a correlation between US treasuries and UK gilts; at various times this correlation has been strong but at other times weak. However, forecasting the timing of this, and how strong the correlation is likely to be, is very difficult to forecast with any degree of confidence. Changes in UK Bank Rate will also impact on gilt yields.

One potential danger that may be lurking in investor minds is that Japan has become mired in a twenty-year bog of failing to get economic growth and inflation up off the floor, despite a combination of massive monetary and fiscal stimulus by both the central bank and government. Investors could be fretting that this condition might become contagious to other western economies.

Another danger is that unconventional monetary policy post 2008, (ultra-low interest rates plus quantitative easing), may end up doing more harm than good through prolonged use. Low interest rates have encouraged a debt-fuelled boom that now makes it harder for central banks to raise interest rates. Negative interest rates could damage the profitability of commercial banks and so impair their ability to lend and / or push them into riskier lending. Banks could also end up holding large amounts of their government's bonds and so create a potential doom loop. (A doom loop would occur where the credit rating of the debt of a nation was downgraded which would cause bond prices to fall, causing losses on debt portfolios held by banks and insurers, so reducing their capital and forcing them to sell bonds – which, in turn, would cause further falls in their prices etc.). In addition, the financial viability of pension funds could be damaged by low yields on holdings of bonds.

The overall longer run future trend is for gilt yields, and consequently PWLB rates, to rise, albeit gently. From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment. Such volatility could occur at any time during the forecast period.

In addition, PWLB rates are subject to ad hoc decisions by **H.M. Treasury** to change the margin over gilt yields charged in PWLB rates: such changes could be up or down. It is not clear that if gilt yields were to rise back up again by over 100bps within the next year or so, whether H M Treasury would remove the extra 100 bps margin implemented on 9.10.19.

Economic and interest rate forecasting remains difficult with so many influences weighing on UK gilt yields and PWLB rates. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

Investment and Borrowing Rates

- Investment returns are likely to remain low during 2020/21 with little increase in the following two years. However, if major progress was made with an agreed Brexit, then there is upside potential for earnings.
- Borrowing interest rates were on a major falling trend during the first half of 2019-20 but then jumped up by 100 bps on 9.10.19. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years. However, the unexpected increase of 100 bps in PWLB rates requires a major rethink of local authority treasury management strategy and risk management. Now that the gap between longer term borrowing rates and investment rates has materially widened, and in the long term Bank Rate is not expected to rise above 2.5%.

- While this authority will not be able to avoid borrowing to finance new capital expenditure, to replace maturing debt and the rundown of reserves, there will be a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new short or medium-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

3.4 Borrowing Strategy

The Council 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 Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

Against this background and the risks within the economic forecast, caution will be adopted with the 2020/21 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, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then borrowing will be postponed.
- If it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity, or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, 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.

The Council traditionally relied on its ability to finance its capital spending programmes through the use of internal borrowings. However, in approving the development of a major Schools Investment Programme in 2008 at an estimated capital cost of £58 million, and thereafter a significant Social Housing build programme, it was acknowledged that this approach would need to change. In particular, as interest rates were originally predicted to start to increase in 2010, the Council increased external borrowings to £40M to fund at least part of this sizable programme of capital works. At that time, this was regarded as an effective way for the Council to manage the risk of interest rate movements over the life of the programme, which could otherwise have the potential to adversely impact on the affordability of this programme going forward including future Council budgets. This also applied in the case of the house build programme where any increase in interest rates would impact on the affordability of the overall development, which relies on the ability of housing tenants to support the loan charges in the form of tenant rent increases.

Whilst the subsequent decision of Scottish Government to change the funding structure for the Schools Investment Programme mid 2010 effectively reduced the Council's borrowing requirements for future years, the terms of the borrowings were still regarded as favourable at that time such that the Council was well placed to benefit from savings on loan charges in the longer term.

3.5. Policy on Borrowing in Advance of Need

The Council 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 Council 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.
- 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. Debt Rescheduling

As short-term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

- Generation of cash savings and/or discounted cash flow savings.
- Helping to fulfil the treasury strategy.
- Enhancing the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

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

3.7. Municipal Bond Agency

It is possible that the Municipal Bond Agency will be offering loans to local authorities in the future. The Agency hopes that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). This Authority may make use of this new source of borrowing as and when appropriate.

4. Annual Investment Strategy

4.1. Investment Policy

The Council's investment policy implements the requirements of the Local Government Investments (Scotland) Regulations 2010, (and accompanying Finance Circular 5/2010), and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017, ("the CIPFA TM Code").

The above regulations and guidance place a high priority on the management of risk. The Council's investment priorities will be security first, liquidity second and then return. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means:

- 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.
- **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 Council 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.
- **Other information sources** used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
- This authority has defined the list of **types of investment instruments** that are permitted investments authorised for use in appendix 5.4. Appendix 5.5 expands on the risks involved in each type of investment and the mitigating controls.
- **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 4.2.
- **Transaction limits** are set for each type of investment in appendix 5.4.
- This authority will set a limit for the amount of its investments which are invested for **longer than 365 days**, (see paragraph 4.4).
- Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 4.3).
- 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.
- All investments will be denominated in **sterling**.

- As a result of the change in accounting standards for 2019/20 under **IFRS 9**, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. With much of the Council's investment instruments held in the Strategic Reserve Fund, as part of the Harbour Fund, it is not anticipated that the impact of IFRS 9 on the General Fund will be significant.
- 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.

Changes in risk management policy from last year.

Following a review of the investment strategy work is ongoing to achieve further diversification away from equity investments, into more illiquid longer-term alternative asset classes including illiquid debt and secured income/finance.

4.2. Creditworthiness Policy

This Council applies the creditworthiness service provided by Link Asset Services. 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:

- Credit watches and credit outlooks from credit rating agencies.
- CDS spreads to give early warning of likely changes in credit ratings.
- Sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council 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 Asset Services' creditworthiness service uses a wider array of information 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 Council use will be a Short Term rating (Fitch or equivalent) 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 Council is alerted to changes to ratings of all three agencies through its use of our creditworthiness service.

- If a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- In addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.
- Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on sovereign support for banks and the credit ratings of that supporting government.

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

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 5.5.

UK banks – ring fencing

The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as “ring-fencing”. Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and “riskier” activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity’s core activities are not adversely affected by the acts or omissions of other members of its group.

While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

4.3. Country and Sector 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. 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.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.
- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

Investment returns expectations.

On the assumption that the UK and EU agree a Brexit deal including the terms of trade by the end of 2020 or soon after, then Bank Rate is forecast to increase only slowly over the next few years to reach 1.00% by quarter 1 2023. Bank Rate forecasts for financial year ends (March) are:

Q1 2021	0.75%
Q1 2022	1.00%
Q1 2023	1.00%

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:

2019/20	0.75%
2020/21	0.75%
2021/22	1.00%
2022/23	1.25%
2023/24	1.50%
2024/25	1.75%
Later years	2.25%

- The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over Brexit, as well as a softening global economic picture.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.
- In the event that a Brexit deal is agreed with the EU and approved by Parliament, the balance of risks to economic growth and to increases in Bank Rate is likely to change to the upside.

Investment treasury indicator and limit - total principal funds invested for greater than 365 days. These limits are set with regard to the Council'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 Council is asked to approve the following treasury indicator and limit:

Upper limit for principal sums invested for longer than 365 days			
£m	2020/21	2021/22	2022/23
Principal sums invested for longer than 365 days	£m 35	£m 35	£m 35
Current investments as at 31 December 2019 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 has resulted in the adoption of an income focused strategy in 2019. Both these changes in strategy are reflected in the forecast for the next three years as follows:

2019/2020.	5.60%.
2020/2021.	5.60%.
2021/2022.	5.60%.

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 Risk Benchmarking

This Council 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	90-day LIBOR	Outperform benchmark
Bonds	UK Corporate Bonds - ML Sterling Non-Gilts All Stocks UNPO Index	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	IPD All Balanced Property Fund Index Weighted Average	Outperform benchmark over a rolling 3 year period
Diversified Growth Fund	90-day LIBOR	Benchmark over a rolling 3 year period +3.0% p.a.
High Yield Debt Strategies	90-day LIBOR	Benchmark over a rolling 3 year period +5.0% p.a.
Secured Income Fund	90-day LIBOR	Benchmark over a rolling 3 year period +5.0%
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 Council will report on its investment activity as part of its Annual Treasury Report.

4.7. External Fund Managers

As at 31 March 2020, it is estimated that £240M of the Council's funds will be externally managed on a discretionary basis by externally appointed fund managers.

A review of the investment strategy for the Councils strategic reserve fund was undertaken by the Investments Sub-committee in 2016. While the review concluded that the existing strategy had been effective in adding value, and 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 Investment 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 will be transferred to a specialist passive manager. These diversifications will be matched by a proportionate reduction in growth assets.

The Head of Finance developed an Action Plan, in consultation with Hymans Robertson, to commence the process of implementation of 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.

The process to put the new mandates in place has now commenced and will be completed during financial year 2020/21.

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

The minimum credit criteria to be used by the cash and managed fund manager(s) are set out in Table 2 of Appendix 5.3 on Permitted Investments.

5. Appendices

- 5.1. Prudential and treasury indicators.
- 5.2. Interest rate forecasts.
- 5.3. Economic background.
- 5.4. Treasury management practice TMP1 –permitted investments.
- 5.5. 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 2020/2021 – 2022/2023

The Council'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	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Social Care	4.016	2.938	9.682	5.524	0.218
Roads and Transportation	2.051	3.740	0.977	0.950	0.950
Education and Leisure	0.255	1.034	3.585	1.891	0.058
Marine Services	3.897	10.723	5.262	0.450	0.450
Other Services	4.644	6.450	5.198	3.846	3.590
Non-HRA	14.863	24.885	24.704	12.661	5.266
HRA	0.220	1.415	2.530	0.084	0.000
Total	15.083	26.300	27.234	12.745	5.266

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 Council's overall finances. The Council 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.

%	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
General Fund	5.1%	1.3%	1.5%	1.8%	2.0%
Scapa Flow Oil Port	2.8%	7.0%	17.8%	22.1%	21.6%
Miscellaneous Piers	21.8%	16.5%	18.4%	14.2%	14.0%
Housing Revenue Account	31.9%	27.4%	26.3%	26.9%	26.4%

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 Council'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

£	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
HRA debt £m	12.607	12.204	13.097	12.624	12.065
HRA revenues £m	3.721	3.810	4.019	4.099	4.099
Ratio of debt to revenues %	29.51	31.22	30.69	32.47	33.97

£	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
HRA debt £m	12.607	12.204	13.097	12.624	12.065
Number of HRA dwellings	949	948	948	980	980
Debt per dwelling £	13,284	12,873	13,815	12,882	12,311

5.1.3.. Maturity structure of borrowing

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

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

Maturity structure of fixed interest rate borrowing 2020/21		
	Lower	Upper
Under 12 months	0%	0%
12 months to 2 years	15%	20%
2 years to 5 years	0%	0%
5 years to 10 years	0%	0%
10 years and above	80%	85%

5.1.4. Control of interest rate exposure

Please see paragraphs 3.3, 3.4 and 4.4.

5.2. Interest Rate Forecasts 2020-2023

PWLB rates and forecast shown below have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012.

Link Asset Services Interest Rate View													
	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.80	0.80	0.90	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.90	1.00	1.00	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	0.90	0.90	1.00	1.10	1.20	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.30	2.30	2.40	2.40	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.00	3.10
10yr PWLB Rate	2.50	2.50	2.60	2.60	2.70	2.80	2.90	3.00	3.10	3.10	3.20	3.20	3.30
25yr PWLB Rate	3.00	3.00	3.10	3.20	3.30	3.40	3.50	3.60	3.70	3.80	3.80	3.90	3.90
50yr PWLB Rate	2.90	2.90	3.00	3.10	3.20	3.30	3.40	3.50	3.60	3.70	3.70	3.80	3.80
Bank Rate													
Link Asset Services	0.75%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.25%
Capital Economics	0.75%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	-	-	-	-	-
5yr PWLB Rate													
Link Asset Services	2.30%	2.30%	2.40%	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%
Capital Economics	2.40%	2.50%	2.50%	2.60%	2.60%	2.80%	2.80%	2.90%	-	-	-	-	-
10yr PWLB Rate													
Link Asset Services	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%
Capital Economics	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.00%	3.10%	-	-	-	-	-
25yr PWLB Rate													
Link Asset Services	3.00%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.80%	3.80%	3.90%	3.90%
Capital Economics	3.10%	3.10%	3.20%	3.20%	3.20%	3.30%	3.30%	3.40%	-	-	-	-	-
50yr PWLB Rate													
Link Asset Services	2.90%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.70%	3.80%	3.80%
Capital Economics	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.40%	3.50%	-	-	-	-	-

5.3. Economic Background

UK. Brexit. 2019 was a year of upheaval on the political front as Theresa May resigned as Prime Minister to be replaced by Boris Johnson on a platform of the UK leaving the EU on 31 October 2019, with or without a deal. However, MPs blocked leaving on that date and the EU agreed an extension to 31 January 2020. In late October, MPs approved an outline of a Brexit deal to enable the UK to leave the EU on 31 January. The Conservative Government gained a large overall majority in the **general election** on 12 December; this ensured that the UK left the EU on 31 January. However, there will still be much uncertainty as the detail of a comprehensive trade deal will need to be negotiated by the current end of the transition period in December 2020, which the Prime Minister has pledged he will not extend. This could prove to be an unrealistically short timetable for such major negotiations that leaves open three possibilities; a partial agreement on many areas of agreement and then continuing negotiations to deal with the residual areas, the need for the target date to be put back, probably two years, or, a no deal Brexit in December 2020.

GDP growth took a big hit from both political and Brexit uncertainty during 2019; quarter three 2019 surprised on the upside by coming in at +0.4% q/q, +1.1% y/y. However, the peak of Brexit uncertainty during the final quarter appears to have suppressed quarterly growth to probably around zero. The forward-looking surveys in January have indicated that there could be a significant recovery of growth now that much uncertainty has gone. Nevertheless, economic growth may only come in at about 1% in 2020, pending the outcome of negotiations on a trade deal. Provided there is a satisfactory resolution of those negotiations, which are in both the EU's and UK's interest, then growth should strengthen further in 2021.

At its 30 January meeting, the Monetary Policy Committee held Bank Rate unchanged at 0.75%. The vote was again split 7-2, with two votes for a cut to 0.50%. The financial markets had been predicting a 50:50 chance of a rate cut at the time of the meeting. Admittedly, there had been plenty of downbeat UK economic news in December and January which showed that all the political uncertainty leading up to the general election, together with uncertainty over where Brexit would be going after the election, had depressed economic growth in quarter 4. In addition, three members of the MPC had made speeches in January which were distinctly on the dovish side, flagging up their concerns over weak growth and low inflation; as there were two other members of the MPC who voted for a rate cut in November, five would be a majority at the January MPC meeting if those three followed through on their concerns.

However, that downbeat news was backward looking; more recent economic statistics and forward-looking business surveys, have all pointed in the direction of a robust bounce in economic activity and a recovery of confidence after the decisive result of the general election removed political and immediate Brexit uncertainty. In addition, the September spending round increases in expenditure will start kicking in from April 2020, while the Budget in March is widely expected to include a substantial fiscal boost by further increases in expenditure, especially on infrastructure. The Bank of England cut its forecasts for growth from 1.2% to 0.8% for 2020, and from 1.8% to 1.4% for 2021. However, these forecasts could not include any allowance for the predicted fiscal boost in the March Budget.

Overall, the MPC clearly decided to focus on the more recent forward-looking news than the earlier downbeat news.

The quarterly Monetary Policy Report did, though, flag up that there was still a risk of a Bank Rate cut; "Policy may need to reinforce the expected recovery in UK GDP growth should the more positive signals from recent indicators of global and domestic activity not be sustained or should indicators of domestic prices remain relatively weak." Obviously, if trade negotiations with the EU failed to make satisfactory progress, this could dampen confidence and growth. On the other hand, there was also a warning in the other direction, that if growth were to pick up strongly, as suggested by recent business surveys, then "some modest tightening" of policy might be needed further ahead. It was therefore notable that the Bank had dropped its phrase that tightening would be "limited and gradual", a long-standing piece of forward guidance; this gives the MPC more room to raise Bank Rate more quickly if growth was to surge and, in turn, lead to a surge in inflation above the 2% target rate.

As for **inflation** itself, CPI has been hovering around the Bank of England's target of 2% during 2019 but fell again in both October and November to a three-year low of 1.5% and then even further to 1.3% in December. It is likely to remain close to or under 2% over the next two years and so, it does not pose any immediate concern to the MPC at the current time. However, if there was a hard or no deal Brexit, inflation could rise towards 4%, primarily because of imported inflation on the back of a weakening pound.

With regard to the **labour market**, growth in numbers employed has been quite resilient through 2019 until the three months to September, where it fell by 58,000. However, there was an encouraging pick up again in the three months to October to growth of 24,000 and then a stunning increase of 208,000 in the three months to November. The unemployment rate held steady at a 44-year low of 3.8% on the Independent Labour Organisation measure. Wage inflation has been steadily falling from a high point of 3.9% in July to 3.4% in November (3-month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 2.1%. As the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. The other message from the fall in wage growth is that employers are beginning to find it easier to hire suitable staff, indicating that supply pressure in the labour market is easing.

Coronavirus. The recent Coronavirus outbreak could cause disruption to the economies of affected nations. The Chinese economy is now very much bigger than it was at the time of the SARS outbreak in 2003 and far more integrated into world supply chains. However, a temporary dip in Chinese growth could lead to a catch up of lost production in following quarters with minimal net overall effect over a period of a year. However, no one knows quite how big an impact this virus will have around the world; hopefully, the efforts of the WHO and the Chinese authorities will ensure that the current level of infection does not multiply greatly.

USA. After growth of 2.9% y/y in 2018 fuelled by President Trump's massive easing of fiscal policy, growth has weakened in 2019. After a strong start in quarter 1 at 3.1%, (annualised rate), it fell to 2.0% in quarter 2 and then 2.1% in quarters 3 and 4. This left the rate for 2019 as a whole at 2.3%, a slowdown from 2018 but not the precursor of a recession which financial markets had been fearing earlier in the year. Forward indicators are currently indicating that growth is likely to strengthen somewhat moving forward into 2020.

The Fed finished its series of increases in rates to 2.25 – 2.50% in December 2018. In July 2019, it cut rates by 0.25% as a 'midterm adjustment'. It also ended its programme of quantitative tightening in August 2019, (reducing its holdings of treasuries etc.). It then cut rates by 0.25% again in September and by another 0.25% in its October meeting to 1.50 – 1.75%. It left rates unchanged at its December meeting. Rates were again left unchanged at its end of January meeting although it had been thought that as the yield curve on Treasuries had been close to inverting again, (with 10 year yields nearly falling below 2 year yields - this is often viewed as being a potential indicator of impending recession), that the Fed could have cut rates, especially in view of the threat posed by the coronavirus. However, it acknowledged that coronavirus was a threat of economic disruption but was not serious at the current time for the USA. In addition, the phase 1 trade deal with China is supportive of growth. The Fed though, does have an issue that despite reasonably strong growth rates, its inflation rate has stubbornly refused to rise to its preferred core inflation target of 2%; it came in at 1.6% in December. It is therefore unlikely to be raising rates in the near term. It is also committed to reviewing its approach to monetary policy by midyear 2020; this may include a move to inflation targeting becoming an average figure of 2% so as to allow more flexibility for inflation to under and over shoot.

“The NEW NORMAL.” The Fed chairman has given an overview of the current big picture of the economy by summing it up **as A NEW NORMAL OF LOW INTEREST RATES, LOW INFLATION AND PROBABLY LOWER GROWTH.** This is indeed an affliction that has mired Japan for the last two decades despite strenuous efforts to stimulate growth and inflation by copious amounts of fiscal stimulus and cutting rates to zero. China and the EU are currently facing the same difficulty to trying to get inflation and growth up. Our own MPC may well have growing concerns and one MPC member specifically warned on the potential for a low inflation trap in January.

It is also worth noting that no less than a quarter of total world sovereign debt is now yielding negative returns.

EUROZONE. Growth has been slowing from +1.8 % during 2018 to nearly half of that in 2019. Growth was +0.4% q/q in quarter 1, +0.2% q/q in quarters 2 and 3; it then fell to +0.1% in quarter 4 for a total overall growth rate of only 1.0% in 2019. Recovery from quarter 4 is expected to be slow and gradual. German GDP growth has been struggling to stay in positive territory in 2019 and grew by only 0.6% in 2019, with quarter 4 potentially being a negative number. Germany would be particularly vulnerable to a no deal Brexit depressing exports further and if President Trump imposes tariffs on EU produced cars.

The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018, which then meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by quantitative easing purchases of debt. However, the downturn in EZ growth in the second half of 2018 and in 2019, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), has prompted the ECB to take new measures to stimulate growth. At its March 2019 meeting, it said that it expected to leave interest rates at their present levels “at least through to the end of 2019”, but that was of little help to boosting growth in the near term. Consequently, it announced a **third round of TLTROs**; this provides banks with cheap borrowing every three months from September 2019 until March 2021 that means that, although they would have only a two-year maturity, the Bank was making funds available until 2023, two years later than under its previous policy. As with the last round, the new TLTROs will include an incentive to encourage bank lending, and they will be capped at 30% of a bank’s eligible loans. However, since then, the downturn in EZ and world growth has gathered momentum; at its meeting on 12 September, it cut its deposit rate further into negative territory, from -0.4% to -0.5%, and announced a **resumption of quantitative easing purchases of debt for an unlimited period**. At its October meeting it said these purchases would start in November at €20bn per month - a relatively small amount compared to the previous buying programme. It also increased the maturity of the third round of TLTROs from two to three years. However, it is doubtful whether this loosening of monetary policy will have much impact on growth and, unsurprisingly, the ECB stated that governments would need to help stimulate growth by ‘growth friendly’ fiscal policy. There have been no changes in rates or monetary policy since October. In January, the ECB warned that the economic outlook was ‘tilted to the downside’ and repeated previous requests for governments to do more to stimulate growth by increasing national spending. The new President of the ECB, Christine Lagarde who took over in December, also stated that a year long review of monetary policy, including the price stability target, would be conducted by the ECB

On the political front, Austria, Spain and Italy have been in the throes of **forming coalition governments** with some unlikely combinations of parties i.e. this raises questions around their likely endurance. The most recent results of German state elections has put further pressure on the frail German CDU/SDP coalition government and on the current leadership of the CDU.

CHINA. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and shadow banking systems. In addition, there still needs to be a greater switch from investment in industrial capacity, property construction and infrastructure to consumer goods production.

JAPAN - has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

WORLD GROWTH. Until recent years, world growth has been boosted by increasing **globalisation** i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last thirty years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. The Chinese government has targeted achieving major world positions in specific key sectors and products, especially high tech areas and production of rare earth minerals used in high tech products. It is achieving this by massive financial support, (i.e. subsidies), to state owned firms, government directions to other firms, technology theft, restrictions on market access by foreign firms and informal targets for the domestic market share of Chinese producers in the selected sectors. This is regarded as being unfair competition that is putting western firms at an unfair disadvantage or even putting some out of business. It is also regarded with suspicion on the political front as China is an authoritarian country that is not averse to using economic and military power for political advantage. The current trade war between the US and China therefore needs to be seen against that backdrop. It is, therefore, likely that we are heading into a period where there will be **a reversal of world globalisation and a decoupling of western countries** from dependence on China to supply products. This is likely to produce a backdrop in the coming years of weak global growth and so weak inflation. **Central banks are, therefore, likely to come under more pressure to support growth by looser monetary policy measures and this will militate against central banks increasing interest rates.**

The trade war between the US and China is a major concern to **financial markets** due to the synchronised general weakening of growth in the major economies of the world, compounded by fears that there could even be a recession looming up in the US, though this is probably overblown. These concerns resulted in **government bond yields** in the developed world falling significantly during 2019. If there were a major worldwide downturn in growth, central banks in most of the major economies will have limited ammunition available, in terms of monetary policy measures, when rates are already very low in most countries, (apart from the US). There are also concerns about how much distortion of financial markets has already occurred with the current levels of quantitative easing purchases of debt by central banks and the use of negative central bank rates in some countries.

INTEREST RATE FORECASTS

The interest rate forecasts provided by Link Asset Services in paragraph 3.3 are **predicated on an assumption of an agreement being reached on Brexit between the UK and the EU.** On this basis, while GDP growth is likely to be subdued in 2019 and 2020 due to all the uncertainties around Brexit depressing consumer and business confidence, an agreement on the detailed terms of a trade deal is likely to lead to a boost to the rate of growth in subsequent years. This could, in turn, increase inflationary pressures in the economy and so cause the Bank of England to resume a series of gentle increases in Bank Rate. Just how fast, and how far, those increases will occur and rise to, will be data dependent. The forecasts in this report assume a modest recovery in the rate and timing of stronger growth and in the corresponding response by the Bank in raising rates.

- In the event of an **orderly non-agreement exit in December 2020**, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall.
- If there were a **disorderly Brexit**, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. Quantitative easing could also be restarted by the Bank of England. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably relatively even due to the weight of all the uncertainties over post-Brexit trade arrangements and the impact of an expansionary government spending policy (as expected in the Budget on 11th March).
- The balance of risks to increases or decreases in Bank Rate and shorter term PWLB rates are also broadly even.

One risk that is both an upside and downside risk, is that all central banks are now working in very different economic conditions than before the 2008 financial crash as there has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could therefore either over or under do increases in central interest rates.

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

- **Post Brexit trade negotiations** – if it were to cause significant economic disruption and a major downturn in the rate of growth.
- **Bank of England** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **Eurozone sovereign debt crisis**. In 2018, Italy was a major concern due to having a populist coalition government which made a lot of anti-austerity and anti-EU noise. However, in September 2019 there was a major change in the coalition governing Italy which has brought to power a much more EU friendly government; this has eased the pressure on Italian bonds. Only time will tell whether this new coalition based on an unlikely alliance of two very different parties will endure.
- Weak capitalisation of some **European banks**, particularly Italian banks.

- **German minority government.** In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. The CDU has done badly in recent state elections but the SPD has done particularly badly and this has raised a major question mark over continuing to support the CDU. Angela Merkel has stepped down from being the CDU party leader but she intends to remain as Chancellor until 2021.
- **Other minority EU governments.** Austria, Finland, Sweden, Spain, Portugal, Netherlands and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.
- **Austria, the Czech Republic, Poland and Hungary** now form a strongly anti-immigration bloc within the EU. There has also been rising anti-immigration sentiment in Germany and France.
- In October 2019, the IMF issued a report on the World Economic Outlook which flagged up a synchronised slowdown in world growth. However, it also flagged up that there was **potential for a rerun of the 2008 financial crisis**, but this time centred on the huge debt binge accumulated by corporations during the decade of low interest rates. This now means that there are corporates who would be unable to cover basic interest costs on some **\$19trn of corporate debt in major western economies**, if world growth was to dip further than just a minor cooling. This debt is mainly held by the shadow banking sector i.e. pension funds, insurers, hedge funds, asset managers etc., who, when there is \$15trn of corporate and government debt now yielding negative interest rates, have been searching for higher returns in riskier assets. Much of this debt is only marginally above investment grade so any rating downgrade could force some holders into a fire sale, which would then depress prices further and so set off a spiral down. The IMF's answer is to suggest imposing higher capital charges on lending to corporates and for central banks to regulate the investment operations of the shadow banking sector. In October 2019, the deputy Governor of the Bank of England also flagged up the dangers of banks and the shadow banking sector lending to corporates, especially highly leveraged corporates, which had risen back up to near pre-2008 levels.
- **Geopolitical risks**, for example in North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

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

- **Brexit** – if a comprehensive agreement on a trade deal was reached that removed all threats of economic and political disruption between the EU and the UK.
- **The Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- **UK inflation**, whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

5.4. Treasury Management Practice (TMP1): Permitted Investments

This Council 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 counter-party 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 equities, 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 counter-party 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 Treasury Management 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. All types of investment instruments

Unlimited investments

Regulation 24 states that an investment can be shown in tables 1 and 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 credit worthiness banks and building societies.** See paragraph 4.2 for an explanation of this authority's definition of high credit worthiness. While an unlimited amount of the investment portfolio may be put into banks and building societies with high credit worthiness, the authority will ensure diversification of its Treasury Management portfolio 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 Head of Finance as 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 credit worthiness banks and building societies.** See paragraph 4.2 for an explanation of this authority's definition of high credit worthiness. 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 Treasury Management 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 credit worthiness 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 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 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 credit worthiness 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 money market funds (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 e. 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 earnings 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 credit worthiness 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 actually 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.

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
1. Government Liquidity Funds	* MMF rating	instant	No See app 5.5	20%	60 day weighted average
2b. Money Market Funds LVNAV	* MMF rating	instant	No See app 5.5	20%	60 day weighted average
3. 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
4. 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
5. Bond Funds	* Bond fund rating (or alternative measure if not rated)	T+2 or longer	yes	20%	10 year weighted average
6. Gilt Funds	* Bond fund rating (or alternative measure if not rated)	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 issuance 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 Council. To ensure that the Council 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
1. Government Liquidity Funds	* MMF rating	instant	No see app 5.5	20%	60 days weighted average
2b. Money Market Funds LVNAV	* MMF rating	instant	No see app 5.5	20%	60 days weighted average
3. Ultra short dated bond funds with a credit score of 1.25	* bond fund rating	T+>1	yes	20%	90 days weighted average
4. Ultra short dated bond funds with a credit score of 1.5	* bond fund rating	T+>1	yes	20%	10 years weighted average
5. Bond Funds	* Bond fund rating (or alternative measure if not rated)	T+>1	yes	20%	10 years weighted average
6. Gilt Funds	* Bond fund rating (or alternative measure if not rated)	T+>1	yes	20%	10 years weighed 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 Government Gilts	UK sovereign rating	Sale T+1	yes	20%	100 years
Bond issuance 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 Council. To ensure that the Council 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
	-	T+4	Yes	20%	50 years
Illiquid or Private Debt Funds	-	T+4	Yes	20%	30 years
Secured Income/Secured Finance Funds		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.

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 Schedule 3, paragraph 10 or 11 of the Local Government (Scotland) Act 1975.

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 this 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 this 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.

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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 this 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 this 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.

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits	Common Good Limits
<p>j. Corporate bonds (Medium to high risk depending on period & credit rating)</p>	<p>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.</p>	<p>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.</p> <p>Day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.</p>	<p>20% and maximum 75 years.</p>	<p>20% and maximum 75 years.</p>

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 re-valued 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 rationale 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 Council receives credit rating and market information from Link Asset Services, 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 Head of Finance, and if required new counterparties which meet the criteria will be added to the list.

Use of External Fund Managers – It is the Council's policy to use external fund managers for part of its investment portfolio. The fund managers are contractually committed to keep to the Council's investment strategy. The limits for permitted investments have been established in consultation with external fund managers and are consistent with 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, Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link Asset Services credit worthiness service.

Based on lowest available rating

- AAA
 - Australia.
 - Canada.
 - Denmark.
 - Germany.
 - Luxembourg.
 - Netherlands.
 - Norway.
 - Singapore.
 - Sweden.
 - Switzerland.
- AA+
 - Finland.
 - U.S.A.
- AA
 - Abu Dhabi (UAE).
 - Hong Kong.
 - France.
 - U.K.
- AA-
 - Belgium.
 - Qatar.

5.7. Treasury Management Scheme of Delegation

1. Full Council

- Receiving and reviewing reports on treasury management policies, practices and activities.
- Approval of annual strategy.

2. Policy and Resources Committee

- Approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices.
- Budget consideration and approval.
- Approval of the division of responsibilities.

3. Investments Sub-committee

- Reviewing the treasury management policy and procedures and making recommendations to the responsible body.
- Receiving and reviewing regular monitoring reports and acting on recommendations.
- Approving the selection of external service providers and agreeing terms of appointment.

5.8. The Treasury Management Role of The Section 95 Officer

The S95 (responsible) Officer:

- 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.
- Ensuring the adequacy of internal audit, and liaising with external audit.
- Recommending the appointment of external service providers.

Corporate Risk Register – January 2020

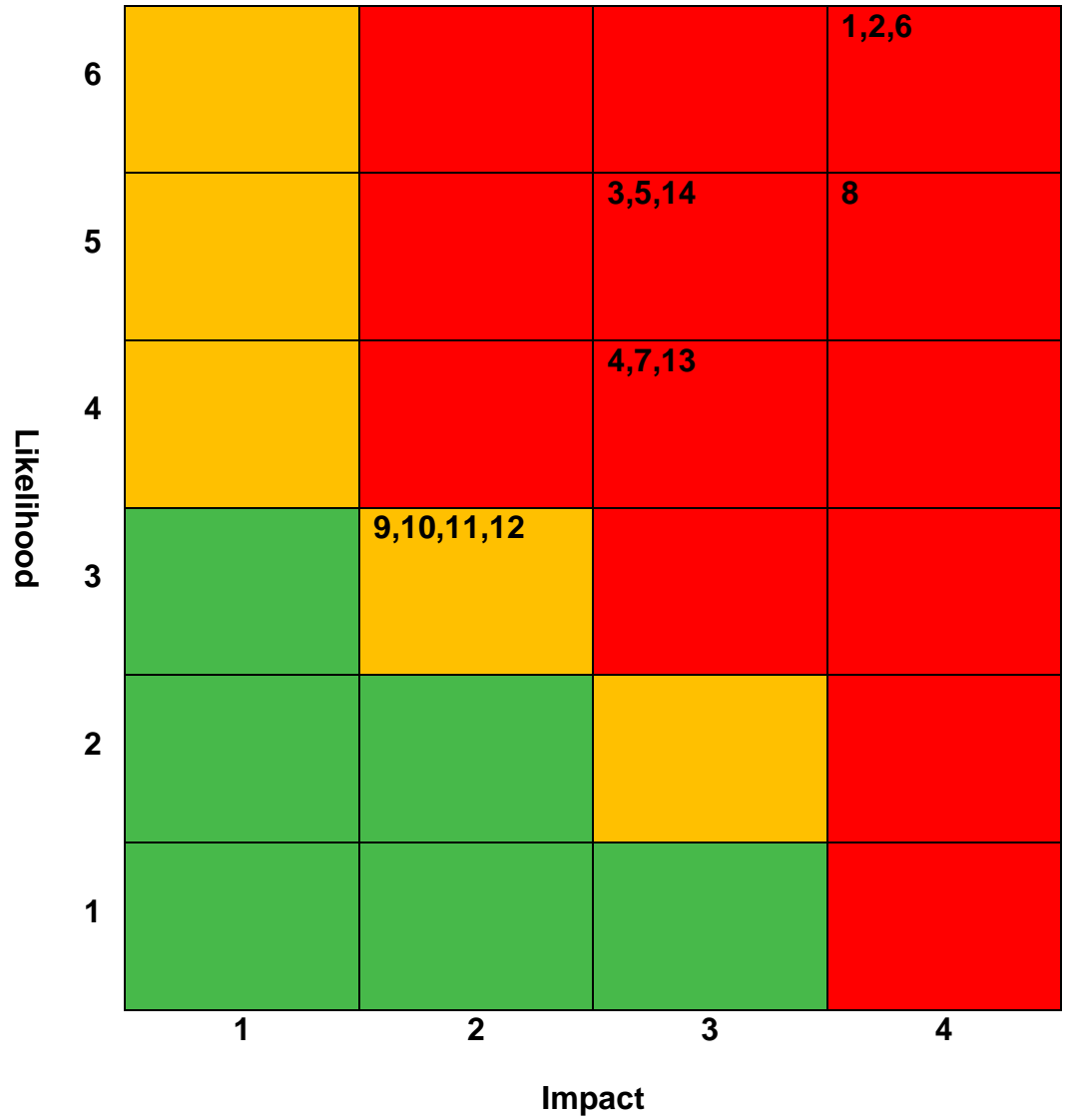
Strategic Risks

Cluster.	Risk Number.	Owner.
Financial.	1, 8.	Executive Director of Development and Infrastructure.
Financial.	2.	Chief Finance Officer.
Financial.	5.	Executive Director of Corporate Services.
Financial.	13	Executive Director of Education, Leisure and Housing.
Staffing.	4.	Executive Director of Corporate Services.
Economic Recovery and Sustainability.	6.	Executive Director of Development and Infrastructure.
Partnerships.	10.	Chief Executive.
Partnerships.	9.	Executive Director of Corporate Services.
Governance.	12.	Chief Executive and Head of IT and Facilities.
Communication.	3.	Chief Executive.
	14.	Executive Director of Education, Leisure and Housing.

Operational Risks

Cluster.	Risk Number.	Owner.
Financial.		
Staffing.		
Political.		
Partnerships.		
Governance.	7, 11. 14	Executive Director of Corporate Services. Executive Director of Education, Leisure and Housing
Communication.		

Risk Matrix



Impact:
 4 = Catastrophic
 3 = Critical
 2 = Significant
 1 = Negligible

Likelihood:
 6 = Very High
 5 = High
 4 = Significant
 3 = Low
 2 = Very Low
 1 = Almost Impossible

Risk Title: 01 – Failure to secure agreement with Scottish Government on appropriate funding arrangements to deliver the Scottish Ferries Plan in relation to ferry and terminal replacement for Orkney could lead to a loss of service and running of ferry services

Likelihood.	6.	Impact.	4.	RAG.	Red.	Current Risk Score.	24.	Target Risk Score.	6.
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Vulnerability.	Trigger.	Consequences.	Mitigating Actions.
<p>Ferry and Terminal replacement programme currently unfunded with ageing infrastructure. Annual revenue costs are unaffordable.</p>	<p>Ferries reach end of service life with no solution in place. High repair costs indicate that buying new would be more cost effective. Deterioration of piers infrastructure. Reductions in lifeline provisions for the community are below Scottish Ferries Plan standards. Services become unaffordable.</p>	<p>Ferries reach end of life with no replacement – rapid service deterioration. Excessive support costs as aged ferries kept running. Reduced capacity and flexibility to maintain scheduled services. Excessive running costs of old ferries. No opportunities to achieve expected service levels. Risk of delay in procurement leading to reduced capability to purchase fit for purpose new tonnage. Buying piecemeal also reduces economy of scale; community unrest due to people depopulating the isles due to lack of lifeline transport connectivity.</p>	<p>Ongoing dialogue with the Scottish Government emphasising the difficulties of a small authority providing the range of public services within reduced budgets across a wide and diverse geographical area. Continue to seek additional specific funding sources to protect lifeline services in Orkney, and its outlying communities, is not significantly disaffected, i.e. Transport Grant for replacement ferries.</p>

Risk Title: 02 – Finance – Council services – inability to maintain services and meet changing demands

Likelihood.	6.	Impact.	4.	RAG.	Red.	Current Risk Score.	24.	Target Risk Score.	12.
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Vulnerability.	Trigger.	Consequences.	Mitigating Actions.
<p>Public services are sustaining a period of reduced funding and there is a significant concern that resources will be insufficient to meet future need. A lack of capacity in the Council staffing to deliver the capital programme.</p> <p>A lack of capacity in the local contractors to deliver Council projects and difficulty in attracting competition for smaller projects.</p> <p>Capital funding is insufficient to replace ageing assets or provide new assets required for new priorities.</p>	<p>Expectations outstrip capacity to deliver.</p> <p>Community expectations are not reduced due to a failure to communicate and engage effectively with communities.</p> <p>Failure to demonstrate the value of the council's ongoing services to the public.</p> <p>The Scottish Government fails to provide enough funding for essential services.</p>	<p>Community unrest.</p> <p>Unhappy service users.</p> <p>Elected members unable to meet need.</p> <p>Loss of credibility of council.</p> <p>Inability to deliver the range of services expected and legal challenge.</p> <p>Capital Projects are delivered late or not at all leading to increased costs and difficulties in delivering services.</p>	<p>Ownership of the Budget Setting Process by the Senior Management Team / Corporate Management Team with openness and transparency around the identification of potential areas for re-provisioning of services.</p> <p>The delivery of budget savings will be monitored within Services and reported to the Policy and Resources Committee.</p> <p>There must be an acknowledgement of reality with the focus on continuation of the delivery of minimum Statutory Provision versus Statutory with Discretion, Non-Statutory but Essential or Discretionary Expenditure whilst having regard to the Council Priorities.</p> <p>Improved project planning with much longer lead in times.</p> <p>Additional staff capacity in Development and Infrastructure to manage the capital programme.</p>

Risk Title: 03 – Adverse reaction to communications with staff, the public and stakeholders including social media

Likelihood.	5.	Impact.	3.	RAG.	Red.	Current Risk Score.	15.	Target Risk Score.	12.
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Vulnerability.	Trigger.	Consequences.	Mitigating Actions.
<p>The Council's resources made available by Government will continue to reduce or remain static over the next few years despite growing need and demand.</p> <p>The Council must ensure that communities continue to be appropriately engaged about efficiency measures and inevitable service changes, and proactively informed so that customer expectations are realistic.</p> <p>Risk of breakdown in communications with the Scottish Government over discussions regarding the Single Agency Model.</p> <p>There is the potential that staff do not feel engaged in change processes or valued as active contributors to corporate change, service</p>	<p>Customers have unrealistic expectations of what Council services can deliver.</p> <p>Customers do not understand the reasons for the changes and blame the Council.</p> <p>Good ideas are not harvested from effective community consultation.</p> <p>Failure to demonstrate the value of the Council's on-going services to the public.</p> <p>Council is unable to demonstrate the ability to work corporately.</p> <p>Staff are not given the opportunity to contribute to corporate development; staff become disengaged in essential change processes.</p> <p>The Council does not maintain an effective presence in social media as a communication tool.</p>	<p>Reputational risk.</p> <p>Misplaced criticism.</p> <p>Good ideas lost.</p> <p>Confusion about what the Council's priorities are.</p> <p>More difficult to align resources to priorities.</p> <p>Lack of understanding of what the Council wants to achieve.</p> <p>Changes are not achieved.</p> <p>Staff morale is adversely affected.</p> <p>Customers may not get a joined-up service.</p> <p>Inter-service tensions undermine corporate achievements.</p> <p>Legal implications.</p> <p>Exclusion of sectors of the community.</p>	<p>Robust communication and engagement strategies and plans are in place to publicise the Council's objectives and priorities, existing services and service change to ensure communities are engaged.</p> <p>Proactive press releases prepared to promote positive stories about the services provided by the Council</p> <p>The current Communication and Engagement Strategy was updated to reflect our increasing use of social media as a tool to inform and engage with people across our community.</p>

Vulnerability.	Trigger.	Consequences.	Mitigating Actions.
<p>realignments or developments.</p> <p>The Council fails to manage how we respond to social media and to take advantage of the potential benefits of social media.</p>			

Risk Title: 04 - Workforce planning – lack of skills, experience and capacity

Likelihood.	4.	Impact.	3.	RAG.	Red.	Current Risk Score.	12.	Target Risk Score.	6.
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Vulnerability.	Trigger.	Consequences.	Mitigating Actions.
<p>Insufficient workforce planning actions underway to shape future workforce through redeployment and training etc.</p> <p>Capacity issues make it difficult for the service to realise its priorities.</p>	<p>Council staff become overstretched.</p> <p>Council staff become demoralised.</p> <p>The Council does not have the right staff, in the right place, at the right time, to deliver set priorities and / or statutory functions.</p> <p>The Council is unable to meet its statutory obligations.</p> <p>Statutory officers are unable to discharge their statutory functions adequately.</p>	<p>Council cannot manage within its resources.</p> <p>Existing workforce becomes overstretched.</p> <p>Key pieces of work are not able to be undertaken.</p> <p>Service standards drop and vulnerable people are placed at risk.</p> <p>Council is reactive rather than proactive.</p> <p>An increased risk in legal challenges and complaints.</p> <p>Risk of financial penalties.</p>	<p>Service workforce plans in place (2019). Service workforce planning actions to be included in Service Plans and monitored more regularly.</p> <p>Corporate workforce plan priorities reviewed and updated in April 2019.</p> <p>Acceptance by senior management in relation to re-deployment of staff including those in other services.</p> <p>Consideration of enhanced approach to redeployment and retraining.</p> <p>Careful consideration to the release of staff by voluntary means to ensure required skills are retained.</p> <p>More proactive approach to recruitment, succession planning and attraction of people to live and work in Orkney.</p>

Vulnerability.	Trigger.	Consequences.	Mitigating Actions.
			<p>Continued use and development of flexible working will encourage improved working methods and retention of key staff.</p> <p>Inclusion of staff in re-design of operations.</p> <p>Increased commitment to proactive communications particularly related to staff and trade unions.</p> <p>Regular monthly Trade Union meeting at Corporate level.</p> <p>Regular staff / Trade Union meetings at Service level, when required.</p> <p>Change in emphasis of staff engagement to include the process of change.</p>

Risk Title: 05 – Failure to ensure we obtain and retain maximum benefit from Council's assets

Likelihood.	5.	Impact.	3.	RAG.	Red.	Current Risk Score.	15.	Target Risk Score.	12.
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Vulnerability.	Trigger.	Consequences.	Mitigating Actions.
<p>The Council may not have enough funds to sustain assets, replace ageing assets and develop key assets (also see risk 01 which is particularly significant).</p> <p>Essential buildings and infrastructure for travel, communications etc must be maintained to ensure</p>	<p>The Council cannot maintain or develop its essential assets to provide public services.</p> <p>The Council cannot implement an asset management strategy.</p> <p>The public is unable to communicate with services.</p> <p>Professionals are unable to communicate with each</p>	<p>Roads and buildings deteriorate.</p> <p>IT infrastructure cannot support services.</p> <p>Unused / surplus buildings.</p> <p>Services are not delivered.</p> <p>Lifeline routes compromised.</p> <p>Risk of accident and potential claim.</p> <p>Vulnerable people are at risk.</p>	<p>Corporate Asset Management Plan updated in 2019 and covers the period 2019 – 2023.</p> <p>Existing Property Asset Management Plan is kept up to date and reviewed regularly. The 2019 to 2023 plan is being re-written and is due to be considered by the Asset Management Sub-committee in November 2019.</p> <p>Existing ICT Asset Management Plan is kept up to date and reviewed regularly. It will be formally revised in 2020.</p>

Vulnerability.	Trigger.	Consequences.	Mitigating Actions.
<p>property and roads, IT, telecoms and other infrastructure continue to be able to support the Council's services.</p>	<p>other to provide effective services.</p>	<p>Communication is not possible between agencies to co-ordinate services. Council's reputation is at risk.</p>	<p>The Existing Fleet and Plant Asset Management plan (2013 to 2018) is being reviewed in 2019. Until this is refreshed the asset replacements are delivered via a shorter 3-year plan running to end of March 2022. This plan is reviewed annually to prioritise planned purchases with individual client areas.</p> <p>Service Asset Management Plans to be written on Open Spaces and Heritage. They have been completed for Roads in terms of the R.A.M.P. (Roads Asset Management Plan) and the R.M.M.P. (Roads Management and Maintenance Plan).</p> <p>All asset replacement programmes (budgets) for roads, waste, fleet and property (revenue repairs and capital improvements), are monitored in detail to ensure planned, cyclical, reactive and emergency works are completed in context of significant budget pressures (efficiencies).</p> <p>Capital Planning and Asset Management Working Group holds monthly meetings to consider prioritisation of future works.</p>

Risk Title: 06 – Inability to sustain and enhance economic opportunities

Likelihood.	6.	Impact.	4.	RAG.	Red.	Current Risk Score.	24.	Target Risk Score.	12.
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Vulnerability.	Trigger.	Consequences.	Mitigating Actions.
<p>Commercial etc sectors are vulnerable to market forces and changing national and international economic circumstances, Orkney’s population is also ageing, leading to a range of challenges and opportunities in managing the impact of this demographic shift in terms of service provision.</p> <p>Current uncertainties associated with the Brexit arrangements for our future workforce.</p>	<p>The Council fails to support a diverse economy.</p> <p>Decline in farming and other traditional industries.</p> <p>External market forces and economic factors lead to increasing pressure on local businesses.</p> <p>Cost of transportation threatens travel of goods and people to and from Orkney.</p> <p>The Council fails to support emerging industries.</p> <p>The Council fails to ensure community benefits arise from developing industries.</p> <p>The Council fails to secure long term benefits from Renewables sector.</p> <p>Increasing pressure on services for older people.</p> <p>Reducing work age population.</p>	<p>Local economy struggles pushing additional responsibilities onto the public sector.</p> <p>OIC budgets become increasingly pressed.</p> <p>Staffing shortages.</p> <p>Loss of external funding due to Brexit.</p>	<p>The budgets for revenue repairs and capital improvements are reviewed annually as part of the councils “growth and pressures” process linked to the budget process.</p> <p>Seek to identify additional options for delivery of the maintenance programmes.</p> <p>Where unavoidable pressures are identified these are managed through an allocated “contingency” or capacity within the directorate given positive trading performance.</p> <p>To ensure the delivery of approved plans is achieved, there has been additional investment in people resources in roads, waste, fleet and soon to be the quarry and property team (as part of workload analysis and mini restructuring).</p> <p>To ensure the size and scale of the capital programme is realistic in terms of affordability, pace and thereby resources, members have agreed the 2018 to 2023 programme and will agree the content of the following 5-year period(s) in 2019 to 2020 financial year. This considers the OIC internal and external people resource, contractor capacity and how funded (internally or externally, noting island deal possibilities).</p>

Vulnerability.	Trigger.	Consequences.	Mitigating Actions.
			Seek to identify additional options for delivery of the maintenance programmes.

Risk Title: 07 – Inadequate information security and management, and inadequate cyber security – With the increase in the use of publicly visible technology, there is an increased risk of exposure to threats from criminal and other malicious parties

Likelihood.	4.	Impact.	3.	RAG.	Red.	Current Risk Score.	12.	Target Risk Score.	6.
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Vulnerability.	Trigger.	Consequences.	Mitigating Actions.
<p>The Council fails to maintain an adequate audit trail of all information created.</p> <p>The Council does not handle, share and release all its data adequately.</p> <p>The Data Protection Act 2018 has introduced new duties for the Council.</p> <p>Failure to implement and maintain suitable cyber controls to protect assets.</p>	<p>Inappropriate disclosure, sharing, retention or loss of data.</p> <p>Failure to comply with information governance legislation including the Data Protection Act 2018.</p>	<p>Customer distress and harm.</p> <p>Financial and legal implications.</p> <p>Reputational risk.</p> <p>Inability to access information when required.</p> <p>Failure to deliver services</p> <p>Failure to share information leading to duplication of effort.</p> <p>Not responding to information requests on time.</p> <p>Complaints against the Council.</p>	<p>The Records Management Improvement Plan sets out further actions required to ensure that the Council maintains compliance with its legal responsibilities, including the Data Protection Act 2018.</p> <p>Senior Management leadership in place with regards to the delivery of the Records Management Improvement Plan.</p> <p>The council met the Cyber Essential (Basic) accreditation as required by the Scottish Government in February 2018; the target for this was June 2018.</p> <p>Cyber Essential + accreditation achieved, April 2019.</p> <p>PSN reaccreditation achieved, September 2019.</p> <p>IT Security is managed proactively and there is an ongoing programme of patching / updating the hardware and software in operation across the council.</p>

Risk Title: 08 – Inadequate Access to superfast Broadband across Orkney and mobile connectivity

Likelihood.	5.	Impact.	4.	RAG.	Red.	Current Risk Score.	20.	Target Risk Score.	8.
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Vulnerability.	Trigger.	Consequences.	Mitigating Actions.
<p>Failure to lobby Governments to address the current digital divide and put in place infrastructure to ensure a step change in speeds.</p> <p>Failure to access mobile coverage.</p> <p>Failure to press the Government to deliver a longer-term plan to ensure that there are the right mechanisms, partnerships and commercial models in place.</p>	<p>Orkney fails to secure maximum and equitable geographic coverage of superfast Broadband, wireless connectivity and significant improvements to Broadband services and mobile network across the islands.</p> <p>Orkney is unable to attract inward investment and sustain fragile communities.</p> <p>Educational infrastructure disadvantaged by lack of service.</p>	<p>Failure to attract inward investment.</p> <p>Failure to attract skilled employees.</p> <p>Digital isolation across age groups.</p> <p>Failure to realise opportunities in respect of Telehealth, Telecare, mobile working and tele-learning.</p> <p>Poor online public service access including welfare benefits, etc.</p>	<p>Continue to support political lobbying and seek opportunities to progress policy.</p> <p>Support the Scottish Government in the roll out of R100 infrastructure in Orkney.</p> <p>Support the development and introduction of alternative commercial models, including 5G infrastructure.</p>

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Risk Title: 9 – Lack of sustainability of partnerships and clarity of responsibilities and outcomes

Likelihood.	3.	Impact.	2.	RAG.	Amber.	Current Risk Score.	6.	Target Risk Score.	6.
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Vulnerability.	Trigger.	Consequences.	Mitigating Actions.
<p>Working in partnership exposes the Council to some degree of reputational risk, depending on the stability</p>	<p>The Council does not implement a robust and effective framework for managing its key partnerships.</p>	<p>Uncertainty about roles.</p> <p>Impact upon service delivery.</p> <p>Loss of reputation due to inability to meet statutory requirements.</p> <p>Tension between partners.</p>	<p>The Council will continue to work closely with partners under current frameworks which are monitored closely to ensure they are robust, effective and deliver good governance.</p>

of the arrangements and outcomes delivered. Resource constraints may affect the success of Health and Social Care partnership.	Governance is not effective in relation to a partnership and objectives are not met. The resource pressures on the parent bodies affect the reputation of the partnership. The Outsourcing and Partnerships review does not deliver expected results.	Efficiencies not achieved. Relationships with other bodies deteriorate. Reduced ability to deliver on important projects for vulnerable people and their families.	The Council will continue to review existing partnerships and explore new ones under the Outsourcing and Partnerships project. Governance and risk will be key areas in this work to ensure objectives / outcomes are achieved and no unintended consequences arise. Commitment from Cabinet Secretary received, which supports joint working.
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Risk Title: 10 – Inadequate procurement compliance and sustainable communities

Likelihood.	3.	Impact.	2.	RAG.	Amber.	Current Risk Score.	6.	Target Risk Score.	6.
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Vulnerability.	Trigger.	Consequences.	Mitigating Actions.
Financial and non-financial savings have not yet been fully explored. Further work to be done to support local businesses to help them participate in procurement opportunities, building on the Meet the Buyer event which was first held in August 2016.	Legal challenge is a possibility unless the Procurement Regulations are complied with and processes followed. Officers fail to understand the limitations that the Procurement Regulations place on the Council. Officers do not follow due process and tendering must be repeated. Anticipated savings may not be fully realised through collaborative contracts.	Financial loss due to legal challenge. Reputational harm. Delays in services being procured due to re-tendering or court action. Loss to the local economy. Loss of effectiveness and efficiency. Lost opportunity in terms of savings.	Procurement Member Officer Working Group in place. Procurement Working Group (Officers) to be set up which will provide training, support and a corporate approach to Procurement exercises and priorities. Frequent communication with this group is already in place and training on the use of PCS Tender was completed by 19 staff in January 2018. Procurement Improvement Plan developed and kept under review. Sustainable Procurement Strategy approved by Members in February 2018. Procurement Manual Updated, April 2019.

Vulnerability.	Trigger.	Consequences.	Mitigating Actions.
	<p>The local economy may not be as well supported as it could be.</p> <p>Member / officer disharmony due to lack of understanding of responsibilities.</p>		<p>Procurement and Commercial Improvement Programme (PCIP) assessment by Scotland Excel completed in September 2019. OIC score showed a good improvement from 49% to 58%. Action plan to meet recommendations is being developed.</p> <p>Meet the Buyer event for October 2019 was held successfully.</p> <p>Contracts Register is now updated at least monthly and the use of the Contracts Register is stressed to all staff who are making purchasing decisions.</p> <p>Proactive work with the Corporate Admin Group to look at the creation and use of local Framework Agreements, in the first instance this will develop a local framework for stationery.</p> <p>Contract Standing Orders under regular review.</p>

1683

Risk Title: 11 – Health and Safety non-conformance

Likelihood.	3.	Impact.	2.	RAG.	Amber.	Current Risk Score.	6.	Target Risk Score.	4.
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Vulnerability.	Trigger.	Consequences.	Mitigating Actions.
Non-compliance with health and safety policies, rules and procedures by employees, members of the public, contractors etc.	Reportable accidents, work related ill health and dangerous occurrences.	Enforcement action from the Health and Safety Executive. This may include Improvement and prohibition notices and prosecution.	<p>Frequency of Safety Committee meetings increased.</p> <p>Senior Management Team to promote a positive health and safety culture.</p> <p>Proactive health and safety to feature as a standing item in Senior Management Team</p>

Vulnerability.	Trigger.	Consequences.	Mitigating Actions.
		<p>Material breaches, if identified, are subject to cost recovery by way of “fees for intervention”.</p> <p>Civil action resulting in the payment of compensation for injury or damage etc.</p>	<p>and Corporate Management Team meetings.</p> <p>IOSH “Leading Safely” training has been refreshed for all Corporate Management Team and Senior Management Team members.</p> <p>Proactive Health and Safety campaigns organised and promoted to all Council employees started in April 2018.</p> <p>Review and potential investment of additional service-focused resources to strengthen operational health and safety effectiveness (one post in Development and Infrastructure Service potentially).</p>

Risk Title: 12 - Brexit – Implications following a “hard” no deal outcome

Likelihood.	4.	Impact.	4.	RAG.	Red.	Current Risk Score.	16.	Target Risk Score.	12.
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Vulnerability.	Trigger.	Consequences.	Mitigating Actions.
<p>Loss of access to the single market, with associated implications around trade delays and reduction in supply.</p> <p>Loss of EU funding for projects and businesses in Orkney.</p> <p>Disruption to current workforce and future</p>	<p>Restrictions to the supply chain.</p> <p>Restrictions on the free movement of people and workers’ rights within the EU area.</p>	<p>Insufficient supply of essential commodities (food, medical supplies, fuel).</p> <p>Negative impact on projects and businesses in Orkney should funding streams end and not be replaced.</p> <p>Difficulty in retaining staff and attracting new staff from the EU to work for the Council, possibly leading to service delivery difficulties due to staff shortages,</p>	<p>The Council “Island proofed” any Scottish Government response and fully participates in discussions with CoSLA, the Scottish Government and other groups as needed.</p> <p>Member Officer Working Group to be convened as soon as final terms of the Brexit deal are known.</p> <p>Urgent discussions within the Community Planning Partnership once the terms of Brexit are known.</p>

Vulnerability.	Trigger.	Consequences.	Mitigating Actions.
restrictions on ability to recruit.		<p>as well increased pressure on other staff.</p> <p>Requirement for Export Health Certificates (issued by Environmental Health service) for all aquaculture and shellfish exports.</p>	<p>Urgent escalation of high / severe risks to the Scottish Government, including the operational difficulties with regards to Environmental Health Certificates.</p> <p>Working with CoSLA to develop and deliver key communications and guidance for existing staff from EU countries.</p> <p>Assessing impact on current staffing establishment.</p> <p>Tactical Incident Management Team, and Strategic Incident Management Team to be stood up as required. Both were in operation from December 2018 to April 2019, and then reconvened in September 2019.</p> <p>Internal No Deal EU Exit action plan actively managed and reviewed regularly.</p> <p>Working to ensure adequate staffing capacity within Environmental Health service to deal with substantial increase in workload.</p>

1685

Risk Title: 13 – House build Programme – Risk of being unable to fully utilise Affordable Housing Supply Programme funding from the Scottish Government

Likelihood.	4	Impact.	3	RAG.	Red	Current Risk Score.	12	Target Risk Score.	9
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Vulnerability.	Trigger.	Consequences.	Mitigating Actions.
A range of factors are affecting the Council's ability to spend the Affordable Housing Supply	Inability to commit to spending funding by 31 March 2020 and / or to deliver an increased	Loss of funding to Orkney which would have been available for much needed social / affordable housing;	A house build group has been meeting monthly with membership from the Council's Housing Service, Development and Infrastructure, the Scottish Government,

Vulnerability.	Trigger.	Consequences.	Mitigating Actions.
<p>Programme's funding, in partnership with Orkney Housing Association Ltd. These factors include:</p> <p>There are issues affecting Scottish Water's sewer and a need to separate surface water run off to free up capacity.</p> <p>The Housing Revenue Account holds a relatively high level of debt and debt repayments are substantial;</p> <p>The cost of meeting the Energy Efficiency Standard for Social Housing 2 by 2032 is serving to exacerbate issues with the Housing Revenue Account;</p> <p>The impact of the above on the level of affordability of rents for tenants, given that a small Housing Revenue Account suffers from limited economies of scale. Orkney generally has rents which are within the highest 6 in Scotland;</p> <p>There is a lack of resource across all partner agencies (and the construction</p>	<p>housing stock by 31 March 2021.</p>	<p>Rising pressure on the Council's housing waiting list as a result of households having to wait longer to be rehoused;</p> <p>Difficulties with meeting the Council's statutory requirements in respect of homelessness by being able to move households into permanent accommodation;</p> <p>Issues with being able to deliver the Rapid Rehousing Transition Plan, only some of which are related to the Affordable Housing Supply Programmes funding;</p> <p>Potential impact on other housing sectors, particularly the private rented sector as a result of a lack of social rented housing;</p> <p>Potential impact on economy if households cannot secure affordable housing in the area.</p> <p>Equally progressing a large number of build projects at one time may impact on prices for other building projects in the future.</p> <p>There is limited flexibility inside the school roll projections for Glaitness Primary School, developing in the catchment area may have some impact accordingly.</p>	<p>Scottish Water and Orkney Housing Association Ltd.</p> <p>Various actions are underway. These include:</p> <ul style="list-style-type: none"> • A build project at Carness, Kirkwall is underway with 14 properties on-site currently and a further 18 to follow in the coming months. • Infrastructure funding has been secured to correct sound issues at the Pumping Station which will allow planning permission to be granted for the remaining 18 properties at Carness, Kirkwall. • Discussions are ongoing with Scottish Water to endeavour to free up sufficient capacity to enable additional planning applications to be approved. • Orkney Housing Association are in discussions with Scottish Water and the Council's Planning Service to allow a scheme for 12 houses at the Crafty to progress. • Orkney Housing Association are endeavouring to progress 8 units at Kirk Park in Orphir. <p>Within the Council, governance is being sought to enable the Council to build 4 properties at Watersfield, Kirkwall, 2 properties at Repeater Road, Kirkwall, 8 properties at Garson, Stromness, and 2 properties at MacDonald Drive in St</p>

Vulnerability.	Trigger.	Consequences.	Mitigating Actions.
sector) to facilitate being able to respond quickly to additional demands.			Margaret's Hope and to seek various design and build contracts. Off the shelf purchases are being investigated and considered (while considering the ability for the properties concerned to be brought up to the energy efficiency standards required by the Council).

Risk Title: 14 – Early Learning and Childcare Expansion Plan

Likelihood.	5	Impact.	3	RAG.	Red	Current Risk Score.	15	Target Risk Score.	12
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Vulnerability.	Trigger.	Consequences.	Mitigating Actions.
Leadership capacity.	Failure to recruit high quality candidates.	Vacant posts. Lack of leadership in settings. Impact in quality and outcomes for children. Poor inspection grades.	Leadership pathway to support the development of leadership capacity on workforce. Supporting practitioners to gain BA in childhood practice. Head teacher training to enable HT's to develop pedagogical leadership.
Practitioner sufficiency.	Failure to recruit high quality candidates.	Failure to meet National Standard. Impact in quality and outcomes for children. Poor inspection grades. Failure to meet National Standard. Inability to open setting.	Raise profile of ELC as a career: careers fairs, DYW. Establish MAs and trainee posts in settings. Establish student pathway with progressive experiences in setting to enable graduating students to meet person specification in EYP job description. Deliver early years course to SVQ trainees and MAs.

Vulnerability.	Trigger.	Consequences.	Mitigating Actions.
			Explore possibility of running SVQ from central team.
Delay in completing large settings leading to lack of capacity.	Delay in completion renovation works at Dounby, Papdale, Glaitness and St Andrews.	Lack of places for children in August 2020.	Contingency plans in place for each of the settings.
Failure to meet the National Standard.	Care Inspectorate Inspection grades of adequate or lower.	Short improvement period (6 to 12 months) after which funded ELC will no longer be able to be offered at that setting.	<p>Increased training offer:</p> <ul style="list-style-type: none"> • Leadership pathway. • Early years course (12x half day sessions) running twice. • 2 year old course (6x half day sessions). • Maths course (8x half day sessions). • LLLI (8x half day sessions). • Nursery central teaching team increased by 1fte. <p>Teaching team upskilled to be able to deliver training including:</p> <ul style="list-style-type: none"> • Outdoor/nature kindergarten experiences. • Learning Language and Loving It. • Family worker (LEYP) established in team – supporting roll out of PEEP etc.
Insufficient budget to meet emerging demands of Scottish Government in relation to expansion.	Risk of overspend on budget.	Budget overspend.	<p>Lobby Scottish Government to enable them to understand the unique island challenges relating to new policies.</p> <p>Ensure Orkney attendance at national meetings/forums to ensure the remote and rural voice is heard.</p> <p>Ensure elected members are well briefed prior to national meetings.</p>

Vulnerability.	Trigger.	Consequences.	Mitigating Actions.
Closure of Peedie Breeks and impact on funded ELC places.	Closure of PB and loss of spaces.	LA unable to meet statutory requirement. Staff losses in settings in mainland Orkney due to lack of childcare.	Work with Community Planning Partners to explore solutions. Expand the scope for Council led statutory provision.

Minute

Police and Fire Sub-committee

Tuesday, 19 November 2019, 14:00.

Council Chamber, Council Offices, School Place, Kirkwall.



Present

Councillors Andrew Drever, David Dawson, Alexander G Cowie, J Harvey Johnston, Gwenda M Shearer and Kevin F Woodbridge.

Clerk

- Sandra Craigie, Committees Officer.

In Attendance

- Gillian Morrison, Executive Director of Corporate Services.
- Les Donaldson, Safety and Resilience Manager.

Police Scotland:

- Chief Inspector Matthew Webb, Area Commander (for Items 2 and 3).

Scottish Fire and Rescue Service:

- Raymond Fallon, Group Manager.

Apology

- Councillor Magnus O Thomson.

Declaration of Interest

- Councillor Andrew Drever – Item 2.

Chair

- Councillor Andrew Drever.

1. Scottish Fire and Rescue Service

Performance Against Orkney Fire and Rescue Plan

After consideration of a report by Iain Macleod, Local Senior Officer, copies of which had been circulated, and after hearing a report from Raymond Fallon, Group Manager, the Sub-committee:

Scrutinised the statistical performance of the Scottish Fire and Rescue Service, Orkney Islands area, for the period 1 April to 30 September 2019, detailed in the Quarterly Performance Report, attached as Appendix 1 to the report by the Local Senior Officer for Orkney, Shetland and the Western Isles, and obtained assurance.

2. Performance Against Local Policing Plan

Councillor Andrew Drever declared a non-financial interest in this item, in that he was Chair of Orkney Drugs Dog, but as the matter was not discussed in detail, he did not leave the meeting.

After consideration of a report by Chief Inspector Matthew Webb, Area Commander, copies of which had been circulated, the Sub-committee:

Scrutinised progress made against the objectives set within the Orkney Islands Local Policing Plan 2017 to 2020 Year 3, attached as Appendix 1 to the report by the Area Commander, for the period covering 1 April to 30 September 2019, and obtained assurance.

3. Conclusion of Meeting

At 14:55 the Chair declared the meeting concluded.

Signed: A Drever.

Minute

Pension Fund Sub-committee, together with Pension Board

Wednesday, 27 November 2019, 10:30.

Council Chamber, Council Offices, School Place, Kirkwall.



Present

Pension Fund Sub-committee:

Councillors W Leslie Manson, James W Stockan, Alexander G Cowie, Rachael A King, Stephen Sankey and Graham L Sinclair.

Pension Board:

Employer Representatives:

Councillors J Harvey Johnston, Owen Tierney and Duncan A Tullock, Orkney Islands Council.

Andrew Blake, Orkney Ferries Limited.

Trade Union Representative:

Eoin Miller (Unite).

Clerk

- Sandra Craigie, Committees Officer.

In Attendance

- Gareth Waterson, Head of Finance.
- Shonagh Merriman, Accounting Manager (Corporate Finance).
- Michael Scott, Solicitor.

Apologies

Pension Fund Sub-committee:

- Councillor Steven B Heddle.

Pension Board:

Trade Union Representative:

- Karen Kent (Unison).

Not Present

Pension Board:

Trade Union Representatives:

- Sally George (Unison).
- Mark Vincent (GMB).

Declarations of Interest

- No declarations of interest were intimated.

Chair

- Councillor W Leslie Manson.

1. Disclosure of Exempt Information

The Sub-committee noted the proposal that the public be excluded from the meeting for consideration of Item 5 and Appendix 1 of Item 4, 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. 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 Pension Fund services for the period 1 April to 30 September 2019, attached as Annex 1 to the report by the Head of Finance, indicating a surplus position of £19,294,000.

2.2. The revenue financial detail by Service Area statement for the period 1 April to 30 September 2019, attached as Annex 2 to the report by the Head of Finance.

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.

Councillor Owen Tierney joined the meeting during discussion of this item.

3. Local Government in Scotland: Supplement 2 – Financial Overview

Scottish Local Government Pension Scheme

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

Noted:

3.1. The Local Government in Scotland – Supplement 2, Financial Overview 2017 to 2018: Scottish Local Government Pension Scheme, published in December 2018 by Audit Scotland, attached as Appendix 1 to the report by the Head of Finance.

3.2. The key messages arising from the national audit report, a summary of which was detailed in section 4 of the report by the Head of Finance.

4. Pension Administration – Performance

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

Scrutinised the performance of Pension Fund administration for the period 1 April to 30 September 2019, as detailed in sections 4 to 12 of the report by the Head of Finance, and obtained assurance on the performance of the Pension Section.

5. Statement of Managed Pension Funds

On the motion of Councillor W Leslie Manson, seconded by Councillor James W Stockan, 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, and after hearing a report from the Accounting Manager (Corporate Finance), the Sub-committee:

Noted:

5.1. The review of the investment manager's performance for the quarter to 30 September 2019, attached as Appendix 1 to the report by the Head of Finance, prepared by Hymans Robertson, the Council's appointed investment advisors.

5.2. That, although Pension Fund investments returned a gain of 1.6% over the quarter to 30 September 2019, this was 1.5% behind the benchmark and was considered poor.

5.3. That the value of the Pension Fund had increased by 6.7% over the 12-month period to 30 September 2019, being 1.1% behind the benchmark, which was considered poor performance.

5.4. That an average return of 11.3% per annum for the Pension Fund remained 1.8% ahead of the benchmark over the five-year period.

5.5. The performance review commentary provided by the Fund Manager, attached as Appendix 2 to the report by the Head of Finance.

5.6. The Governance Summary extracted from the Fund Manager's performance report for the quarter ending 30 September 2019, attached as Appendix 3 to the report by the Head of Finance.

6. Conclusion of Meeting

At 11:35 the Chair declared the meeting concluded.

Signed: L Manson.

Minute

Investments Sub-committee

Wednesday, 27 November 2019, 14:15.

Council Chamber, Council Offices, School Place, Kirkwall.



Present

Councillors W Leslie Manson, James W Stockan, Alexander G Cowie, Stephen Sankey and Graham L Sinclair.

Clerk

- Sandra Craigie, Committees Officer.

In Attendance

- Gareth Waterson, Head of Finance.
- Shonagh Merriman, Accounting Manager (Corporate Finance).
- Michael Scott, Solicitor.

Apologies

- Councillor Steven B Heddle.
- Councillor Rachael A King.

Declarations of Interest

- No declarations of interest were intimated.

Chair

- Councillor W Leslie Manson.

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 Strategic Reserve Fund services for the period 1 April to 30 September 2019, attached as Annex 1 to the report by the Head of Finance, indicating a budget surplus position of £5,716,300.

2.2. The revenue financial detail by Service Area statement for the period 1 April to 30 September 2019, attached as Annex 2 to the report by the Head of Finance.

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.

3. Temporary Loans

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

Noted:

3.1. The status of the temporary loan portfolio as at 30 September 2019, as detailed in section 3 of the report by the Head of Finance.

3.2. That, for the period 1 April to 30 September 2019, the temporary loans portfolio made a return of £144,262.85 at an average interest rate of 1.01%.

3.3. That the Treasury Policy Statement was being adhered to by the Finance Service and was producing an acceptable rate of return.

4. Statement of Managed Funds

On the motion of Councillor W Leslie Manson, seconded by Councillor Alexander G Cowie, 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, and after hearing a report from the Accounting Manager (Corporate Finance), the Sub-committee:

Noted:

4.1. The review of investment performance by Hymans Robertson, the Council's appointed investment advisors, for the quarter to 30 September 2019, attached as Appendix 1 to the report by the Head of Finance.

4.2. That the performance of the Strategic Reserve Fund investments was considered poor over the quarter to 30 September 2019, with the value of the Fund increasing by 1.7%, which was 0.5% behind the benchmark.

4.3. That, although the performance of the Strategic Reserve Fund had been good in absolute terms over the 12-month period to 30 September 2019, with the value of the Fund increasing by 4.8%, this was 0.8% below the benchmark of 5.6% and also behind target.

4.4. The Sustainable Investment Report as at 30 September 2019, produced by Schroders, attached as Appendix 2 to the report by the Head of Finance.

4.5. The Investment Stewardship Report as at 30 September 2019, produced by Blackrock, attached as Appendix 3 to the report by the Head of Finance.

4.6. The Investment Stewardship Annual Report 2019, produced by Blackrock, attached as Appendix 4 to the report by the Head of Finance.

5. Conclusion of Meeting

At 14:47 the Chair declared the meeting concluded.

Signed: L Manson.

Minute

Asset Management Sub-committee

Tuesday, 28 January 2020, 10:30.

Council Chamber, Council Offices, School Place, Kirkwall.



Present

Councillors W Leslie Manson, Norman R Craigie, Robin W Crichton, Steven B Heddle, John A R Scott, Graham L Sinclair and James W Stockan.

Clerk

- Hazel Flett, Senior Committees Officer.

In Attendance

- Gillian Morrison, Executive Director of Corporate Services.
- Hayley Green, Head of IT and Facilities.
- Colin Kemp, Corporate Finance Senior Manager.
- Ian Rushbrook, Capital Programme Manager.
- Graeme Christie, Estates Manager.
- Jill Macadam, Solicitor.

Declarations of Interest

- No declarations of interest were intimated.

Chair

- Councillor W Leslie Manson.

1. Disclosure of Exempt Information

The Sub-committee noted the proposal that the public be excluded from the meeting for consideration of Items 6 and 7, 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. 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 Corporate Finance Senior Manager, the Sub-committee:

Noted:

2.1. 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 2019, attached as Annex 1 to the report by the Head of Finance, indicating a budget underspend position of £150,200.

2.2. 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 2019, 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. 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 Corporate Finance Senior Manager, the Sub-committee:

Noted:

3.1. The summary position of expenditure incurred, as at 31 December 2019, against the approved corporate asset revenue maintenance programmes, as detailed in section 4.1 of the report by the Head of Finance, which indicated an underspend of £104,400 as at 31 March 2020, against approved budgets totalling £1,877,900.

The Sub-committee scrutinised:

3.2. The summary of larger works undertaken as reactive repairs, attached as Appendix 1 to the report by the Head of Finance, and obtained assurance on progress being made with delivery of the approved corporate asset revenue maintenance programmes.

4. Corporate Asset Improvement and Replacement Programmes

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 Corporate Finance Senior Manager, the Sub-committee:

Noted:

4.1. The summary position of expenditure incurred as at 31 December 2019 against the approved corporate asset capital improvement and replacement programmes, as detailed in section 4.1 of the report by the Head of Finance, which indicated an underspend of £2,306,309 as at 31 March 2020, against approved budgets totalling £4,147,000.

The Sub-committee scrutinised:

4.2. 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 on progress being made with delivery of the approved corporate asset capital improvement and replacement programmes.

5. Exclusion of Public

On the motion of Councillor W Leslie Manson, seconded by Councillor James W Stockan, 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. Former Abattoir, Hatston Industrial Estate, Kirkwall

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 report by the Executive Director of Corporate Services, copies of which had been circulated, and after hearing a report from the Estates Manager, the Sub-committee:

Resolved, in terms of delegated powers, what action should be taken with regard to the former abattoir, H21, Hatston Industrial Estate, Kirkwall, including Appendix 1 (page 1705) to this Minute.

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.

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7. 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 paragraphs 2, 6 and 9 of Part 1 of Schedule 7A of the Act.

After consideration of a report by the Executive Director of Corporate Services, copies of which had been circulated, and after hearing a report from the Estates Manager, the Sub-committee:

Resolved, in terms of delegated powers, what action should be taken with regard to a request to lease 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 12:10 the Chair declared the meeting concluded.

Signed: L Manson.

Minute

Staff Appeals Sub-committee

Friday, 22 November 2019, 09:30.

Council Chamber, Council Offices, School Place, Kirkwall.



Present

Councillors W Leslie Manson, Robin W Crichton, Steven B Heddle, John T Richards, Gwenda M Shearer, Graham L Sinclair, James W Stockan and Duncan A Tullock.

Clerk

- Gavin Mitchell, Head of Legal Services.

In Attendance

- Andrew Groundwater, Head of HR and Performance.
- Hazel Flett, Senior Committees Officer.
- Management representative (for Item 4).
- Appellant (for Item 4).
- Appellant's representative (for Item 4).
- Appellant's supporter (for Item 4).

Declarations of Interest

- Councillor Gwenda M Shearer.
- Councillor Graham L Sinclair.

Chair

- Councillor W Leslie Manson.

1. Declarations of Interest

Councillors Gwenda M Shearer and Graham L Sinclair declared non-financial interests, in that the appellant was known to them in a personal capacity, and left the meeting at this point.

2. Exclusion of Public

On the motion of Councillor W Leslie Manson, seconded by Councillor James W Stockan, 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 class described in the relevant paragraph of Part 1 of Schedule 7A of the Local Government (Scotland) Act 1973 as amended.

3. Briefing from Clerk on Procedure

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 1 of Part 1 of Schedule 7A of the Act.

After hearing a briefing from the Clerk regarding procedure, the Sub-committee:

Noted that the meeting had been convened to consider an appeal against dismissal.

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.

4. Appeal Against Dismissal

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 1 of Part 1 of Schedule 7A of the Act.

Following conclusion of its deliberations, the Sub-committee:

Resolved, in terms of delegated powers, what action should be taken with regard to an appeal against dismissal.

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 13:50 the Chair declared the meeting concluded.

Signed: L Manson.