Minute

Policy and Resources Committee

Tuesday, 19 February 2019, 10:30.

Council Chamber, Council Offices, School Place, Kirkwall.

ORKNEY
ISLANDS COUNCIL

Present

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

Clerk

- Alistair Buchan, 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.
- Wilfred Weir, Executive Director of Education, Leisure and Housing.
- Gareth Waterson, Head of Finance.
- Karen Greaves, Head of Executive Support.
- Gavin Mitchell, Head of Legal Services.
- Sweyn Johnston, Strategic Projects Director (for Items 18 to 22).
- Rosemary Colsell, Procurement Manager (for Items 12 to 17).
- Anna Whelan, Strategy Manager (for Items 1 to 8 and 12 to 18).
- Alex Rodwell, Senior Project Officer (for Items 1 to 12).
- Hazel Flett, Senior Committees Officer.

Observing

- Brian Archibald, Head of Marine Services, Engineering and Transportation (for Items 1 to 3).
- Hayley Green, Head of IT and Facilities.
- Andrew Groundwater, Head of HR and Performance.
- Darren Richardson, Head of Infrastructure and Strategic Projects (for Items 12 to 22).
- Ian Rushbrook, Capital Programme Manager (for Items 1 to 3).
- David Hartley, Communications Team Leader (for Item 22).
- Eibhlin Lee, Assistant Programmes Officer (for Items 18 to 22).
- Kirsty Groundwater, Press Officer.

- Chloe Rosie, Modern Apprentice (Business Administration).

Audit Scotland:

- Neil Reid, Senior Auditor (for Items 1 to 18).

Apologies

- Councillor James W Stockan.
- Councillor Magnus O Thomson.

Declarations of Interest

- Councillor J Harvey Johnston – Item 22.
- Councillor Duncan A Tullock – Item 22.

Chair

- Councillor W Leslie Manson (for Items 1 to part of Item 22).
- Councillor Graham L Sinclair (for remainder of Item 22).

1. Disclosure of Exempt Information

The Committee noted the proposal that the public be excluded from the meeting for consideration of Items 18 to 22, 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 2018, 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 £644,200:

- 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 2018, 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 2018, attached as Annex 1 to the report by the Head of Finance, indicating the following:

- A total General Fund underspend of £370,000.
- A surplus in Sources of Funding of £140,300.
- A net Non-General Fund deficit of £3,505,800.

2.2.2. The financial detail across individual Sources of Funding for the period 1 April to 31 December 2018, 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 the detailed analysis of capital expenditure, together with project updates, in respect of the General Fund and Non-General Fund capital programmes, for the period 1 April to 31 December 2018, attached as Appendix 1 to the report by the Head of Finance.

4. National Audit Report

Local Government in Scotland – Financial Overview

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

Noted:

4.1. The national audit report, Local Government in Scotland – Financial Overview 2017/18, published in November 2018 by Audit Scotland, attached as Appendix 1 to the report by the Head of Finance.

4.2. The key messages in the national audit report, a summary of which was detailed in section 4.2 of the report by the Head of Finance.

4.3. 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. 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 2019 to 2020.

6. Orkney Transmission Connection and Infrastructure Project

Governance Arrangements

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:

6.1. That the Orkney Transmission Connection and Infrastructure Project was designated as a national development in the Scottish Government's National Planning Framework 3.

6.2. That, in terms of the Town and Country Planning etc. (Scotland) Act 2006, planning applications for national developments must be subject to a pre-determination hearing and determined by the full Council.

6.3. That the regulatory consenting regime covering the Orkney Transmission Connection and Infrastructure Project consisted of the following:

- Planning applications for the substation and switching stations.
- A marine license for the submarine cables.
- An application under Section 37 of the Electricity Act 1989 for the overhead power lines and underground cables.

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

6.4. That the Hearings Process for Determination of Planning Applications, attached as Appendix 2 to this Minute, be approved for Pre-Determination Hearings when such Hearings were required in terms of the Planning etc. (Scotland) Act 2006.

6.5. That, as well as determining the planning applications submitted for the Orkney Transmission Connection and Infrastructure Project, the Council should also determine any responses made as a statutory consultee in regard to the marine licence for the submarine cables and the application under Section 37 of the Electricity Act 1989 for the overhead power lines and underground cables.

6.6. That, prior to the Pre-Determination Hearings, the Council should undertake unaccompanied site visits to the proposed substation at Finstown and the switching stations at Ellibister and St Margaret's Hope.

6.7. That the Planning Committee – Site Visits procedure, attached as Appendix 3 to this Minute, be approved as guidance for the Council in respect of the site visits referred to at paragraph 6.6 above, together with site visits in respect of any future planning applications where pre-determination hearings are mandatory.

6.8. That the Executive Director of Development and Infrastructure should arrange training, particularly for the benefit of Elected Members who had not previously had training/experience in planning matters, in order to allow participation in the consenting processes, detailed in paragraph 6.5 above.

7. College Management Council Sub-committee

Student Representatives

After consideration of a joint report by the Chief Executive and the Executive Director of Education, Leisure and Housing, copies of which had been circulated, and after hearing a report from the Head of Executive Support, the Committee:

Noted:

7.1. That, at present, two student representatives were entitled to attend meetings of the College Management Sub-committee but are not members of the Sub-committee and, therefore, did not have voting rights.

7.2. That the Code of Good Governance for Scotland's Colleges, published by Colleges Scotland in 2016, suggested that student board members, as full board members, brought essential and unique skills, knowledge and experience to the board and that they must not be excluded from board business unless there was clear conflict of interest, in common with all board members.

7.3. The expectation from the Scottish Funding Council that membership of college boards should include student representatives, with voting rights.

7.4. Current membership of the College Management Council Sub-committee as follows:

- Five Elected Members (1 vote each).
- Four Business Community representatives (1 vote each).
- Four Community representatives/Third Sector representatives (1 vote each).

7.5. That there was currently one vacancy on the College Management Council Sub-committee, namely a community representative.

7.6. The principles to be adopted, as outlined in section 7 of the joint report by the Chief Executive and the Executive Director of Education, Leisure and Housing, should the proposal that membership of the College Management Council Sub-committee be increased to include student representatives, with voting rights, be approved.

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

7.7. That membership of the College Management Council Sub-committee be increased to include student representatives, with voting rights.

7.8. That, accordingly, membership of the College Management Council Sub-committee be amended to comprise:

- Five Elected Members (1 vote each).
- Three Business Community representatives (1 vote each).
- Three Community representatives/Third Sector representatives (1 vote each).
- Two Student representatives (1 vote each).

7.9. That powers be delegated to the Chief Executive to amend the Scheme of Administration in relation to the Orkney College Management Council Sub-committee, together with the detailed constitution, to reflect the amended membership and the principles referred to at paragraph 7.6 above.

8. Review of Audio-Casting

After consideration of a report by the Chief Executive, together with an Equality Impact Assessment, copies of which had been circulated, and after hearing a report from the Head of Executive Support, the Committee:

Noted:

8.1. That audio casting of Council meetings had been underway since June 2015, using a low-cost, in-house system, with the following meetings currently broadcast:

- General Meetings of the Council.
- Policy and Resources Committee.
- Development and Infrastructure Committee.
- Education, Leisure and Housing Committee.
- Orkney Health and Care Committee.
- Monitoring and Audit Committee.
- Orkney’s Integration Joint Board, together with its Audit Committee.

8.2. That the existing microphones and audio-casting equipment were not providing an acceptable quality of sound output and therefore a review of the current arrangement had been undertaken.

8.3. Options for the type of audio-casting, as detailed in section 5 of the report by the Chief Executive, with the preferred option being Option 3, namely to progress with replacement of the in-house system.

8.4. Options for the type of replacement microphone, as detailed in section 6 of the report by the Chief Executive, with the preferred option being Option 2, namely dual use microphones with no voting, to be purchased.

8.5. Options for the scope of audio-casting, as detailed in section 7 of the report by the Chief Executive, with the preferred option being Option 2, namely to extend the audio-casting facility to include the following:

- Licensing Committee.
- Planning Committee.
- Local Review Body.

Councillor Stephen Sankey, seconded by Councillor David Dawson, moved that (1) the Council should continue to audio cast meetings of its committees; (2) the Chief Executive should purchase replacement audio-casting equipment, including a survey of the Chamber, together with dual user microphones with no electronic voting system, at a cost of £29,000, to be funded from the Capital Fund, (3) the audio casting provision be extended to include meetings of the Licensing Committee, the Planning Committee and the Local Review Body; and (4) a further review of audio-casting be undertaken following a period of operation of one year.

Councillor Robin W Crichton, seconded by Councillor Barbara Foulkes, moved an amendment that (1) the Council should continue to audio cast meetings of its committees; (2) the Chief Executive should purchase replacement audio-casting equipment, including a survey of the Chamber, together with dual user microphones with no electronic voting system, at a cost of £29,000, to be funded from the Capital Fund, (3) the audio casting provision be extended to include meetings of the Planning Committee and the Local Review Body; and (4) a further review of audio-casting be undertaken following a period of operation of one year.

The result of a recorded vote was as follows:

For the Amendment:

Councillors Stephen G Clackson, Alexander G Cowie, Norman R Craigie, Robin W Crichton, Andrew Drever, Barbara Foulkes, W Leslie Manson, Graham L Sinclair, Owen Tierney, Duncan A Tullock and Kevin F Woodbridge (11).

For the Motion:

Councillors David Dawson, Steven B Heddle, J Harvey Johnston, Rachael A King, John T Richards, Stephen Sankey, John A R Scott and Gwenda M Shearer (8).

The amendment was therefore carried and became the motion.

Councillor Rachael A King, seconded by Councillor John T Richards, moved a further amendment, notice of which had been given, that (1) the Council should continue to audio cast meetings of its committees; (2) the Chief Executive should purchase replacement audio-casting equipment, including a survey of the Chamber, together with dual user microphones with no electronic voting system, at a cost of £29,000, to be funded from the Capital Fund, (3) the audio casting provision be extended to include meetings of the Licensing Committee, the Planning Committee and the Local Review Body; and (4) the Chief Executive should submit a further report regarding extending audio-casting to include all committees and sub-committees of the Council.

The result of a recorded vote was as follows:

For the Amendment:

Councillors David Dawson, Steven B Heddle, Rachael A King, John T Richards, Stephen Sankey, John A R Scott and Gwenda M Shearer, (7).

For the Motion:

Councillors Stephen G Clackson, Alexander G Cowie, Norman R Craigie, Robin W Crichton, Andrew Drever, Barbara Foulkes, J Harvey Johnston, W Leslie Manson, Graham L Sinclair, Owen Tierney, Duncan A Tullock and Kevin F Woodbridge (12).

The motion was therefore carried.

Councillor Andrew Drever, seconded by Councillor Duncan A Tullock, moved a further amendment, notice of which had been given, that (1) the Council should continue to audio cast meetings of its committees; (2) the Chief Executive should purchase replacement audio-casting equipment, including a survey of the Chamber, together with dual user microphones with an electronic voting system, at a cost of £31,000, to be funded from the Capital Fund, (3) the audio casting provision be extended to include meetings of the Planning Committee and the Local Review Body; and (4) a further review of audio-casting be undertaken following a period of operation of one year.

The result of a recorded vote was as follows:

For the Amendment:

Councillors Alexander G Cowie, Norman R Craigie, Robin W Crichton, Andrew Drever, Barbara Foulkes, J Harvey Johnston, Rachael A King, W Leslie Manson, John T Richards, Stephen Sankey, Gwenda M Shearer, Graham L Sinclair, Duncan A Tullock and Kevin F Woodbridge (14).

For the Motion:

Councillors Stephen G Clackson, David Dawson, Steven B Heddle, John A R Scott and Owen Tierney (5).

The amendment was therefore carried.

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

8.6. That the Council should continue to audio cast meetings of its committees.

8.7. That the Chief Executive should purchase replacement audio-casting equipment, including a survey of the Chamber, together with dual user microphones with an electronic voting system, at a cost of £31,000, to be funded from the Capital Fund.

8.8. That the audio casting provision be extended to include meetings of the following Committees:

- Planning Committee.
- Local Review Body.

8.9. That a further review of audio-casting be undertaken following a period of operation of one year.

9. Orkney Memorial Fund

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

Noted:

9.1. That, in 2010, the Council resolved that, from financial year 2011 to 2012 onwards, the levels of assistance, to be granted from the Orkney Memorial Fund, be increased in line with the uprating factors determined annually as part of the budget setting process.

9.2. That, in practice, the levels of assistance, to be granted from the Orkney Memorial Fund, were uprated in accordance with the inflation factor applied to supplies and services through the budget setting process which, for a number of years, had been nil.

9.3. That, on 21 November 2018, the Administrators of the Orkney Memorial Fund requested the Head of Finance to submit a report, to the Policy and Resources Committee, reviewing the uprating factor for the guideline levels of assistance, with their preference being Consumer Price Index, as at September annually.

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

9.4. That the uprating factor for the guideline levels of assistance associated with disbursements from the Orkney Memorial Fund be amended to Consumer Price Index, as at September annually.

10. Former Papdale Halls of Residence

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

Noted:

10.1. That, on 6 September 2018, the Asset Management Sub-committee resolved that, subject to additional resources being made available, demolition of the former Papdale Halls of Residence building be progressed through the annual corporate property asset maintenance programme.

10.2. That the demolition cost of the former Papdale Halls of Residence building had been estimated at up to £2,500,000.

10.3. That, on 11 December 2018, the Council resolved that the funding source relating to the cost of demolition of the former Papdale Halls of Residence be referred back to the Policy and Resources Committee for further consideration.

10.4. The potential funding sources to meet the cost of demolition of the former Papdale Halls of Residence, detailed in section 4 of the report by the Head of Finance.

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

10.5. That the budget estimate of £2,500,000 in respect of the cost of demolition of the former Papdale Halls of Residence be established as a balance within the Repairs and Renewals Fund, comprising the following contributions:

- Insurance Fund – £1,021,000.
- Renewables, Redevelopment and Regeneration Fund – £250,000.
- General Fund Repairs and Renewals – £459,000.
- Care Facility Fund – £420,000.
- Non-Earmarked General Fund Balances – £350,000.

10.6. That powers be delegated to the Head of Finance to substitute General Capital Grant for the funding sources identified in paragraph 10.5 above, should it be possible to capitalise some, or all, of the expenditure associated with demolition of the former Papdale Halls of Residence.

10.7. That any unutilised funding from the contributions set out in paragraph 10.5 above be returned to the Renewables, Redevelopment and Regeneration Fund.

11. Electronic Document and Records Management System

After consideration of a joint report by the Chief Executive and the Executive Director of Corporate Services, copies of which had been circulated, and after hearing a report from the Head of Legal Services, the Committee:

Noted:

11.1. That, in December 2017, the Council agreed to part fund development of an Electronic Document and Records Management System.

11.2. That the aim of the project was to deliver a system for all electronic documents and records created and used by officers, with the exception of documents and/or records that started in, or once they entered, a specific case management system, for example Human Resource or social care systems.

11.3. That the project rationale encompassed legislative and regulatory requirements, corporate policy, strategy and plans and operational requirements.

11.4. That a staged, user centric approach was being taken for the project, with stakeholder engagement and communications an integrated part.

11.5. The risk associated with delivering the project using only existing resource, which was being mitigated through recruitment of a temporary project officer utilising existing funding.

11.6. That robust operational governance was provided by a cross-service project board, led by the Executive Director of Corporate Services, with project assurance provided by two officers on the project team reporting to the project board.

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

11.7. That the project approach and governance in respect of the Electronic Document and Records Management System project, referred to at paragraphs 11.4 to 11.6 above, be endorsed.

12. Volunteering Policy

After consideration of a report by the Executive Director of Corporate Services, together with an Equality Impact Assessment, copies of which had been circulated, the Committee:

Noted:

12.1. That the existing Volunteering Policy was adopted by Council in December 2016.

12.2. That, during the summer of 2018, it became clear that the public in Orkney wished to undertake volunteering in areas which had not been considered as volunteering opportunities in the past.

12.3. That, as those activities were not covered by the Council's existing Volunteering Policy, and there was a desire to support and encourage community volunteering, an officer group reviewed the Volunteering Policy and drafted some amendments to ensure that volunteering continued to be encouraged by the Council within the national legislative framework in those new areas.

Councillor W Leslie Manson, seconded by Councillor Robin W Crichton, moved that the revised Volunteering Policy be approved.

Councillor Barbara Foulkes, seconded by Councillor Owen Tierney, moved an amendment that no change be made to the existing Volunteering Policy.

The result of a recorded vote was as follows:

For the Amendment:

Councillors Barbara Foulkes, Steven B Heddle, J Harvey Johnston and Owen Tierney (4).

For the Motion:

Councillors Stephen G Clackson, Alexander G Cowie, Norman R Craigie, Robin W Crichton, David Dawson, Andrew Drever, Rachael A King, W Leslie Manson, John T Richards, Stephen Sankey, John A R Scott, Gwenda M Shearer, Graham L Sinclair, Duncan A Tullock and Kevin F Woodbridge (15).

The motion was therefore carried.

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

12.4. That the revised Volunteering Policy, attached as Appendix 4 to this Minute, be approved.

13. Community Consultation and Engagement Policy

After consideration of a report by the Executive Director of Corporate Services, together with an Equality Impact Assessment, copies of which had been circulated, the Committee:

Noted:

13.1. That, in 2010, the Council adopted the Community Consultation and Engagement Guide, which was published and regularly updated by The Orkney Partnership.

13.2. That a need had been identified for a formal Council policy on community consultation and engagement to complement the Guide.

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

13.3. That the Community Consultation and Engagement Policy, attached as Appendix 5 to this Minute, be approved.

14. Fairtrade in Orkney

After consideration of a report by the Executive Director of Corporate Services, together with an Equality Impact Assessment, copies of which had been circulated, the Committee:

Noted:

14.1. That, since the Council led the establishment phase of the Orkney Fair Trade Group from 2012, the Council had supported the work of the Orkney Fair Trade Group which achieved Fairtrade Zone status for Orkney in February 2014.

14.2. That the campaign had been praised by the Fairtrade Foundation for promoting Fairtrade alongside locally-produced goods across Orkney.

14.3. That the Fairtrade Foundation awarded the accreditation to the islands in response to a campaign led by the Orkney Fair Trade Group, supported by the Council.

14.4. That the Orkney Fair Trade Group was applying to renew its Fairtrade Zone status for this year, which would be the third time since initial successful achievement in 2014.

14.5. The proposal that the Council reaffirmed its commitment to supporting the work of the Orkney Fair Trade Group, with a relaunch of the original commitment referred to in section 3.1 of the report by the Executive Director of Corporate Services, with the exception of the final resolution, as Fairtrade zone status for Orkney had been achieved.

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

14.6. That the Council reaffirm its commitment to supporting the work of the Orkney Fair Trade Group, as outlined in paragraph 14.5 above.

15. Procurement Strategy

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 Procurement Manager, the Committee:

Noted:

15.1. That public consultation on the revised Procurement Strategy was undertaken between 10 October 2018 and 21 January 2019.

15.2. Amendments made to the Procurement Strategy 2016 to 2018, as detailed in section 4.4 of the report by the Executive Director of Corporate Services.

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

15.3. That the Procurement Strategy 2019 to 2021, attached as Appendix 6 to this Minute, be approved.

16. Police and Fire Sub-committee

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

Resolved, on the motion of Councillor Andrew Drever, seconded by Councillor Gwenda M Shearer, to approve the Minute of the Meeting of the Police and Fire Sub-committee held on 20 November 2018, attached as Appendix 7 to this Minute, as a true record.

17. Exclusion of Public

On the motion of Councillor W Leslie Manson, seconded by Councillor Rachael A King, 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.

18. Single Authority Model

Proposed Consultation and Engagement Plan

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 1 and 11 of Part 1 of Schedule 7A of the Act.

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

Resolved to **recommend to the Council** what action should be taken with regard to the single authority model.

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.

Councillor Kevin F Woodbridge left the meeting during discussion of this item and Councillors Barbara Foulkes and Steven B Heddle left the meeting at this point.

19. Pension Fund Sub-committee together with Pension Board

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

After consideration of the draft Minute of the Meeting of the Pension Fund Sub-committee, together with the Pension Board, held on 21 November 2018, copies of which had been circulated, the Committee:

Resolved, on the motion of Councillor W Leslie Manson, seconded by Councillor Rachael A King, to approve the Minute of the Meeting of the Pension Fund Sub-committee, together with the Pension Board, held on 21 November 2018, attached as Appendix 9 to this Minute, as a true record.

20. Investments 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 6 and 9 of Part 1 of Schedule 7A of the Act.

After consideration of the draft Minute of the Meeting of the Investments Sub-committee held on 22 November 2018, copies of which had been circulated, the Committee:

Resolved, on the motion of Councillor Rachael A King, seconded by Councillor Stephen Sankey, to approve the Minute of the Meeting of the Investments Sub-committee held on 22 November 2018, attached as Appendix 10 to this Minute, as a true record.

21. 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 paragraph 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 31 January 2019, copies of which had been circulated, the Committee:

Resolved:

21.1. On the motion of Councillor W Leslie Manson, seconded by Councillor John A R Scott, to approve the Minute of the Meeting of the Asset Management Sub-committee held on 31 January 2019 as a true record.

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

21.2. That the recommendation at paragraph 5.4 of the Minute of the Meeting of the Asset Management Sub-committee held on 31 January 2019, attached as Appendix 11 to this Minute, be approved.

22. Scale Wind Project

Councillor J Harvey Johnston declared a non-financial interest in this item, in that a family member was part of the Strategic Projects team, and left the meeting at this point.

Councillor Duncan A Tullock declared a non-financial interest in this item, in that a close family member was involved in a potential project, and left the meeting at this point.

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 6, 8 and 9 of Part 1 of Schedule 7A of the Act.

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

Noted the current position with regard to the scale wind project.

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.

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

As the Chair had a prior commitment and required to leave the meeting, he called for nominations for a Chair for the remainder of the meeting.

The Committee thereafter resolved:

22.1. That Councillor Graham L Sinclair be appointed Chair for the remainder of the meeting.

Councillor W Leslie Manson left the meeting at this point and Councillor Graham L Sinclair assumed the Chair.

Signed: L. Manson.

After further discussion and following advice from the Chief Executive, the Committee thereafter resolved to **recommend to the Council**:

22.2. That, due to the reduced number of members remaining, consideration of this item be referred to the General Meeting of the Council, scheduled for 5 March 2019, for determination.

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.

23. Conclusion of Meeting

At 16:50 the Chair declared the meeting concluded.

Signed: Graham L Sinclair.

Appendix 1

Treasury Management Strategy Statement

and Annual Investment Strategy

Orkney Islands Council

2019/20

Contents

1. Introduction ... 3
1.1. Background ... 3
1.2. Reporting Requirements ... 4
1.3. Treasury Management Strategy for 2019/20 ... 5
1.4. Training ... 5
1.5. Treasury Management Consultants. ... 5
2. Capital Prudential Indicators 2018/19 – 2020/21 ... 6
2.1. Capital expenditure ... 6
2.2. The Council's borrowing need (the Capital Financing Requirement). ... 6
2.3. Core funds and expected investment balances ... 7
2.4. Statutory repayment of loans fund advances ... 8
3. Borrowing ... 8
3.1. Current portfolio position ... 8
3.2. Treasury Indicators: limits to borrowing activity ... 10
3.3. Prospects for interest rates ... 11
3.4. Borrowing strategy ... 12
3.5. Policy on Borrowing in Advance of Need ... 13
3.6. Debt Rescheduling ... 14
3.7. Municipal Bond Agency ... 14
4. Annual Investment Strategy ... 14
4.1. Investment Policy ... 14
4.2. Creditworthiness Policy ... 16
4.3. Country and sector limits ... 18
4.4. Investment strategy ... 18
4.5. Investment risk benchmarking ... 20
4.6. End of Year Investment Report ... 20
4.7. External Fund Managers ... 20
Appendices ... 21
5.1. The Capital Prudential and Treasury Indicators 2018/2019 – 2020/2021 ... 22
5.2. Interest Rate Forecasts 2019 – 2022 ... 24
5.3. Economic Background ... 25
5.4. Treasury Management Practice (Tmp1): Permitted Investments ... 31
5.5. Treasury Management Practice (TMP1): Credit and Counterparty Risk Management ... 46
5.6. Approved Countries for Investments ... 52
5.7. Treasury Management Scheme of Delegation ... 53
5.8. The Treasury Management Role of The Section 95 Officer ... 53

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 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 activities, (arising usually from capital expenditure), 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 2019/20 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 revised 2017 Prudential and Treasury Management Codes require, for 2019-20, all local authorities to prepare an additional report, a capital strategy report, which will provide the following:

- a high-level 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 polices, estimates and actuals.

a. Prudential and treasury indicators and treasury strategy (this report) - The first, and most important report covers 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, and
- 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 with the progress of 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 2019/20

The strategy for 2019/20 covers two main areas:

- Capital Issues:
  - Capital expenditure plans and the associated prudential indicators.
  - The loans fund repayment policy.
- Treasury Management Issues:
  - Current treasury position.
  - Treasury indicators which limit the treasury risk and activities of the Council.
  - Prospects for interest rates.
  - Borrowing strategy.
  - Policy on borrowing in advance of need.
  - Debt rescheduling.
  - Investment strategy.
  - Creditworthiness policy.
  - 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 2018/19 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 and documented and subjected to regular review.

2. Capital Prudential Indicators 2018/19 – 2020/21

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 2019:

Capital expenditure £m	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Non-HRA	**14.635**	**13.930**	**30.788**	**22.486**	**6.830**
HRA	**0.613**	**0.250**	**2.500**	**1.415**	**0.084**
Total	**14.760**	**14.180**	**33.288**	**23.901**	**6.914**

Other long term liabilities. The above financing need excludes other long term liabilities, such as PFI and leasing arrangements which 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	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Capital receipts	0.734	0.150	0.150	0.150	0.150
Capital grants	8.070	8.415	13.024	7.517	6.600
Capital reserves	0.00	0.343	4.060	5.644	0.000
Revenue	3.072	0.584	0.692	0.569	0.569
Net financing need for the year	**2.884**	**4.688**	**15.362**	**10.021**	**(0.405)**

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 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.

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	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Capital Financing Requirement					
CFR – non housing	33.268	37.706	52.982	61.588	61.099
CFR – housing	14.436	14.686	14.772	16.187	16.271
Total CFR	**47.704**	**52.392**	**67.754**	**77.775**	**77.370**
Movement in CFR	**(1.372)**	**3.091**	**13.609**	**7.608**	**(3.200)**

Movement in CFR represented by					
Net financing need for the year (above)	2.884	4.688	15.362	10.021	(0.405)
Less loan fund repayments and other financing movements	(4.256)	(1.597)	(1.753)	(2.413)	(2.795)
Movement in CFR	**(1.372)**	**3.091**	**13.609**	**7.608**	**(3.200)**

A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any commercial activity in relation to the authority's overall financial position. 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	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Fund balances / reserves	249.283	247.778	245.402	245.363	250.007
Capital receipts	2.630	2.630	1.690	1.690	1.690
Provisions	2.802	2.802	2.802	2.802	2.802
Other	8.585	8.600	8.600	8.600	8.600
Total core funds	**263.300**	**261.810**	**267.494**	**258.455**	**263.099**
Working capital*	(2.798)	(2.800)	(2.800)	(2.800)	(2.800)
Under/over borrowing**	(17,504)	(22.221)	(22.611)	(22.661)	(22.284)
Expected investments	**242.998**	**236.789**	**242.083**	**232.994**	**238.015**

*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 2019/20:

For all loans fund advances, the policy will be to maintain the practice of previous years and apply the Asset Method, with all loans fund advances being repaid in equal instalments of principal with reference to the life of 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 2018 and for the position as at 31 December 2018 are shown below for both borrowing and investments.

TREASURY PORTFOLIO				
	actual	actual	current	current
	31.3.18	**31.3.18**	**31.12.18**	**31.12.18**
Treasury investments	£000	%	£000	%
banks	12,200	5%	13,564	6%
building societies - unrated	0	0%	0	0%
building societies - rated	0	0%	0	0%
local authorities	11,000	4%	12,000	5%
DMADF (H.M.Treasury)	0	0%	0	0%
money market funds	3,500	1%	5,300	2%
certificates of deposit	2,000	1%	6,000	2%
Total managed in house	**28,700**	**12%**	**36,864**	**15%**
property investments	21,557	9%	21,676	9%
local investments	8,722	4%	10,222	4%
Strategic Reserve Fund managed in house	**30,279**	**12%**	**31,898**	**13%**
bond funds	47,900	19%	47,700	19%
diversified growth fund	37,400	15%	36,800	15%
equity fund	88,500	36%	87,300	36%
credit strategies fund	20,200	8%	19,800	8%
property funds	21,400	9%	22,300	9%
Strategic Reserve Fund managed externally	**215,400**	**88%**	**213,900**	**87%**
Total treasury investments	**245,679**	**100%**	**245,798**	**100%**
Treasury external borrowing				
local authorities	0	0%	0	0%
PWLB	30,000	99%	30,000	99%
other	200	1%	171	1%
LOBOs	0	0%	0	0%
Total external borrowing	**30,200**	**100%**	**30,171**	**100%**
Net treasury investments / (borrowing)	**215,479**		**215,627**	

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

£m	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
External Debt					
Debt at 1 April					
Expected change in Debt	35.228	30.200	30.171	45.143	55.114
Other long-term liabilities (OLTL)	(5.028)	(0.029)	(0.028)	(0.029)	(0.028)
Expected change in OLTL	0.000	0.000	15.000	10.000	0.000
Actual gross debt at 31 March	**30.200**	**30.171**	**45.143**	**55.114**	**55.086**
The Capital Financing Requirement	**47.704**	**52.392**	**67.754**	**77.775**	**77.370**
Under / (over) borrowing	**17.504**	**22.221**	**22.611**	**22.661**	**22.284**

Within the 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 2018/19 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 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	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Debt	60.000	60.000	60.000	65.000
Other long term liabilities	0.000	0.000	0.000	0.000
Total	60.000	60.000	60.000	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.

This is the statutory limit (Affordable Capital Expenditure Limit) determined under section 35 (1) of the Local Government in Scotland Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

The Council is asked to approve the following authorised limit:

Authorised limit £m	**2018/19 Estimate**	**2019/20 Estimate**	**2020/21 Estimate**	**2021/22 Estimate**
Debt	75.000	75.000	75.000	80.000
Other long term liabilities	0.000	0.000	0.000	0.000
Total	75.000	75.000	75.000	80.000

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	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	1.75%	2.00%
3 Month LIBID	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%
6 Month LIBID	1.00%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%
12 Month LIBID	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%
5yr PWLB Rate	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.80%
10yr PWLB Rate	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%
25yr PWLB Rate	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%

The flow of generally positive economic statistics after the quarter ended 30 June 2018 meant that it came as no surprise that the MPC came to a decision on 2 August to make the first increase in Bank Rate above 0.5% since the financial crash, from 0.5% to 0.75%. Growth became increasingly strong during 2018 until slowing significantly during the last quarter. At their November quarterly Inflation Report meeting, the MPC left Bank Rate unchanged, but expressed some concern at the Chancellor's fiscal stimulus in his Budget, which could increase inflationary pressures. However, it is unlikely that the MPC would increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. On a major assumption that Parliament and the EU agree a Brexit deal in the first quarter of 2019, then the next increase in Bank Rate is forecast to be in May 2019, followed by increases in February and November 2020, before ending up at 2.0% in February 2022.

The overall longer run future trend is for gilt yields, and consequently PWLB rates, to rise, albeit gently. However, over about the last 25 years, we have been through a period of falling bond yields as inflation subsided to, and then stabilised at, much lower levels than before, and supported by central banks implementing substantial quantitative easing purchases of government and other debt after the financial crash of 2008. Quantitative easing, conversely, also caused a rise in equity values as investors searched for higher returns and purchased riskier assets. In 2016, we saw the start of a reversal of this trend with a sharp rise in bond yields after the US Presidential election in November 2016, with yields then rising further as a result of the big increase in the US government deficit aimed at stimulating even stronger economic growth. That policy change also created concerns around a significant rise in inflationary pressures in an economy which was already running at remarkably low levels of unemployment. Unsurprisingly, the Fed has continued on its series of robust responses to combat its perception of rising inflationary pressures by repeatedly increasing the Fed rate to reach 2.25 – 2.50% in December 2018. It has also continued its policy of not fully reinvesting proceeds from bonds that it holds as a result of quantitative easing, when they mature. We therefore saw US 10 year bond Treasury yields rise above 3.2% during October 2018 and also investors causing a sharp fall in equity prices as they sold out of holding riskier assets. However, by early January 2019, US 10 year bond yields had fallen back considerably on fears that the Fed was being too aggressive in raising interest rates and was going to cause a recession. Equity prices have been very volatile on alternating good and bad news during this period.

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.

Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. 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 2019/20 but to be on a gently rising trend over the next few years.
- Borrowing interest rates have been volatile so far in 2018-19 and while they were on a rising trend during the first half of the year, they have backtracked since then until early January. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt;
- There will remain a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new long-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 to be considered.

Against this background and the risks within the economic forecast, caution will be adopted with the 2019/20treasury 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 long and short term rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.
- 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 sum 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, and
- The Authority would not look to borrow more than 24 months in advance of need.

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

3.6. 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.

All rescheduling 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 2018/19 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. (This area is currently under review by LASAAC and the Scottish Government. Members will be updated when there is further news.) 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.

A review of the current investment strategy is ongoing with a view to achieving further diversification away from equity investments, into more illiquid longer term alternative asset classes including infrastructure, 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 equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored on a weekly basis. The 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 5.3.

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. This 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.

Bank Rate is forecast to stay flat at 0.50% until quarter 4 2018 and not to rise above 1.25% by quarter 1 2021. Bank Rate forecasts for financial year ends (March) are:

Financial Year.	Bank Rate.
2018/19	0.50%
2019/20	0.75%
2020/21	1.00%
2021/22	1.25%

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:

Financial Year.	Now.
2018/19	0.40%
2019/20	0.60%
2020/21	0.90%
2021/22	1.25%
2021/22	1.50%
2022/23	1.75%
2023/24	2.00%
Later years	2.75%

The overall balance of risks to these forecasts is currently skewed to the upside and are dependent on how strong GDP growth turns out, how quickly inflation pressures rise and how quickly the Brexit negotiations move forward positively.

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 treasury indicator and limit:

Upper limit for principal sums invested for longer than 365 days			
	2019/20	2020/21	2021/22
Principal sums invested for longer than 365 days	£m 70	£m 70	£m 70

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. This has been reflected in the forecast for the next three years as follows:

- 2018/2019 5.60%.
- 2019/2020 5.60%.
- 2020/2021 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

The Council uses investment benchmarks to assess the investment performance of its investment portfolio both for in-house and external investments:

Investment Portfolio	Benchmark	Target Mandate
In-house cash balances	90-day LIBOR	Outperform benchmark
Bonds	UK Corporate Bonds (75%) - ML Sterling Non-Gilts All Stocks UNPO Index	Benchmark over a rolling 3 year period +0.75% p.a.
Equities	UK Equities (45%) - FTSE All Share Index Global Equities (55%) - MSCI All Country World Index (NDR)	Benchmark over a rolling 3 year period +1.5% p.a.
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.
Enhanced Yield Debt Strategies or Multi-Asset Credit Fund	90-day LIBOR	Benchmark over a rolling 3 year period +5.0% 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 2019, it is estimated that £217m 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 Council's 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 for further added value through the introduction of a new allocation to enhanced yield debt focused strategies. During 2017/18 a transition programme developed in consultation with investment advisors was concluded, with the transfer of £20m, to the appointed specialist debt investment fund manager.

A further strategy review is currently taking place with a number of strategies being identified depending on whether the objective or focus of the Strategic Reserve Fund managed fund investments is to achieve growth or income generation going forward.

The Head of Finance, in consultation with Hymans Robertson, will develop the findings of the review into a set of specific proposals for a revised investment strategy of the Strategic Reserve Fund managed funds to be presented to a future meeting of the Investment Sub-Committee.

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.

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 2018/2019 – 2020/2021

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	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Social Care	1.344	3.715	8.268	8.806	1.371
Roads and Transportation	3.715	2.427	1.916	0.977	0.950
Education and Leisure	2.911	0.122	2.909	2.843	0.328
Marine Services	1.586	3.179	11.030	4.965	0.450
Other Services	5.079	4.487	6.665	4.895	3.731
Non-HRA	**14.635**	**13.930**	**30.788**	**22.486**	**6.830**
HRA	**0.125**	**0.250**	**2.500**	**1.415**	**0.084**
Total	**14.760**	**14.180**	**33.288**	**23.901**	**6.914**

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:

5.1.2.1. 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.

%	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
General Fund	3.1%	1.5%	1.7%	2.3%	2.4%
Scapa Flow Oil Port	2.4%	2.5%	6.5%	18.8%	23.2%
Miscellaneous Piers	16.7%	16.3%	16.3%	15.1%	14.8%
HRA	30.5%	29.3%	28.4%	29.0%	29.5%

The estimates of financing costs include current commitments as set out in the Council's approved capital programme.

5.1.2.2. HRA Ratios.

£	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
HRA debt £m	**13.884**	**13.626**	**13.198**	**14.097**	**13.630**
HRA revenues £m	**3.604**	**3.721**	**3.810**	**4.019**	**4.099**
Ratio of debt to revenues %	**26.0**	**27.3**	**28.9**	**28.5**	**30.1**

£	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
HRA debt £m	**13.884**	**13.626**	**13.198**	**14.097**	**13.630**
Number of HRA dwellings £m	**949**	**949**	**981**	**981**	**981**
Debt per dwelling £	**14,630**	**14,358**	**13,454**	**14,370**	**13,894**

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 2019/20		
	Lower	**Upper**
Under 12 months	0%	0%
12 months to 2 years	10%	20%
2 years to 5 years	10%	20%
5 years to 10 years	0%	15%
10 years and above	55%	80%

5.1.4. Control of Interest Rate Exposure.

Please see paragraphs 3.3, 3.4 and 4.4.

5.2. Interest Rate Forecasts 2019 – 2022

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

Link Asset Services Interest Rate View	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	1.75%	2.00%
3 Month LIBID	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%
6 Month LIBID	1.00%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%
12 Month LIBID	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%
5yr PWLB Rate	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.80%
10yr PWLB Rate	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%
25yr PWLB Rate	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%
Bank Rate													
Link Asset Services	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	1.75%	2.00%
Capital Economics	0.75%	1.00%	1.25%	1.50%	1.70%	1.75%	2.00%	2.00%	-	-	-	-	-
5yr PWLB Rate													
Link Asset Services	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.80%
Capital Economics	2.03%	2.15%	2.40%	2.65%	2.70%	2.75%	2.80%	2.85%	-	-	-	-	-
10yr PWLB Rate													
Link Asset Services	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%
Capital Economics	2.43%	2.55%	2.80%	3.05%	3.05%	3.05%	3.05%	3.05%	-	-	-	-	-
25yr PWLB Rate													
Link Asset Services	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%	3.60%
Capital Economics	2.96%	3.08%	3.33%	3.58%	3.53%	3.48%	3.43%	3.38%	-	-	-	-	-
50yr PWLB Rate													
Link Asset Services	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%
Capital Economics	2.78%	2.90%	3.15%	3.40%	3.40%	3.40%	3.40%	3.40%	-	-	-	-	-

5.3. Economic Background

Global Outlook.

World growth has been doing reasonably well, aided by strong growth in the US. However, US growth is likely to fall back in 2019 and, together with weakening economic activity in China and the eurozone, overall world growth is likely to weaken.

Inflation has been weak during 2018 but, at long last, unemployment falling to remarkably low levels in the US and UK has led to an acceleration of wage inflation. The US Fed has therefore increased rates nine times and the Bank of England twice. However, the ECB is unlikely to start raising rates until late in 2019 at the earliest.

Key Risks – central bank monetary policy measures

Looking back on nearly ten years since the financial crash of 2008 when liquidity suddenly dried up in financial markets, it can be assessed that central banks' monetary policy measures to counter the sharp world recession were successful. The key monetary policy measures they used were a combination of lowering central interest rates and flooding financial markets with liquidity, particularly through unconventional means such as quantitative easing (QE), where central banks bought large amounts of central government debt and smaller sums of other debt.

The key issue now is that period of stimulating economic recovery and warding off the threat of deflation, is coming towards its close. A new period is well advanced in the US, and started more recently in the UK, of reversing those measures i.e. by raising central rates and, (for the US), reducing central banks' holdings of government and other debt. These measures are now required in order to stop the trend of a reduction in spare capacity in the economy and of unemployment falling to such low levels, that the re-emergence of inflation is viewed as a major risk. It is, therefore, crucial that central banks get their timing right and do not cause shocks to market expectations that could destabilise financial markets. In particular, a key risk is that because QE-driven purchases of bonds drove up the price of government debt, and therefore caused a sharp drop in income yields, this also encouraged investors into a search for yield and into investing in riskier assets such as equities. Consequently, prices in both bond and equity markets rose to historically high valuation levels simultaneously. This meant that both asset categories were exposed to the risk of a sharp downward correction and we did, indeed, see a sharp fall in equity values in the last quarter of 2018. It is important, therefore, that central banks only gradually unwind their holdings of bonds in order to prevent destabilising the financial markets. It is also likely that the timeframe for central banks unwinding their holdings of QE debt purchases will be over several years. They need to balance their timing to neither squash economic recovery, by taking too rapid and too strong action, or, conversely, let inflation run away by taking action that was too slow and/or too weak. **The potential for central banks to get this timing and strength of action wrong are now key risks.** At the time of writing, (early January 2019), financial markets are very concerned that the Fed is being too aggressive with its policy for raising interest rates and is likely to cause a recession in the US economy.

The world economy also needs to adjust to a sharp change in **liquidity creation** over the last five years where the US has moved from boosting liquidity by QE purchases, to reducing its holdings of debt (currently about $50bn per month). In addition, the European Central Bank ended its QE purchases in December 2018.

UK. The flow of positive economic statistics since the end of the first quarter of 2018 has shown that pessimism was overdone about the poor growth in quarter 1 when adverse weather caused a temporary downward blip. Quarter 1 at 0.1% growth in GDP was followed by a return to 0.4% in quarter 2 and by a strong performance in quarter 3 of +0.6%. However, growth in quarter 4 is expected to weaken significantly.

At their November quarterly Inflation Report meeting, the MPC repeated their well-worn phrase that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary of contractionary), than before the crash; indeed they gave a figure for this of around 2.5% in ten years' time, but declined to give a medium term forecast. However, with so much uncertainty around Brexit, they warned that the next move could be up or down, even if there was a disorderly Brexit. While it would be expected that Bank Rate could be cut if there was a significant fall in GDP growth as a result of a disorderly Brexit, so as to provide a stimulus to growth, they warned they could also *raise* Bank Rate in the same scenario if there was a boost to inflation from a devaluation of sterling, increases in import prices and more expensive goods produced in the UK replacing cheaper goods previously imported, and so on. In addition, the Chancellor could potentially provide fiscal stimulus to support economic growth, though at the cost of increasing the budget deficit above currently projected levels.

It is unlikely that the MPC would increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. Getting parliamentary approval for a Brexit agreement on both sides of the Channel will take well into spring 2019. However, in view of the hawkish stance of the MPC at their November meeting, the next increase in Bank Rate is now forecast to be in May 2019, (on the assumption that a Brexit deal is agreed by both the UK and the EU). The following increases are then forecast to be in February and November 2020 before ending up at 2.0% in February 2022.

Inflation. The Consumer Price Index (CPI) measure of inflation has been falling from a peak of 3.1% in November 2017 to 2.1% in December 2018. In the November Bank of England quarterly Inflation Report, inflation was forecast to still be marginally above its 2% inflation target two years ahead, (at about 2.1%), given a scenario of minimal increases in Bank Rate.

As for the **labour market** figures in October**,** unemployment at 4.1% was marginally above a 43 year low of 4% on the Independent Labour Organisation measure. A combination of job vacancies hitting an all-time high, together with negligible growth in total employment numbers, indicates that employers are now having major difficulties filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to 3.3%, (3 month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates less CPI inflation), earnings are currently growing by about 1.2%, the highest level since 2009. This 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. This tends to confirm that the MPC was right to start on a cautious increase in Bank Rate in August as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy.

In the **political arena**, the Brexit deal put forward by the Conservative minority government was defeated on 15 January. It is unclear at the time of writing, how this situation will move forward. However, our central position is that Prime Minister May's government will endure, despite various setbacks, along the route to reaching an orderly Brexit though the risks are increasing that it may not be possible to get full agreement by the UK and EU before 29 March 2019, in which case this withdrawal date is likely to be pushed back to a new date. If, however, the UK faces a general election in the next 12 months, this could result in a potential loosening of monetary and fiscal policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

USA. President Trump's massive easing of fiscal policy is fuelling a (temporary) boost in consumption which has generated an upturn in the rate of strong growth which rose from 2.2% (annualised rate) in quarter 1 to 4.2% in quarter 2 and 3.5%, (3.0% y/y), in quarter 3, but also an upturn in inflationary pressures. The strong growth in employment numbers and the reduction in the unemployment rate to 3.9%, near to a recent 49 year low, has fed through to an upturn in wage inflation which hit 3.2% in November. However, CPI inflation overall fell to 2.2% in November and looks to be on a falling trend to drop below the Fed's target of 2% during 2019. The Fed has continued on its series of increases in interest rates with another 0.25% increase in December to between 2.25% and 2.50%, this being the fifth increase in 2018 and the ninth in this cycle. However, they did also reduce their forecast for further increases from three to two. This latest increase compounded investor fears that the Fed is over doing the speed and level of increases in rates and that it is going to cause a US recession as a result. There is also much evidence in previous monetary policy cycles of the Fed's series of increases doing exactly that. Consequently, we have seen stock markets around the world falling under the weight of fears around the Fed's actions, the trade war between the US and China and an expectation that world growth will slow.

The tariff war between the US and China has been generating a lot of heat during 2018, but it is not expected that the current level of actual action would have much in the way of a significant effect on US or world growth. However, there is a risk of escalation if an agreement is not reached soon between the US and China.

Eurozone. Growth was 0.4% in quarters 1 and 2 but fell back to 0.2% in quarter 3, though this was probably just a temporary dip. In particular, data from Germany has been mixed and it could be negatively impacted by US tariffs on a significant part of its manufacturing exports e.g. cars. For that reason, although growth is still expected to be in the region of nearly 2% for 2018, the horizon is less clear than it seemed just a short while ago. Having halved its quantitative easing purchases of debt in October 2018 to €15bn per month, the European Central Bank ended all further purchases in December 2018. The ECB is forecasting inflation to be a little below its 2% top limit through the next three years so it may find it difficult to warrant a start on raising rates by the end of 2019 if the growth rate of the EU economy is on a weakening trend.

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 credit systems. Progress has been made in reducing the rate of credit creation, particularly from the shadow banking sector, which is feeding through into lower economic growth. There are concerns that official economic statistics are inflating the published rate of growth.

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. It is likely that loose monetary policy will endure for some years yet to try to stimulate growth and modest inflation.

Emerging countries. Argentina and Turkey are currently experiencing major headwinds and are facing challenges in external financing requirements well in excess of their reserves of foreign exchange. However, these countries are small in terms of the overall world economy, (around 1% each), so the fallout from the expected recessions in these countries will be minimal.

Interest Rate Forecasts.

The interest rate forecasts provided by Link Asset Services in paragraph 3.2 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 due to all the uncertainties around Brexit depressing consumer and business confidence, an agreement is likely to lead to a boost to the rate of growth in 2020 which 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, 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 was 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. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

However, there would appear to be a majority consensus in the Commons against any form of non-agreement exit so the chance of this occurring has now substantially diminished.

The balance of risks to the UK.

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

- The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are broadly dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

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 for ten years 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:

- **Brexit** – if it were to cause significant economic disruption and a major downturn in the rate of growth.
- **Bank of England monetary policy** 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**, possibly in **Italy**, due to its high level of government debt, low rate of economic growth and vulnerable banking system, and due to the election in March of a government which has made a lot of anti-austerity noise. The EU rejected the initial proposed Italian budget and demanded cuts in government spending which the Italian government initially refused. However, a fudge was subsequently agreed, but only by *delaying* the planned increases in expenditure to a later year. This can has therefore only been kicked down the road to a later time. The rating agencies have started on downgrading Italian debt to one notch above junk level. If Italian debt were to fall below investment grade, many investors would be unable to hold it. Unsurprisingly, investors are becoming increasingly concerned by the words and actions of the Italian government and consequently, Italian bond yields have risen – at a time when the government faces having to refinance large amounts of debt maturing in 2019.
- Weak capitalisation of some **European banks**. Italian banks are particularly vulnerable; one factor is that they hold a high level of Italian government debt - debt which is falling in value. This is therefore undermining their capital ratios and raises the question of whether they will need to raise fresh capital to plug the gap.
- **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. Then in October 2018, the results of the Bavarian and Hesse state elections radically undermined the SPD party and showed a sharp fall in support for the CDU. As a result, the SPD is reviewing whether it can continue to support a coalition that is so damaging to its electoral popularity. After the result of the Hesse state election, Angela Merkel announced

that she would not stand for re-election as CDU party leader at her party's convention in December 2018, (a new party leader has now been elected). However, this makes little practical difference as she is still expected to aim to continue for now as the Chancellor. However, there are five more state elections coming up in 2019 and EU parliamentary elections in May/June; these could result in a further loss of electoral support for both the CDU and SPD which could also undermine her leadership.

- **Other minority eurozone governments.** Spain, Portugal, Ireland, the Netherlands and Belgium all have vulnerable minority governments dependent on coalitions which could prove fragile. Sweden is also struggling to form a government due to the anti-immigration party holding the balance of power, and which no other party is willing to form a coalition with. The Belgian coalition collapsed in December 2018 but a minority caretaker government has been appointed until the May EU wide general elections.
- **Austria, the Czech Republic and Hungary** now form a strongly anti-immigration bloc within the EU while **Italy,** in 2018, also elected a strongly anti-immigration government. Elections to the EU parliament are due in May/June 2019.
- Further increases in interest rates in the US could spark a **sudden flight of investment funds** from more risky assets e.g. shares, into bonds yielding a much improved yield. Throughout the last quarter of 2018, we saw sharp falls in equity markets interspersed with occasional partial rallies. Emerging countries which have borrowed heavily in dollar denominated debt, could be particularly exposed to this risk of an investor flight to safe havens e.g. UK gilts.
- There are concerns around the level of **US corporate debt** which has swollen massively during the period of low borrowing rates in order to finance mergers and acquisitions. This has resulted in the debt of many large corporations being downgraded to a BBB credit rating, close to junk status. Indeed, 48% of total investment grade corporate debt is now rated at BBB. If such corporations fail to generate profits and cash flow to reduce their debt levels as expected, this could tip their debt into junk ratings which will increase their cost of financing and further negatively impact profits and cash flow.
- **Geopolitical risks,** especially 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 both sides were to agree by 29 March a compromise that quickly removed all threats of economic and political disruption and so led to an early boost to UK economic growth.
- **The Fed causing a sudden shock in financial markets** through misjudging the pace and strength of increases in its Fed Funds Rate and in the pace and strength of reversal of QE, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflation 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.

Brexit timetable and process:

- March 2017: UK government notified the European Council of its intention to leave under the Treaty on European Union Article 50 on 29 March 2019.
- 25 November 2018: EU27 leaders endorsed the withdrawal agreement.
- December 2018: Vote in UK Parliament on the agreement was postponed.
- 21 December 2018 to 8 January 2019: UK parliamentary recess.
- 15 January 2019: Brexit deal defeated in the Commons vote by a large margin.
- By 29 Mach 2019: Second vote (?) in UK parliament.
- By 29 March 2019: If the UK Parliament approves a deal, then ratification by the EU Parliament requires a simple majority.
- By 29 March 2019: If the UK and EU parliaments agree the deal, the EU Council needs to approve the deal; 20 countries representing 65% of the EU population must agree.
- 29 March 2019: Either the UK leaves the EU, or asks the EU for agreement to an extension of the Article 50 period if the UK Parliament has been unable to agree on a Brexit deal.
- 29 March 2019: If an agreement is reached with the EU on the terms of Brexit, then this will be followed by a proposed **transitional period ending around December 2020.**
- UK continues as a full EU member until March 2019 with access to the single market and tariff free trade between the EU and UK. Different sectors of the UK economy may leave the single market and tariff free trade at different times during the transitional period.
- The UK and EU would attempt to negotiate, among other agreements, a bi-lateral trade agreement over that period.
- The UK would aim for a negotiated agreed withdrawal from the EU, although the UK could also exit without any such agreements in the event of a breakdown of negotiations.
- If the UK exits without an agreed deal with the EU, World Trade Organisation rules and tariffs could apply to trade between the UK and EU - but this is not certain.
- On full exit from the EU: the UK parliament would repeal the 1972 European Communities Act.

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. All types of investment instrument have interest rate risk except for the following forms of instrument which are at variable rate of interest (and the linkage for variations is also shown):- (Link Asset Services note – please specify any such instruments should you use them).
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 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 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, as a cash rich local authority the OIC 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 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 portfolio ensuring that no more than 25% of the total portfolio (or £10m) 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 (or £10m) 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 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 deposits ensuring that no more than 25% of the total portfolio (or £10m) 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 12 months, although none have ever been issued for this maturity) 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.

a) **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.
b) **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.

c) **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.

Table 1: Permitted Investments in House – 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	--	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 AA- long term rating	term	no	20%	2 years
UK Government support to the banking sector (implicit guarantee)	UK sovereign rating or AA- long term rating	term	No	20%	2 years
Fixed term deposits with variable rate and variable maturities: - Structured deposits	Sovereign rating or AA- long term rating	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	Long term AA volatility rating C2	instant	No see note A	20%	60 day weighted average
2a. Money Market Funds – Constant Net Asset Value	Long term AAA volatility rating MR1	instant	No see note A	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	Long term AA volatility rating C2	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 managed fund investment managers – Common Good.

2.1. Deposits.

	* Minimum Credit Criteria	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
Call accounts – banks and building societies	Short-term F1, A1, P1, Long-term A	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 AA- long term rating	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	Long term A volatility rating C2	instant	No see note A	20%	60 days weighted average
2a. Money Market Funds – Constant Net Asset Value	Long term AA- volatility rating MR1+	instant	No see note A	20%	60 days weighted average
3. Ultra short dated bond funds with a credit score of 1.25	Long term AA- volatility rating B3	T+>1	yes	20%	90 days weighted average
4. Ultra short dated bond funds with a credit score of 1.5	Long term AA- volatility rating B3	T+>1	yes	20%	10 years weighted average
5. Bond Funds	Long term A volatility rating C2	T+>1	yes	20%	10 years weighted average
6. Gilt Funds	Long term AA volatility rating C2	T+>1	yes	20%	10 years weighted average

2.4. Securities Issued or Guaranteed by Governments.

	* Minimum Credit Criteria	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
Treasury Bills	UK sovereign rating	Sale T+1	yes	20%	1 year
UK 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	UK sovereign rating	Sale T+1	Yes	20%	1 year
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 issuance covered by a specific UK Government (explicit) guarantee	UK sovereign rating	Sale T+1	Yes	20%	90 days
Commercial paper other	* Short-term F1, A1, P1, Long-term A	Sale T+1	yes	20%	90 days
Corporate Bonds issuance covered by UK Government (implicit)_	UK sovereign rating	Sale T+3	yes	20%	75 years
Corporate Bonds other	* Short-term F1, A1, P1, Long-term A,	Sale T+3	yes	20%	75 years
Other debt issuance by UK banks covered by UK Government (explicit) guarantee	UK sovereign rating	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 Fund	-	T+4	Yes	20%	30 years
Infrastructure Equity	-	T+4	Yes	20%	50 years
Illiquid Debt	-	T+4	Yes	20%	30 years
Secured Income/Secured Finance		T+4	Yes	20%	30 years

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

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 credit 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, 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) (CNAV and 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%

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 the issuers have an “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 these criteria will be further strengthened by use of additional market intelligence.	As shown in the counterparty section criteria above.	As shown in the counterparty section criteria above.

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

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits	Common Good Limits
i. Structured deposit facilities with banks and building societies (escalating rates, de-escalating rates etc.) **(Low to medium risk depending on period & credit rating)**	These tend to be medium to low risk investments, but will exhibit higher risks than categories (a), (b) and (c) above. Whilst there is no risk to value with these types of investments, liquidity is very low and investments can only be broken with the agreement of the counterparty (penalties may apply).	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's. Day to day investment dealing with these criteria will be further strengthened by the use of additional market intelligence.	As shown in the counterparty section criteria above.	As shown in the counterparty section criteria above.
j. Corporate bonds **(Medium to high risk depending on period & credit rating)**	These are marketable securities issued by financial and corporate institutions. Counterparty risk will vary and there is risk to value of capital loss arising from selling ahead of maturity if combined with an adverse movement in interest rates. Liquidity risk will be low.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's. Corporate bonds will be restricted to those meeting the base criteria. Day to day investment dealing with these criteria will be further strengthened by the use of additional market intelligence.	20% and maximum 75 years.	20% and maximum 75 years.

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

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

The Monitoring of Investment Counterparties - The status of counterparties will be monitored regularly. The 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

The Council has determined that it will only use approved counterparties from countries outside the UK with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). No minimum sovereign rating will be set for the UK to ensure continuity of being able to invest in UK banks/building societies.

AAA

- Australia.
- Canada.
- Denmark.
- Germany.
- Luxembourg.
- Netherlands.
- Norway.
- Singapore.
- Sweden.
- Switzerland.

AA+

- Finland.
- Hong Kong.
- U.S.A.

AA

- Abu Dhabi (UAE).
- 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 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.

Appendix 2.

Hearings Process for Determination of Planning Applications

Terms of Reference

1. The following procedure shall be adopted for the conduct of all meetings of the Planning Committee involving the ‘hearings process’ in respect of the determination of planning applications. The ‘hearings process’ will operate in any circumstances where it has been deemed that an application should be determined by the Committee.

Order of Business

2. At the start of the meeting, and thereafter as necessary, the Chair will outline the ‘hearings process’ by explaining the procedure to be followed.

3. Officials representing the Executive Director of Development and Infrastructure will present the report by giving a description of the proposed development and site, together with a summary of the relevant statutory and Development Plan provisions, an assessment of any valid objections made, and clarification of the recommendations and conditions.

4. At the discretion of the Executive Director of Development and Infrastructure, in consultation with the Chair, officers from Council services, and/or representatives of agencies such as Scottish Natural Heritage, Historic Scotland, Scottish Environment Protection Agency and Scottish Water, may be invited to provide additional professional guidance in respect of technical matters.

5. Objectors will then be given an opportunity to present their case; thereafter members of the Committee may ask questions of objectors for clarification: where no objectors are present, this condition shall not apply.

6. The applicants will then be given an opportunity to present their case, which may include a response to any matter raised by objectors; again, members of the Committee will have the opportunity to ask questions of the applicants for clarification: where no applicants are present, this condition shall not apply.

7. Members of the Committee will then have the opportunity to ask any final questions, and may give any party present the opportunity to comment further on relevant matters raised during the hearings process.

8. If necessary, and at the discretion of the Chair, officials will be given the opportunity to address any salient points raised by any party present.

9. Thereafter the ‘hearings process’ will be complete. Committee members will then proceed to determine the application.

Notes for Guidance and Information

10. Certain objections are not valid in planning terms, and cannot be considered by Councillors when determining the outcome of a planning application. Examples of these are:

- Issues covered by other laws, such as Licensing or Building Standards.
- Private legal disputes over boundary or access rights, or feu superior's consent.
- The background or motives of the developer.
- Concerns that the proposal is speculative, or only to make money.
- Loss of financial value of property.
- Loss of a view.

11. The standard approach for planning applications is that applicants and objectors will each be allotted five minutes to make their presentation, which should focus on matters that have already been raised in writing and should not introduce any new material. The five minute period is the total time available to each side and must be divided amongst those wishing to speak for that side (please refer to paragraph 18.3 below).

12. In exceptional circumstances, and at the discretion of the Chair, the time allotted to applicants and objectors for making presentations may be extended depending, for example, on whether the applications are of a particularly complex nature or where there are large numbers of objectors present. The Chair's discretion, if applicable, can only be notified at the start of each item during the meeting. In the case of "national developments", it is expected that this provision will be necessary due to the level of interest which is likely to be generated for the projects concerned.

13. Applicants and objectors who wish to circulate photographs and/or drawings, or to show PowerPoint slides, as part of their presentation at the meeting, must submit the information to the Clerk to the Committee no later than 16:00 two working days prior to the meeting (e.g. 16:00 on Monday for a meeting on Wednesday). In exceptional circumstances, and at the discretion of the Executive Director of Development and Infrastructure, this deadline may be extended on request. Applicants and objectors may submit information to the Clerk by e-mail (details below), or in person at the Council's Customer Services Reception. It is the responsibility of applicants and objectors to ensure that all such information is received personally by the Clerk, who will confirm receipt.

14. In cases where key agencies, such as Scottish Natural Heritage, Historic Scotland, Scottish Environment Protection Agency and Scottish Water, have formally objected to an application and have sent representatives to the meeting, they will normally be afforded additional time to present their objections and the applicants will normally be afforded additional time to respond to any points raised.

15. Objectors who wish to be heard are encouraged to appoint one or a small number of spokespersons to present their views to concentrate on the matters of main concern to them, and to avoid repetition.

16. Applicants and objectors must address all remarks through the Chair. Cross-examination of any party present shall not be permitted.

17. Applicants and objectors may present their case personally to the Committee, or may be represented by any person of their choice, other than an elected member (i.e. a Councillor) of Orkney Islands Council. In the event that a Councillor is an applicant or objector in his own right, this condition shall not apply.

18. If applicants (and/or their agents, if applicable) or objectors are unable to attend the meeting, the following options are available to them:

18.1. Ask someone to represent them at the meeting and speak on their behalf. Anyone other than a Councillor is eligible to represent applicants or objectors in this way. For example, both applicants and objectors can ask friends, relatives, neighbours, solicitors, architects, agents, etc. to represent them, although professional representation, such as by a solicitor, may result in a financial cost.

18.2. In addition to their original objection submitted during the initial consultation period, objectors can submit a further letter, of unrestricted length, detailing their objections. Applicants may also submit a letter of representation outlining the reasons why they feel the application should be granted. All such representations should be received as early as possible.

18.3. For planning applications, objectors, or applicants, can submit a further written representation, limited to 250 words, summarising their case. Such representations would be read out by the Clerk to the Committee at the meeting at the point where the applicants or objectors would, if present, be asked to make their representations. All such representations must be received by the Clerk no later than 16:00 on the day prior to the meeting. With reference to paragraph 11 above, objectors who are present at the meeting will be entitled to make full use of the time available, and any additional time taken for the Clerk to read out short statements on behalf of objectors who are not present would be added to the time made available to the applicants to make their presentation. In the case of “national developments” it is expected that a large number of representations may be received. In such circumstances, and where appropriate, the Clerk will seek to summarise the key issues raised by written representations during the meeting. However, each individual written representation will be made available to all Members of the Committee, and published in public with time allowed for Members to review these as part of the decision making process if this is considered by the Chair to be prudent and necessary.

19. The Council reserves the right to edit all letters of objection or representation received to ensure that applicants, objectors, and indeed the Council, do not breach any legislation in respect of libel or slander. Please also note that further objections in terms of the issues detailed at paragraph 10 above will not be made available to Councillors or read out to them at the meeting.

20. For the avoidance of doubt, information supplied to the Clerk, in terms of paragraphs 13 and 18.2 above, will be circulated to Councillors, applicants, agents and objectors in advance of the meeting.

Should applicants or objectors have any queries in respect of the hearings process, advice is available from the Clerk to the Committee:

Appendix 3.

Planning Committee – Site Visits

Site visits form part of the formal decision making process and the Council's Standing Orders and Members' interests provisions will apply.

1. Purpose of Site Visit

- To view the site of the planning application under consideration together with all surrounding land.
- To assist the appraisal of the constraints and opportunities afforded by the proposed development, and its potential impact on surrounding land.
- To allow the officers to point out material considerations and answer questions from members of the Committee.

2. Sites to be visited, when and by whom

2.1. Generally, site visits will only be undertaken where there are anticipated benefits over and above the assessment of the information presented to Committee, and where the majority of the Committee support the need for a site visit. In addition, in instances where the application is of a particularly complex or contentious nature, at the discretion of the Executive Director of Development and Infrastructure, in consultation with the Chair and Vice Chair of the Planning Committee, a site visit may be arranged prior to the first meeting of the Committee to determine the application. The site visit will be undertaken as close as possible to the date on which the Committee will meet to determine the application.

2.2. The site visit will be attended by the following:

- All members of the Planning Committee present at the Committee which determined the need for a site visit.
- The Clerk to the Planning Committee.
- The Head of Planning and Regulatory Services.
- The Planning Manager (Development Management).
- The Planning Case Officer.
- The Solicitor.
- Any other relevant officer of Orkney Islands Council, where necessary.

2.3. In a very limited number of cases, it may be necessary for the applicant (or agent) to be present on site, eg for safety or access reasons, but at no time will they be allowed to discuss the merits of the planning application with members of the Planning Committee or seek advice or comment from Council Officers other than matters of fact.

3. Site Visit Arrangements

3.1. Committee Services will give notice to members of the Planning Committee and relevant officers advising that an unaccompanied site visit will take place. The notice will identify an unambiguous meeting point and indicate the time when parties are to meet. The date, time and place of the meeting at which the Committee will determine the planning application will also be included in this notice. Interested parties (applicant, consultees and those parties lodging representations) will also be informed of the site visit but will not be invited to attend.

3.2. Where arrangements require to be made for a site visit to take place on land which does not form part of the application site, Committee Services will make sure that the occupier of the land is made aware in advance of the proposed site visit.

3.3. If any detailed travel arrangements are necessary, for example visits to the Isles, these will be intimated by Committee Services to Members and Officers in advance of the site visit.

4. Site Visit Procedure

4.1. Members of the Committee shall arrive at the meeting point at or just before the appointed time. If one or more of the expected participants is not present on time, any delay to the start of the site visit will be at the Chair's discretion.

4.2. The Clerk to the Committee will note the names of those members of the Committee present at the site visit as only those members will be able to take part in the determination of the planning application.

4.3. The Chair will call Members of the Planning Committee present to order. The Chair will explain the purpose of the site visit and remind all parties present that it is not possible to discuss the merits of the proposed development during the visit.

4.4. The Chair will then ask the Planning Case Officer to describe the proposal to Members, identifying relevant features of the site, including site boundaries, access arrangements, location of neighbouring properties etc. Through the Chair, Members may seek clarification from the Planning Case Officer on relevant site features.

4.5. Members may want to view the application site from neighbouring land or buildings but throughout the formal business of the site visit the visiting party will stay together as a group. When pointing out the location of the proposed development/ physical features on site, participants must address the Committee as a group (not as individual Members) through the Chair.

4.6. On conclusion of the site visit, the Chair will thank everyone for their attendance and remind participants of the place and time of the meeting when the Committee will determine the review. The Chair will then indicate that the site visit has concluded.

5. Planning Committee

5.1. On occasions when the site of the planning application under consideration is remote from the Council Offices, School Place, Kirkwall, the meeting of the Planning Committee to determine the application may take place in an alternative location from the Council Chamber immediately following the site visit.

5.2. In accordance with Standing Order 31 – “Meetings conducted by Hearings”, a member of the Committee may only participate and/or vote on the determination of an application if s/he has been present throughout consideration of the whole item of business, which includes the site visit.

5.3. If Members identify issues during the site visit that may be decisive but have not been addressed in the report to Committee, in the interests of natural justice the applicant and other interested parties will require to be invited to comment on these matters before a final decision is reached.

Appendix 4

Volunteering Policy

Version 2.0

If you would like this policy in a different language or format, please contact the Strategy Manager, Orkney Islands Council, School Place, Kirkwall KW15 1NY. Telephone: 01856873535 extension 2160. Email: corporateservices@orkney.gov.uk

Contents

Volunteering Policy.. 1

1. Introduction.. 3

2. Scope of the Policy.. 3

3. Aims of the Policy.. 4

4. Roles and Responsibilities.. 4

5. Recruitment and Referral.. 6

6. Protecting Vulnerable Groups.. 7

7. Induction.. 7

8. Monitoring and Record-keeping.. 8

9. Supervision.. 8

10. Confidentiality.. 8

11. Risk, Health and Safety.. 8

12. Insurance.. 9

13. Informal Volunteering.. 10

14. Resolution of Problems.. 11

Health and Safety Risk Assessment Guidance.. 13

Checklist for health and safety risk assessment.. 18

1. Introduction

The definition of volunteering currently used by the Scottish Government is: 'Volunteering is the giving of time and energy through a third party, which can bring measurable benefits to the volunteer, individual beneficiaries, groups and organisations, communities, environment and society at large."

Orkney Islands Council values the contribution made by volunteers to the fabric of the Orkney community. Volunteers have a vital role in adding value to many of the services provided by the Council, including social and community care, housing, community development, environmental improvement, economic development and job creation, education, advocacy and community engagement.

The Council encourages and supports volunteering, while recognising that the role of volunteers complements rather than replaces that of professional staff and others who are engaged in delivering services which the Council has a statutory duty to provide. To facilitate volunteering, the Council provides training and support for volunteers in public sector projects, makes provision for training and support in grants and contracts and promotes, supports and provides training for volunteers' managers where appropriate.

The Council also provides recognition, support and publicity to the work of Voluntary Action Orkney as the key co-ordination and development body for volunteering in Orkney, and as a recruitment centre for volunteers.

Volunteers formally working for the Council will be treated by the Council in the same way as 'employees' purely for the purposes of the Health and Safety at Work etc Act 1974 and regulations made thereunder. As such, the Council will comply with all relevant statutory requirements including the duty to assess and control risks. Such volunteers will be expected to operate within agreed guidelines and remits relating to their task and to follow health and safety regulations and instructions and attend training and support sessions where required.

The Volunteering Policy will be monitored to assess its effectiveness and to ensure that it is being applied consistently across the Council's services. The Council will seek to ensure that other Council policies which might impact upon volunteers are compatible with the Volunteering Policy.

The Council's original Volunteering Policy was approved and adopted by the Council on 13 December 2016, and the current version 2.0 was approved on 5 March 2019. The policy complements the Volunteering Policy for Schools which is maintained by Education, Leisure and Housing Services.

2. Scope of the Policy

This policy applies to:

- Activities that the Council promotes and controls, including:
- Unpaid duties which Council employees choose to undertake in their own time, outwith their normal service and place of work.

This policy does not apply to:

- Activities which the Council does not promote and control.
- Optional duties which Council employees agree to take on as an extension of their job.
- Small neighbourly activities voluntarily undertaken by an individual and not through a third party organisation.

3. Aims of the Policy

By adopting and implementing this policy, the Council aims to:

- Promote the importance, effectiveness and value of volunteering.
- Maximise the contribution of volunteers to the delivery of Council services.
- Identify more ways in which the Council's work can be enhanced by the involvement of volunteers.
- Increase the range and number of volunteering opportunities within the Council.
- Improve the quality of the volunteering experience throughout all areas of the Council's work.
- Clarify the role and responsibilities of volunteers.
- Clarify the role and responsibilities of the Council in relation to volunteering.
- Clarify the relationship between volunteers, those who use volunteers and those who directly receive the services of volunteers.
- Ensure that staff at all levels are clear about the role of volunteers.
- Foster good working relationships between staff and volunteers.
- Set standards of good practice in working with volunteers.
- Support and encourage Voluntary Action Orkney to organise and continuously improve the infrastructure for volunteering in Orkney.

4. Roles and Responsibilities

The role of volunteers is to provide support to Council staff and add value to Council services. Volunteers are not employees of the Council and they must never be required or expected to substitute for staff employed by the Council where the Council has a statutory duty to provide services.

Volunteers with the Council can expect:

- To be provided with appropriate identification.
- To be given clear information and induction.
- To be given well defined tasks and to be consulted on decisions that will affect what they do.
- To have access to information relevant to their role.
- To have clearly specified lines of support and supervision.
- To be trained and receive ongoing opportunities for learning and personal development.
- To have safe working conditions and to be insured.To be paid any reasonable, authorised out of pocket expenses.
- To be free from discrimination, harassment or bullying.
- To be valued and shown appreciation for their contribution on an ongoing basis.

The Council expects that volunteers will:

- Be honest and reliable.
- Respect confidentiality.
- Comply with relevant policies and procedures, including health and safety policies.
- Attend training and support sessions where agreed.
- Act in a way which corresponds to the aims and values of the authority.
- Carry out assigned tasks within agreed guidelines and limits.

The tasks, guidelines and limits for each volunteer will be set by the relevant service manager and agreed in writing with the volunteer as part of a formal Volunteer Agreement. An outline template for a Volunteer Agreement, which managers may adapt to their purposes as appropriate, is appended to this policy. Any agreement must include a clause making it clear that it is not intended to be a legally binding contract, or a contract of employment.

Should volunteers encounter any difficulties in the course of their duties, they should refer them to their supervising manager.

Council staff as volunteers.

The Council welcomes the services of its own staff as volunteers, provided the volunteer service:

- Is provided willingly and without any hint of coercion.
- Involves tasks which are clearly defined and not those which the Council has a statutory duty to provide.
- Is provided outside the employee's usual place of work and working hours.

Volunteering activity by staff will generally be for a different service to their own, or to support a special event, for example marshalling for the Commonwealth Games Baton Relay or the Jutland commemorations.

The Volunteer Agreement should be completed by council staff where they are working in a volunteer capacity. This applies also to teachers who are acting in the position of volunteer (rather than as a teacher) in order that pupils and parents do not expect them to undertake duties outwith those of a volunteer. Further information on volunteering in schools may be found in the Volunteering Policy for Schools issued by Education, Leisure and Housing Services.

Family members of staff are allowed to volunteer with the Council, but they will not normally be placed under the direct supervision or within the same service as family members employed by the Council.

Council staff may sometimes ‘volunteer’ for additional duties within their own service. This type of arrangement is considered to fall within their normal contracted duties, or is for further consideration by their manager, and is not therefore within the scope of this policy.

5. Recruitment and Referral

Prior to recruitment, service managers are advised to draw up a specification for the volunteer opportunities they wish to offer. Voluntary Action Orkney can provide a template for this purpose, which they require to be completed for any volunteer opportunities notified to VAO for recruitment. The specification should include any age restrictions, skills required, training provided, and whether the opportunity is suitable for those requiring wheelchair access or with additional support needs.

When a prospective volunteer offers their services via Voluntary Action Orkney, they will be invited to a first interview with VAO staff. The prospective volunteer will be issued with a registration pack. VAO staff will ask for the names of two referees and will request references.

VAO staff will offer the prospective volunteer advice about a possible appropriate placement. Where a volunteer has shown an interest in an OIC volunteering opportunity, VAO will contact the service manager at the OIC placement to arrange an interview. Voluntary Action Orkney will provide support to volunteers with additional support needs, where they have capacity to do so, or alternatively a volunteer with ASN may be able to bring their own support worker.

Volunteers who approach the Council directly will have an interview arranged by the relevant service manager, who is also responsible for checking the volunteer's qualifications and requesting references, where applicable.

Following the interview, if both the prospective volunteer and the service manager wish to proceed, details of the volunteer placement will be agreed. Service managers will notify OIC's HR and Performance Service directly. [Head teachers will notify the Education, Leisure and Housing Service, which will liaise with HR on their behalf.] HR will initiate the process of obtaining a Protecting Vulnerable Groups (PVG) scheme record or record update from Disclosure Scotland, if this is required for the volunteering placement.

Once clearance is received from HR, the service manager will arrange with the volunteer a start date and an appropriate induction programme, and draw up a Volunteer Agreement. For volunteers referred by VAO, the service manager will inform VAO of the outcome.

Occasionally, volunteer placements may involve the driving of Council vehicles. In this event, details of the task will be included in the Volunteer Agreement and the volunteer will be subject to the same requirements under the Council's Driving at Work policy as a regular employee. The service manager is responsible for ensuring that all necessary conditions of the Driving at Work policy are complied with before the volunteer drives any Council vehicles. Potential volunteers who lack the skills or qualifications for their preferred volunteering role may be offered advice on how to achieve the necessary credentials.

Volunteers must not use their own vehicles to transport school pupils or other service users, under any circumstances.

6. Protecting Vulnerable Groups

For volunteer placements that involve 'regulated work' (as defined in the Protection of Vulnerable Groups (Scotland) Act 2007) with children, young people or protected adults, it is essential for volunteers to obtain Protecting Vulnerable Groups (PVG) Scheme membership from Disclosure Scotland before volunteers can commence their duties. This process is initiated by Council's HR and Performance Service. The HR team will send out to the volunteer an appropriate Disclosure Scotland form and a covering letter of explanation. The volunteer will be asked to complete the form and return it to the HR team, along with any required forms of identification for verification. HR will be responsible for the cost of obtaining PVG Scheme membership. For volunteers already registered with the PVG Scheme, additional certification will be needed to cover a new volunteering role with a different protected group.

On receipt of satisfactory PVG confirmation, the HR team will notify the recruiting service manager who will, in turn, notify the volunteer and arrange a date to start the placement.

If the volunteer's PVG Scheme record raises issues of possible concern, the matter will be referred to the relevant service manager. The service manager will make a decision about the appointment and will inform the volunteer of the decision to either proceed with the placement or not. For volunteers referred via VAO, should the volunteer not be offered a placement the service manager will refer the volunteer back to VAO.

7. Induction

A suitable induction programme for each volunteer will be arranged by the relevant service manager, to be delivered as soon as the volunteer starts their placement.

All volunteers must be familiarised with:

- Their role and that of their supervisor.
- Relevant council policies and guidelines.
- The importance of confidentiality,
- Fire safety procedures in force at the location they are working in.
- Agreed procedures for dealing with an emergency.
- The location of first aid kits and the identity of first aid trained staff.
- Any other health, safety and hygiene requirements for their volunteering role.
- The Council's policy in respect of the use of IT equipment.

Additional induction requirements apply to volunteers working in schools, and head teachers should refer to the Volunteering Policy for Schools.

Should a volunteer require internet access, the service manager should seek advice from IT Support each time, to ensure compliance with current security arrangements.

8. Monitoring and Record-keeping

An up-to-date list of volunteers who are cleared for volunteering with children, young people and protected adults under the Protecting Vulnerable Groups (PVG) scheme must be held by the service manager or head teacher. Such lists should contain the age, sex, home address and contact details of volunteers and must be kept securely in compliance with data protection legislation.

Schools need to keep continuous records showing when and where individual volunteers were on duty, and should refer to the Volunteering Policy for Schools (July 2015) for further information.

On an annual basis, and by 31 December each year, a record of volunteers will need to be declared to the Orkney Islands Council Insurance Administrator in order that the Council's insurance policy can be updated.

9. Supervision

Staff must be conscious of the fact that volunteers are not professionally trained and may therefore require advice and support beyond that given to Council employees.

Volunteers must be briefed that they are, at all times, subject to the professional guidance of the Council's employed staff and should never be required to undertake work which requires to be undertaken by Council employees.

School volunteers may be asked along on school excursions, to ensure compliance with group supervision ratios, as recommended in the Education, Leisure and Housing Excursions Policy. Regardless of their PVG status, volunteers should never be left in sole charge of pupils.

10. Confidentiality

Confidentiality is essential to good relations between the Council and the community. Volunteers should be made aware of their legal duty to keep confidential any information which they encounter in the course of their volunteering activities.

Council staff should follow the guidelines below:

- Ensure volunteers are aware of their legal duty to keep all information confidential.
- Avoid including volunteers in any discussions relating to the achievement of individuals.
- Ensure that volunteers only have access to information needed to undertake their role.
- Follow the Council's Clear Desk Policy to ensure that information which is not in.

11. Risk, Health and Safety

For the purpose of managing risk, health and safety, volunteers should effectively be treated in the same manner as employees, and all employer duties within the Health and Safety at Work etc Act 1974 and regulations made thereunder will be deemed to apply. Supervising managers must conduct risk assessments as for paid employees, and take action to mitigate any identified risks.

Volunteers will have personal responsibility for following health and safety regulations and instructions, operating within agreed guidelines and remits and attending training and support sessions where required.

Volunteers should be provided with full training for the duties which they are asked to perform, and are required to fulfil the same training requirements as that of an employee performing a comparable task. Any training should be recorded and the volunteer should abide by any Council rules regarding confidentiality, proof of qualifications, Protecting Vulnerable Groups (PVG) disclosure checks, etc.

The following control measures are recommended:

- In general, the same health and safety standards should be applied to volunteers as to employees exposed to the same risks. However, if your risk assessments identify that the risks to volunteers are different, the preventive and protective measures taken should reflect these different risks.
- Check relevant qualifications and carry out recruitment checks.
- Check drivers' licences and provide suitable training for minibus drivers.
- Instruct all volunteers on the relevant rules and procedures of the workplace.
- Where Personal Protective Equipment (PPE) is required, this should be provided to volunteers as appropriate, and free of charge, by the Council.
- Work equipment provided for volunteers must be suitable for the task for which it is used and maintained in an efficient state.
- Volunteers need to be provided with adequate supervision, instruction and training to enable them to carry out their activities safely. Remember that volunteers may well have a lower level of expertise than employees. Accidents involving volunteers need to be recorded and reported in the same way as employees.
- Adequate first aid provision should be ensured.
- Ensure that where appropriate all volunteers sign in and out each day.
- Issue identity badges, where appropriate, indicating the name and role of the volunteer.

12. Insurance

All appointed volunteers will be covered by the Council's Public Liability insurance when working on agreed tasks in approved locations.

Informal volunteers (see section 13 below) will need to obtain their own public liability insurance. Single event insurance may be purchased via a local insurance broker, or online. If the informal volunteers are members of a charitable or community organisation, and / or the proposed activity benefits a charitable or community organisation, then the organisation may be willing to take responsibility for the activity. In this case the organisation may already have an annual insurance policy with an adequate level of public liability insurance, or may be able to increase their level for a lower cost than taking out a separate policy to cover a single event.

Whether or not volunteers are formally appointed, Orkney Islands Council is unable to accept responsibility for the loss, theft or damage of personal possessions or valuables.

13. Informal Volunteering

There will be occasions when people decide spontaneously to take action in the public domain, beyond neighbourly activities, without seeking prior authorisation from the relevant authority. There may be elements of risk to the individuals or public arising from the spontaneous activity. It is accepted that in such circumstances the Council has no means of managing or controlling such activity.

The Council appreciates that people will sometimes want to take positive action for the benefit of the community and encourages this provided that appropriate mechanisms are put in place to manage the health and safety of both the individual and the public. Where this activity takes place on Council land or premises, the Council has a statutory duty to ensure, so far as is reasonably practicable, that persons are not exposed by the activity to risks to their health or safety or that public safety is not compromised. This duty should be undertaken by the manager responsible for the land or premises on which the informal volunteer activity is taking place.

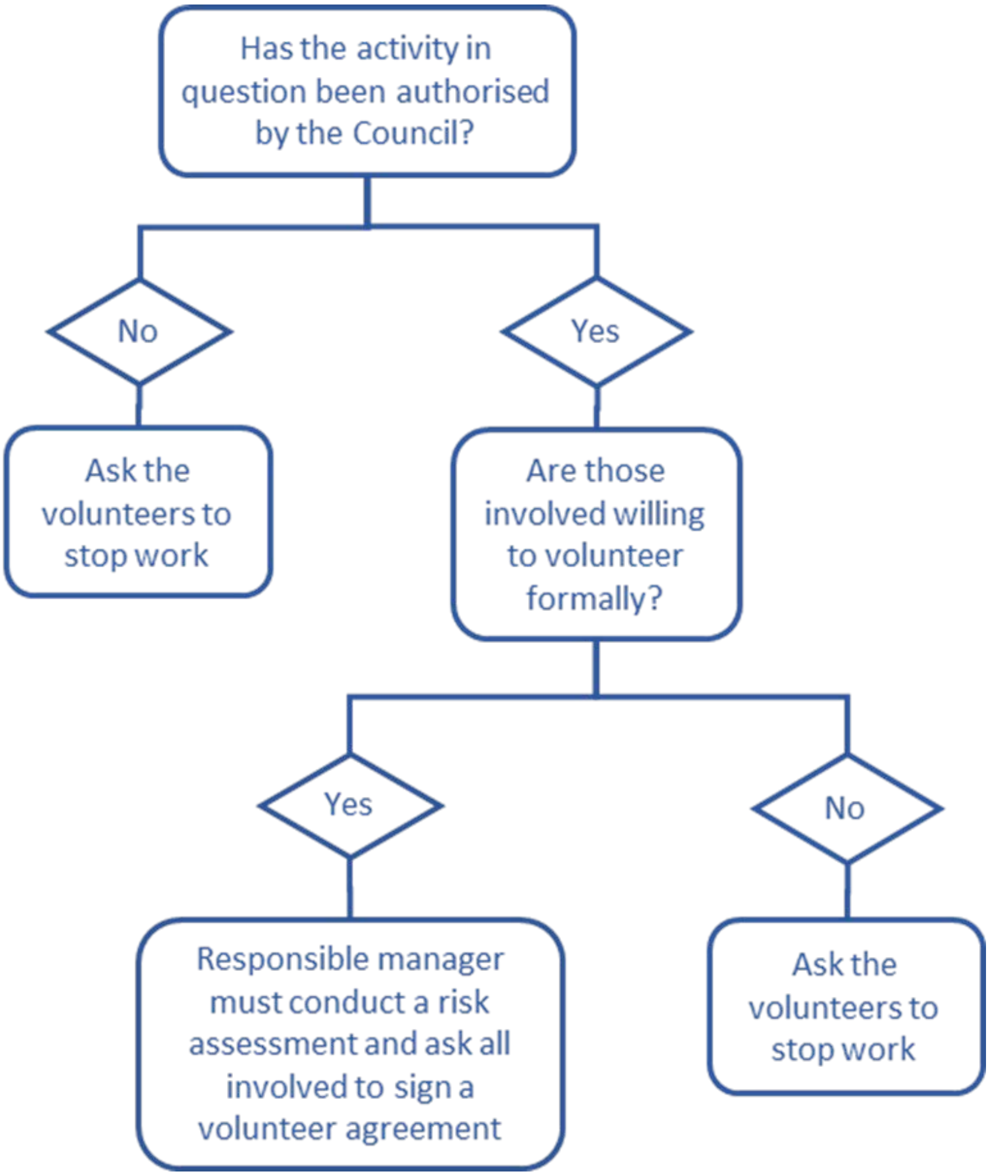
The first question to be asked is whether the activity has been authorised by the Council. If the answer is no, the volunteers should be asked to stop work. If the answer is yes, the volunteer needs to be put in touch with the responsible manager to be registered as a volunteer. These steps are essential to encourage volunteering while mitigating any risk to the public, the Council and the volunteers themselves.

In order for volunteer activity to be covered by the Council's public liability insurance, volunteers must have permission, the supervising manager must have carried out a risk assessment and the volunteers must have signed a volunteer agreement with the Council. If the volunteers concerned are willing to go down this route, managers should proceed as with regular volunteers. A suitable template for a volunteer agreement is appended to this policy at Annex 1.

If informal volunteers do not agree to sign a volunteer agreement, then the manager concerned must ask them to stop work.

The steps to be followed for informal volunteering are set out in the flowchart below.

14.



Resolution of Problems

Because volunteers are not employed by the Council, they are not subject to the disciplinary procedures covering the conduct of Council staff. Issues concerning the conduct of volunteers should be brought to the attention of the relevant service manager at the earliest possible opportunity. The service manager will seek to resolve the matter by informal discussion with the volunteer concerned.

Should the service manager consider that the issue is sufficiently serious to require action beyond an informal discussion, he or she will report the matter to the relevant Head of Service in order that appropriate action may be taken.

If a volunteer wishes to raise an issue regarding a member of Council staff, they should approach their supervisor within the Council, or the relevant service manager. If this route is not appropriate, or the matter remains unresolved, volunteers may seek advice from the Council's HR and Performance service or, if preferred, from the Volunteering Manager at VAO.

ANNEX 1

Service
Executive Director:
Council Offices, Kirkwall, Orkney, KW15 1NY
Telephone: 01856873535 Website: www.orkney.gov.uk
Fax: Email:

ORKNEY ISLANDS COUNCIL

Volunteer Letter of Agreement

To be Completed and Signed by Volunteer

I, ______________________________ (Insert name).

of, ______________________________ (Insert address).

____

____

have volunteered to Orkney Islands Council, to carry out unpaid voluntary work, by performing duties, tasks and / or functions, either within or out with Council facilities, for and on behalf of Orkney Islands Council. I have been accepted by Orkney Islands Council as a volunteer.

I understand that I am not employed by Orkney Islands Council in respect of my performing duties, tasks and / or functions, either within or outwith Council facilities, for and on behalf of Orkney Islands Council.

I will be supervised:

by ____________________ (Insert name / post of Supervisor).

of ____________________ (Insert name of facility where Supervisor is based).

and undertake that I will comply with all requests and instructions of the Supervisor. In the absence of the Supervisor, I will comply with all requests and instructions of any other Council employee present, or such other persons as are notified to me.

______________________________ (Signature).

______________________________ (Date).

Orkney Islands Council will contact you annually to check that you wish to remain a volunteer. This volunteer agreement can be terminated by the volunteer or the Council at any time.

Health and Safety Risk Assessment Guidance

Introduction

This guidance is intended for Orkney Islands Council managers and any other persons responsible for undertaking risk assessment. It is extracted from the Council's Health and Safety Risk Assessment Policy and Guidance.

The process of risk assessment underpins all current Health and Safety legislation. It is a process of determining what hazards exist in the work place, the likelihood of harm occurring and the need for appropriate control measures. The following guidance has been produced to give practical advice on the implementation of the risk assessment process.

Five Steps to Risk Assessment

In its advisory literature, the Health and Safety Executive (HSE) promotes the use of a 5-step approach to the process of risk assessment.

Before commencing the process, it is important to understand the meaning of the terms 'Hazard' and 'Risk' as follows:

HAZARD - is anything that can cause harm (e.g. electricity, fire, chemicals).

RISK - is the likelihood of harm occurring.

STEP 1

Look for the Hazards

In the initial stage of the process the assessor would be expected to walk around the workplace or look at the task and take a fresh look at what could reasonably be expected to cause harm. Effort should be concentrated on hazards which could result in significant harm or may affect several people. All hazards should be listed at this stage however.

When listing hazards it is useful to consult with other employees in the workplace who may have noticed things which are not immediately obvious.

Reference should also be made to manufacturers' operating instructions, hazard data sheets etc, which should clearly indicate the hazard a particular machine or chemical may present.

Accident and / or ill health records may also help to identify specific hazards associated with a workplace or work activity.

In general terms the following examples may prove useful:

- Slipping / tripping hazards (e.g. poorly maintained floors or stairs; ice or snow).
- Fire (e.g. from flammable materials).
- Electricity (e.g. poor wiring).
- Chemicals (e.g. cleaning materials).
- Dust (e.g. from wood working).

- Moving parts of machinery.
- Fumes (e.g. welding).
- Work at height (e.g. from ladders etc).
- Manual handling / Moving and handling.
- Lone working.
- Noise / Vibration.
- Biological (clinical waste).
- Poor heating, lighting, ventilation.
- Vehicles.
- Violence and aggression.

A specimen form for recording this and other information in the risk assessment process is given in Appendix 1 of this guidance.

STEP 2

Decide who might be harmed and how

When considering who might be harmed there is no need to list individuals by name, it is more appropriate to list groups of people doing similar work or who may be similarly affected by a particular work activity.

It is important to consider people who may not be in the workplace all the time e.g. visitors and contractors etc.

Particular attention should be given to those who may be more vulnerable e.g. staff with disabilities and lone workers etc.

The following list may therefore prove useful at this stage:

- Office Staff.
- Maintenance Personnel.
- Contractors.
- Operators.
- Cleaners.
- Members of the public (including clients, service users and pupils).
- People sharing the workplace.
- Staff with disabilities.
- Visitors.
- Young or inexperienced staff.
- Lone workers.

STEP 3

List existing controls

At this stage information should be provided on the steps that have already been taken to control a particular risk.

It may be necessary to provide details of information, instruction or training provided in relation to a ‘safe system of work’. In this respect reference may need to be made to written procedures and operating manuals etc.

When considering the adequacy of existing control measures, it is important to determine whether:

A. They meet the standards set by a legal requirement (e.g. prevent access to dangerous parts of machinery).

B. They comply with a recognised industry standard.

C. They represent good practice.

D. They reduce the risk as far as is reasonably practicable.

The effectiveness or even lack of existing control measures will have a bearing on the calculation of residual risk in Step 4.

STEP 4

Calculate the Residual Risk

In guidance booklet HSG (65), the Health and Safety Executive outline a simple method of qualifying risk or **Risk Rating**.

The method involves making two judgements, one on the potential SEVERITY of any possible injury and the other on the **LIKELIHOOD** of harm occurring. Both judgements are on a scale of 1 to 5 as follows:

Likelihood / Severity Definitions.	
Likelihood.	
Rare (1).	Will only happen in exceptional circumstances (5-10 years).
Unlikely (2).	Not expected to happen but definite potential exists (2-5 years).
Possible (3).	May occur occasionally. Has happened before on occasion. Reasonable chance of occurring (annual).
Likely (4).	Strong possibility this could occur (quarterly).
Almost Certain (5).	Expected to occur frequently (daily /weekly / monthly).
Severity.	
Negligible (1).	Adverse event leading to very minor injury not requiring first aid.
Minor (2).	Minor injury or illness, first aid treatment required.
Moderate (3).	Significant injury requiring medical treatment and / or counselling. RIDDOR reportable.

Major (4).	Major injuries / long term incapacity or disability (loss of limb) requiring medical treatment and / or counselling.
Extreme (5).	Incident leading to death or permanent incapacity.

The risk rating is then calculated by multiplying the severity and likelihood figures.

Risk Matrix

Likelihood/Severity	Negligible (1)	Minor (2)	Moderate (3)	Major (4)	Extreme (5)
Almost Certain (5)	5	10	15	20	25
Likely (4)	4	8	12	16	20
Possible (3)	3	6	9	12	15
Unlikely (2)	2	4	6	8	10
Rare (1)	1	2	3	4	5

Low = 1-5		No action required
Medium =6 - 12		Remedial action required as soon as is reasonably practicable. The higher the risk rating, the greater the priority for action
High = 13 - 25		Work must cease until the necessary action is taken

STEP 5

Determine Control Measures

The final stage of the process is the determination of appropriate control measures necessary to eliminate or reduce a risk to an acceptable level.

Risk ratings of six or more will require some action to be taken in respect of additional control. The higher the risk factor the greater is the priority for action.

When considering the effectiveness of control measures, the following principles should be applied.

1. Remove the risk completely - **MOST EFFECTIVE**.

2. Try a less risky option.

3. Prevent access to the hazard (e.g. by guarding).

4. Organise work to reduce exposure to the hazard.

5. Issue personal protective equipment - **LEAST EFFECTIVE**.

Reference should be made to recognised good practice, HSE guidance and legal requirements when determining whether a particular method of control is adequate.

Further information and advice on control measures and access to codes of practice etc. can be obtained by contacting the Council's Safety and Contingencies section on extension 2255 or by email to malcolm.russell@orkney.gov.uk or alan.tait@orkney.gov.uk.

ANNEX 2

Checklist for health and safety risk assessment

Significant hazards.	**Risk control measures already in place.**	**Risk Evaluation** (Severity x Likelihood).			**Further action or controls required.**
		Severity. (1-5).	Likelihood. (1-5).	Rating.	
Slip / trip / fall.					
Work environment.					
Electrical.					
Mechanical.					
Manual handling.					
Moving and handling of people					
Chemical.					
Biological.					
Work equipment.					
Display screen equipment.					
Fire.					
Violence.					
Stress.					
Lone working.					
Vehicles.					
Vibration.					
Noise.					
Asbestos.					
Legionella.					
Work at height.					

Appendix 5

ORKNEY
ISLANDS COUNCIL

Community Consultation and Engagement Policy

All our written information can be made available, on request, in a range of different formats and languages. If you would like this document in any other language or format please contact Corporate Services on 01856 873535 or email corporateservices@orkney.gov.uk.

Contents.

1. Introduction 3
2. Policy Statement 3
3. National Standards for Community Engagement 3
4. Governance Structure 4
5. Levels of Community Engagement 4
6. Equality Requirements in Statute, Case Law and Good Practice 5
    6.1. Public Sector Equality Duty 5
    6.2. Equality Impact Assessment 5
    6.3. Socio-economic Duty 6
    6.4. Engaging with seldom-heard groups 6
    6.5. Peripherality and island-proofing 7
7. Corporate Resources for Consultation and Engagement 7
    7.1. Consultation and Engagement Officers' Group 7
    7.2. Community Consultation and Engagement Guide 7
    7.3. Orkney Opinions 7
    7.4. SmartSurvey 8
    7.5. Place Standard 8
    7.6. Training 8
Appendix 1 – Community Consultation and Engagement Guide 8

1. Introduction

The purpose of community consultation and engagement is to involve individuals, community organisations, service users, community planning partners and wider stakeholders in decision-making processes to inform and shape policy, arrive at better decisions and sustain the services that matter most locally. Effective consultation and engagement ensure that the widest possible range of local views inform service delivery and outcomes. Orkney Islands Council is fully committed to this principle, which underpins our Community Consultation and Engagement Policy.

2. Policy Statement

Our aim is to be:

An accessible council which is well informed about the issues that matter to Orkney's individuals and communities, including those seldom heard.

To help us achieve this outcome we will:

- Build and maintain relationships with communities, ensuring that they are at the heart of our decision making.
- Empower individuals and communities by giving them a stronger voice and greater influence over council decisions that affect them.
- Continuously learn from those who use our services.
- Pursue best practice to improve our community engagement.

3. National Standards for Community Engagement

The Council adheres to Scotland's National Standards for Community Engagement:

Theme.	Standard.
Inclusion.	We will identify and involve the people and organisations that are affected by the focus of the engagement.
Support.	We will identify and overcome any barriers to participation.
Planning.	There is a clear purpose for the engagement, which is based on a shared understanding of community needs and ambitions.
Working Together.	We will work effectively together to achieve the aims of the engagement.
Methods.	We will use methods of engagement that are fit for purpose.
Communication.	We will communicate clearly and regularly with the people, organisations and communities affected by the engagement.
Impact.	We will assess the impact of the engagement and use what we have learned to improve our future community engagement.

The National Standards for Community Engagement provide us with clear principles and detailed performance descriptions that everyone involved can use as a benchmark to achieve the highest quality results and the greatest impact. Commissioned by the Scottish Government, the Standards were launched in 2005 and incorporated into the Orkney Partnership's Community Consultation and Engagement Guide, which was adopted by the Council in 2010. The Standards were revised and reissued in 2016 to reflect the growth of community empowerment in Scotland, notably the Community Empowerment (Scotland) Act 2015. The current edition of the Partnership's Community Consultation and Engagement Guide incorporates the 2016 Standards.

4. Governance Structure

The Council's Policy and Resources Committee is the scrutiny body responsible for good governance in relation to the consultation and engagement policy framework. Where policy changes are being proposed by services which affect service users, it is the responsibility of the relevant service to undertake consultation and engagement activity in line with this policy. The relevant service committee has the responsibility of ensuring that feedback from consultation and engagement activities has been taken into account by the service in the formulation of such policy changes. The Senior Management Team (SMT) has oversight of corporate practice in consultation and engagement.

The Consultation and Engagement Officers' Group (CEOG) reports to the SMT on several workstreams relating to the co-ordination of consultation and engagement activity, sharing best practice and corporate training. CEOG is chaired and managed by the Strategy Manager and based in Corporate Services.

The CEOG maintains a central register of consultation and engagement activity: planned, current and completed. This will be located on the Council's Electronic Data and Records Management System (EDRMS) when it comes on stream. Co-ordination is a standing item on the agenda of CEOG meetings.

5. Levels of Community Engagement

The five levels listed below are standard benchmarks for progressive degrees of community engagement from informing to empowering communities. The table gives examples of relevant Council resources at each level for staff and stakeholders.

Level.	**Description.**	**Relevant Council policy, projects and resources.**
Inform.	Organisations have lots of information that they need to share with the public. The information should be objective to assist the public in understanding issues, alternatives, opportunities and solutions.	Communications Strategy. Website. Social media feeds.
Consult.	Organisations should consult with the public and interested groups to obtain feedback on analysis, alternatives, opportunities and/or solutions.	Community Consultation and Engagement Policy and Guide. Orkney Opinions. SmartSurvey. Place Standard.
Involve.	The involvement of the community in making decisions is key to good community engagement. Both parties must understand each other's concerns and aspirations throughout the process.	Balance the Budget. Community Conversations

Collaborate.	Decisions, including the development of alternatives, are made in partnership between local people and organisations.	Participation Requests Policy.
Empower.	The community are empowered to take action and make final decisions to improve the quality of life in the area.	Empowering Communities. Community Asset Transfer Policy. Community Choices (Participatory Budgeting) activity, e.g. Your Island Your Choice.

6. Equality Requirements in Statute, Case Law and Good Practice

6.1. Public Sector Equality Duty

The Equality Act 2010 protects individuals and groups from discrimination on the basis of the following ‘protected characteristics’:

- Age.
- Disability.
- Sex.
- Gender reassignment.
- Marriage and civil partnership.
- Pregnancy and maternity.
- Race.
- Religion or belief.
- Sexual orientation.

Section 149 of the Act places a ‘public sector equality duty’ on local authorities to have due regard to the need to:

(a) eliminate discrimination,

(b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it, and

(c) foster good relations between persons who share a protected characteristic and persons who do not share it.

Recent case law has established that where a local authority has insufficient information to understand the likely impact of a change in policy on persons who share any of the protected characteristics, the local authority must acquire further information, including through consultation, in order to comply with the public sector equality duty.

6.2. Equality Impact Assessment

Reports to Council committees which propose new policy, or changes to existing policy, are always accompanied by an Equality Impact Assessment drawn up in accordance with the Council’s template and guidance. An Equality Impact Assessment considers whether a policy decision would impact disproportionately on persons who share one or more of the protected characteristics, compared with persons who do not. Changes in policy include significant reductions in service budgets, even where a decision has yet to be made on exactly which services are to be cut.

Officers writing an Equality Impact Assessment are prompted by the template to consider whether they have enough information to make a policy recommendation and, if not, to identify who they should consult in order to acquire the necessary information. It is important to start work on an Equality Impact Assessment at the beginning of a policy development process, so that any information requirements are highlighted in time to consult the relevant stakeholders.

Equality Impact Assessments relating to Council policy are published on the Council website. Guidance and advice for staff on equality impact assessment is available from the Equalities Officer on 01856 873535 extension 2155.

6.3. Socio-economic Duty

The Fairer Scotland Duty is a part of the Equality Act 2010 which applies only in Scotland, and came into force in April 2018. It places a legal responsibility on particular public bodies in Scotland, when making strategic decisions, to actively consider ('pay due regard' to) how they can reduce inequalities of outcome caused by socio-economic disadvantage.

Socio-economic disadvantage means living on a low income compared to others in Scotland, restricting ability to access basic goods and services. The socio-economic duty is especially relevant to policy decisions on budgets and service cuts where these might disproportionately affect people on low incomes.

The Council's Equality Impact Assessment template includes socio-economic disadvantage as a characteristic to be considered alongside the protected characteristics. Officers drawing up new policy, or changes to existing policy, should give due regard to socio-economic impacts and consult with service users as necessary.

6.4. Engaging with seldom-heard groups

The Council aims to engage with all members of Orkney's communities, including those whose voices are seldom heard and are sometimes referred to as "hard to reach". Seldom heard groups may include persons who share one or more of the protected characteristics, or who experience socio-economic disadvantage, but may also be people who find it difficult to engage because they live on one of the non-linked isles, or who simply prefer to keep themselves to themselves. Whatever the barrier may be, it is important to find a way to consult seldom heard groups, both to meet the public sector equality duty and to ensure that Council services meet the needs of all service users.

In 2008, the Orkney Partnership commissioned the report, "Towards a strategy for consulting with minority & equalities groups and individuals in Orkney" (L C Littlejohn, June 2008), which identified local examples of good practice and made a number of recommendations. In 2018, the Council commissioned the report "Engaging with hard-to-reach people and communities, Good practice in the use of Third Sector agencies" (Gary Amos, Voluntary Action Orkney, June 2018), which highlighted some national and local examples of good practice, including the use of third sector agencies. Both of these reports, along with individual advice as required, are available from the Equalities Officer on 01856 873535 extension 2155.

6.5. Peripherality and island-proofing

Peripherality – living on the edge – is acknowledged in Orkney to be an equalities issue. Residents of the isles, or the more remote parts of the Orkney Mainland, have geographical barriers to engagement with the Council. These may be the availability or cost of transport, and/or the length of time required to travel. Orkney's more remote communities are also the least well served by broadband and mobile communications.

The Islands (Scotland) Act 2018 makes provision for the island-proofing of public policy where it disadvantages islands, compared with the Scottish mainland. The Council similarly makes provision in equality impact assessments for isles-proofing: report writers make a specific assessment of any policy decisions which might have a differential impact on the isles, compared with the Orkney mainland. This will include consultation where necessary.

7. Corporate Resources for Consultation and Engagement

Council managers are encouraged to make use of the following corporate resources to support their consultation and engagement activity.

7.1. Consultation and Engagement Officers' Group

This working group comprises Council officers with a professional interest in consultation and engagement. The membership includes representatives from all Directorates, plus specialist officers including the Equalities Officer. Members of the group meet quarterly to co-ordinate Council activity in consultation and engagement, plan surveys for Orkney Opinions (see 7.3 below), organise training and share best practice. By planning and co-ordinating activity, the group helps to prevent duplication of effort by officers and consultation fatigue among consultees.

Any Council officer planning a consultation or engagement exercise should contact their Directorate's representative on the CEOG in the first instance. Contact details are maintained by the Administrative Support Manager for Corporate Services on 01856 873535 extension 2164.

7.2. Community Consultation and Engagement Guide

The Orkney Partnership's Community Consultation and Engagement Guide, appended to this Policy, details the ways and methods the Council uses to provide a coordinated and consistent approach to involvement, consultation, engagement and empowerment of people and communities throughout Orkney. It is intended as a practical resource to support the planning and delivery of all community engagement activities. The Guide can be used to develop engagement processes, and details the stages required to ensure successful engagement.

7.3. Orkney Opinions

Orkney Opinions is the Council's public consultation group (sometimes called a citizens' panel). The group was established as a pilot in the financial year 2017 to 2018, and the pilot period was subsequently extended by the Policy and Resources Committee for a further year to end of March 2019.

Orkney Opinions had 150 members at August 2018, with initial recruitment done by random sampling of the open electoral register. The CEOG invites additional targeted groups to join as required to maintain the demographic balance and geographical range of the group.

Services may use Orkney Opinions for short consultations, which are compiled into surveys and issued periodically by post or online as preferred by individual members. Survey responses are compiled into reports to the consulting services and SMT, and feedback is provided to members of Orkney Opinions firstly on the survey results, and secondly on subsequent action undertaken by the Council.

7.4. SmartSurvey

The Council commissions an online survey facility for use by all services conducting consultations. The current provider is SmartSurvey. Services may choose to issue a complete survey directly, or a smaller part-survey via Orkney Opinions. Advice on the preparation, issue and processing of surveys is available from the Administrative Support Manager for Corporate Services on 01856 873535 extension 2164.

7.5. Place Standard

The Place Standard is a national consultation tool that has been jointly developed by NHS Scotland, Architecture Design Scotland and the Scottish Government. It has been designed to allow for fact finding on a range of service areas that are contained within 14 themes and prompt questions. The Place Standard is a useful way to identify and prioritise local needs within a place.

In the winter of 2016 to 2017, the Orkney Partnership and Orkney Health and Care used the Place Standard as the main consultation method in the development of Locality Plans. It is anticipated that the Council and the Orkney Partnership will be using the Place Standard again on a regular basis. More information about the Place Standard can be found at https://placestandard.scot/.

7.6. Training

The CEOG offers training to Council staff in the National Standards for Community Engagement, best practice, and recent developments in consultation and engagement. A half day of short presentations by members of the CEOG is made available periodically via the Council's Learning and Development section, part of HR and Performance.

Appendix 1 – Community Consultation and Engagement Guide

The Guide can be found on the Orkney Partnership's website here.

8. Document Control Sheet

Review / approval history.

Date.	Name.	Position.	Version Approved.
5 March 2019.	General Meeting of the Council.		Version 1.0.

Change Record Table.

Date.	Author.	Version.	Status.	Reason.

Appendix 6

Procurement Strategy

2019 to 2021

All our written information can be made available, on request, in a range of different formats and languages. If you would like this document in any other language or format please contact Corporate Services on 01856 873535 or email corporateservices@orkney.gov.uk.

Contents.

1. Introduction....................3
2. Policy Statement....................3
3. Background....................3
4. Council priorities and values....................4
5. Themes and Priorities....................7
6. The Council's Contract Standing Orders....................7
7. Ethical Standards....................8
8. Sustainable Procurement Duty....................8
9. Consultation and Engagement....................9
10. Payment of Living Wage....................9
11. Health and Safety at Work, etc. Act 1974....................9
12. Fairly and Ethically Traded Goods and Services....................9
13. Procurements involving the Provision of Food....................9
14. Aims of the Procurement Strategy....................10
15. Outcomes of the Procurement Strategy....................10
16. Spend Profile in Orkney....................11
17. Payment Policy....................12
18. Implementation, Monitoring, Reviewing and Reporting....................12
19. Policies, Tools and Procedures....................13
20. Strategic priorities....................13
21. Document Control Sheet....................20

1. Introduction

This procurement strategy has been prepared in response to the changing procurement agenda and the current financial climate.

The strategy sets out the priorities of Orkney Islands Council (the Council) in the form of a number of Council commitments. These commitments reflect both national policies and local priorities and are considered to be proportionate to the scale and complexity of the procurement activity undertaken by the Council. Each of the stated commitments is considered to be achievable within the timeframe of this strategy.

2. Policy Statement

This is the second Council procurement strategy. It provides the basis for further improvement and the embedding of procurement across all Council services in a manner which proportionate to the scale and the complexity of the procurement undertaken by the Council.

It seeks to create, through a series of Council commitments, a firm foundation upon which the Council can continue to build and deliver improved procurement performance.

The Council is committed to sustainable economic development in Orkney and it is conscious that procurement decisions must take account of the social, economic and environmental impact they have on the people and communities of Orkney.

3. Background

3.1. Procurement Strategy 2019 to 2021

Orkney Islands Council is committed to good procurement practice. This document is a revised and updated version of the Council’s Procurement Strategy 2016 to 2018. This revised Strategy builds on the progress to meet the needs of the Council and the business community in Orkney and outwith Orkney.

3.2. Scope of public procurement

Public Procurement can be defined as the acquisition, whether under formal contract or otherwise, of goods, services and works from third parties by contracting authorities. The scope of public procurement ranges from the purchase of routine supplies or services, to the formal tendering and placing contracts for large infrastructure projects by a wide range of contracting authorities.

The procurement process does not end at the contract award stage, but spans the life cycle of the contract from the inception and design through to contract management.

3.3. Procurement activity

The Council spends approximately £41 million per annum of goods, services and works (2017 to 2018 figures). Of this £41 million approximately 41% is spent with Orkney businesses or with companies that have a presence in Orkney (but with no head office in Orkney).

This is a significant figure both in terms of the Council’s budget and the effect that such spending has on the local economy.

4. Council priorities and values

Procurement cuts across all Council services and forms an integral part of the Council's ability to achieve its declared strategic priorities as detailed below.

- Connected Communities.
- Caring Communities.
- Thriving Communities.
- Enterprising Communities.
- Quality of Life.

Whilst procurement is a key enabler across all the Council's priorities; Caring, Thriving and Enterprising Communities are those where a direct impact can be made.

The Council's values guide the way in which it procures supplies, services and works:

- Resilience.
- Enterprise.
- Equality.
- Fairness.
- Innovation.
- Leadership.
- Sustainability.

A new Council Delivery Plan was approved in 2018 to supplement the new Council Plan, and the Council's Procurement Strategy 2019 to 2021 has been reviewed in line with this and updated to reflect recent procurement developments.

4.1. Procurement Reform (Scotland) Act 2014

Section 15 of the Procurement Reform (Scotland) Act 2014 requires any public organisation, which has an estimated total value of regulated procurement spend of £5 million or more (excluding VAT) in a financial year, to prepare and publish a procurement strategy.

Where an organisation has an existing procurement strategy, there is no requirement for it to prepare a completely new procurement strategy each year. An organisation must, however, review its procurement strategy annually and make such revisions as it considers appropriate for the purposes of the Act.

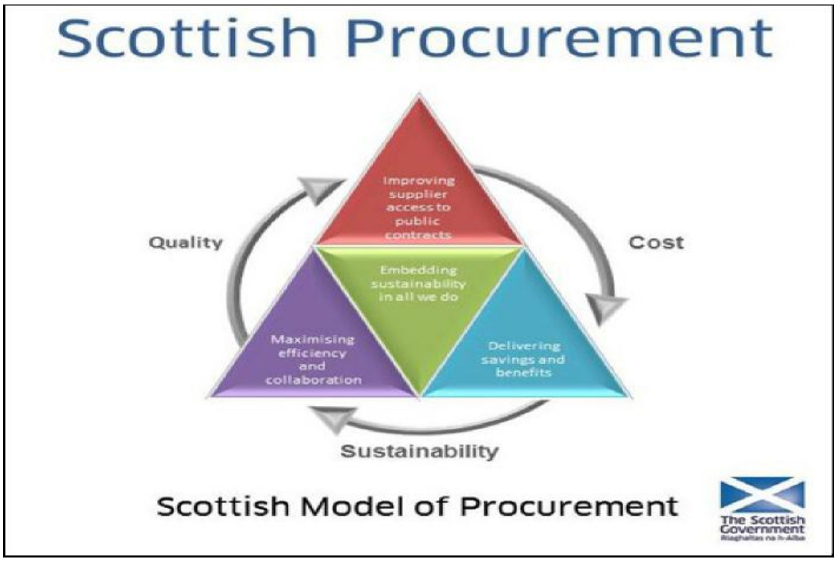
The Council's first procurement strategy was published by 31 December 2016 as required by the legislation, and covered:

- The remainder of the financial year in which 31 December 2016 occurred.
- The first financial year commencing 1 April 2017.

It is a requirement that an organisation must publish its procurement strategy, including any revisions, on the internet and by any other appropriate means. The organisation must notify Scottish Ministers of the publication of its procurement strategy.

This document is a revision to the first Procurement Strategy following a period of consultation and will extend to the years 2019 to 2021.

4.2. Scottish Model of Procurement



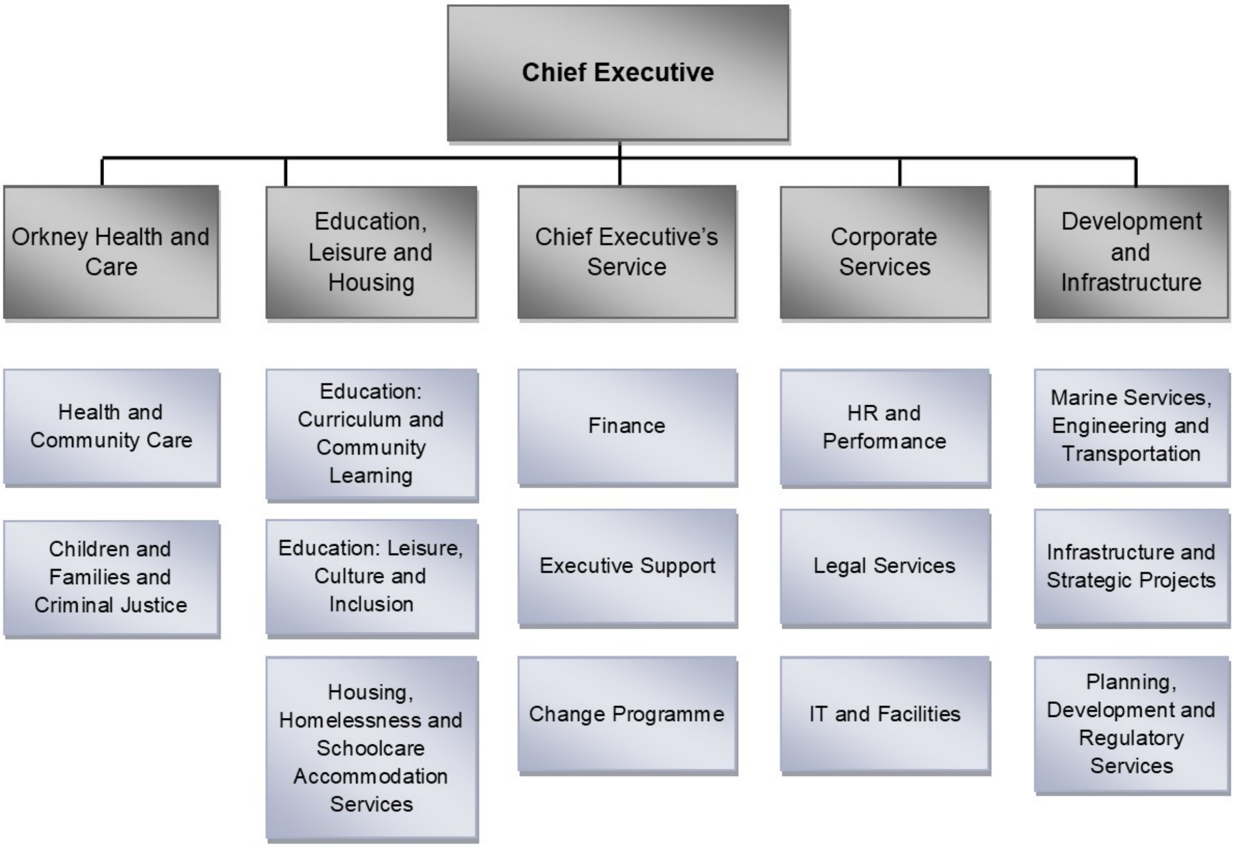
The Scottish Model of Procurement puts procurement at the heart of Scotland's economic recovery. It sees procurement as an integral part of policy development and service delivery.

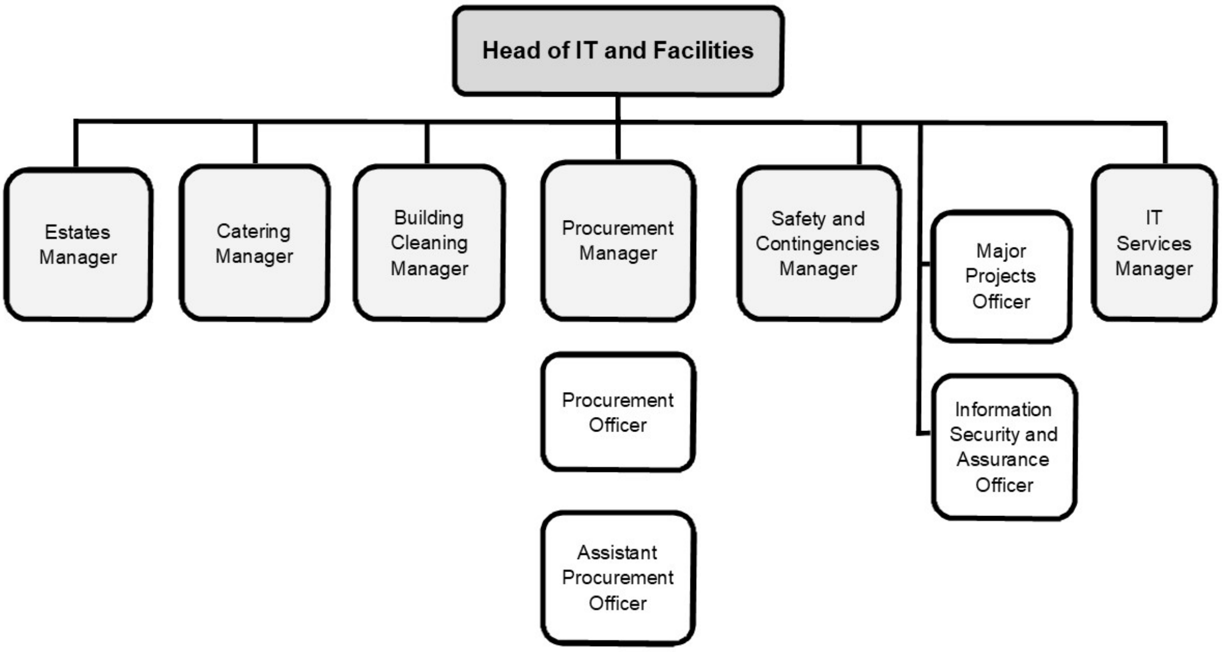
Like all good ideas, it's a simple concept - business friendly and socially responsible. Looking at outcomes not outputs, it uses the power of public spend to deliver genuine public value beyond simply cost and / or quality in purchasing.

Government led, it benefits from strong political leadership including three successive Cabinet Secretaries. It is also owned by all of the Scottish public sector. Working together to develop strategic relationships with key business, third sector organisations and, a project level partnership with them to agree solutions to specific problems.

The Value for Money triangle sums up the Scottish Model of Procurement; it is not just about cost and quality, but about the best balance of cost, quality and sustainability.

4.3. Council Structure and Procurement Organisational Structure





The Council structure as noted above illustrates the reporting structure for the Procurement Team which sits within Corporate Services and the IT and Facilities Team. The Procurement Services Team consists of three full-time equivalent staff; a Procurement Manager, a Procurement Officer and an Assistant Procurement Officer. The Procurement Manager's responsibilities include development of a network of trained and experienced Officers across the Council who are assigned delegated responsibility for procurement for supplies, services and works.

The Procurement Member Officer Working Group consists of six Elected Members and five officers at Executive Director and senior management level, meets quarterly and has the following objectives:

- To consider the strategic direction of Procurement across OIC.
- To discuss priorities for the Procurement programme of work.
- To identify opportunities for efficiencies across OIC.
- To ensure readiness for compliance with the requirements of the Procurement Reform (Scotland) Act 2014.
- To ensure the Contract Standing Orders are up to date and implemented across OIC.
- To support Supplier Development and associated activity.

5. Themes and Priorities

The six key priority areas where targets have been identified and are attributable for the Procurement Strategy reporting period ending 31 March 2021 are as follows:

- Sustainability.
- Working with suppliers.
- Value for money.
- Collaboration and partnering.
- Contract management.
- E-Procurement.

6. The Council's Contract Standing Orders

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

http://www.orkney.gov.uk/Council/C/Contract-Standing-Orders.htm

The Council's Contract Standing Orders are compiled in accordance with the Procurement Reform (Scotland) Act 2014, Public Contracts (Scotland) Regulations 2015, the Procurement (Scotland) Regulations 2016, the Concession Contracts (Scotland) Regulations 2016, the Utilities Contracts (Scotland) Regulations 2016 and the Public Contracts (Scotland) Amendment Regulations 2016.

The Contract Standing Orders should be read in conjunction with the Procurement Reform (Scotland) Act 2014 statutory guidance in recognition of the duty of Public Authorities to have regard to the Guidance as detailed below:

Selection of Tenderers and Award of Contracts; The Sustainable Procurement Duty; and Community Benefit Requirements in Procurement:
http://www.gov.scot/publications/2016/03/8410

Addressing Fair Work Practices, including the Living Wage, in Procurement:
http://www.gov.scot/Publications/2015/10/2086/0 Procurement of Health and Social Care Services: http://www.gov.scot/publications/2016/03/8410

Scottish Procurement Policy Note (SPPN) 07/2016 Update to Guidance on the Procurement of Care and Support Services (Best Practice):
http://www.gov.scot/Topics/Government/Procurement/policy/SPPNSSPANS/policy-notes/SPPN2016/CareSupportServicesBestPractice

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

Contracts awarded by the Council must comply with the CSOs.

Officers are required to comply with the CSOs, the Scheme of Delegation to Officers, the Scheme of Administration and the Financial Regulations.

7. Ethical Standards

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

- Be fair, efficient, firm and courteous.
- Maintain the highest possible standard of integrity in all business relationships.
- Acquire and maintain current technical knowledge.
- Achieve appropriate professional standards in the management of contracts.
- Foster appropriate standards of professional competence amongst those for whom they are responsible.
- Comply with the law, guidance on professional practice and contractual obligations.
- Declare any personal interest which may affect or be seen by other to affect impartiality.
- Respect the confidentiality of information received in the course of duty and ensure that information given in the course of duty is honest and clear.
- Respond promptly, courteously and efficiently to suggestions or enquiries, including Freedom of Information request obligations according to Council policies.

8. Sustainable Procurement Duty

Before undertaking a tendering exercise, the Chief Executive, Executive Directors or Chief Officer takes into account the social, economic and environmental impacts of the proposed contract and whether the contract will contribute to the achievement of sustainable development in accordance with the Sustainable Procurement Duty and the Council's Sustainable Procurement Policy. http://www.orkney.gov.uk/Service-Directory/P/sustainable-procurement.htm.

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

Consideration to be given to the elimination of single use / disposable plastic items used by the Council where possible and support others to do likewise.

The Chief Executive, Executive Directors or Chief Officer will only consider factors that are relevant and proportionate to the proposed Contract.

9. Consultation and Engagement

Prior to commencement of all procurement activities where the public may be affected by the Council's procurements, consideration is given to the consultation and engagement process as appropriate. For example, this is particularly relevant in the provision of Social Care Services which provides for good practice examples of service users and / or their representatives contributing to the development of service specifications and evaluation criteria.

10. Payment of Living Wage

The Council will consider its approach to all procurements involving the payment of a Living Wage to persons involved in producing, providing or constructing the service, supply or works being procured and will require contractors to comply with legislation as required by the Scottish Government as referred to in the guidance as below.

Addressing Fair Work Practices, including the Living Wage, in Procurement:
http://www.gov.scot/Publications/2015/10/2086/0

11. Health and Safety at Work, etc. Act 1974

All Contractors and sub-contractors will be required to evidence their compliance with the Health and Safety at Work, etc. Act 1974 and any provision made under that Act, wherever this is relevant to the subject matter of the contract.

12. Fairly and Ethically Traded Goods and Services

In 2010, Orkney Islands Council passed a Fairtrade Resolution which says:

"Orkney Islands Council aims to be recognised as supporting and promoting the principles of Fairtrade through demonstrating a commitment to supporting fair and sustainable development".

As detailed in the Council's Sustainable Procurement Policy, the Council will, where practicable and where it is sustainable, purchase fair trade options as a means of helping excluded and disadvantaged producers, including independent small farmers, to access international markets and receive a fair price for their products.

13. Procurements involving the Provision of Food

The Council will require contractors to provide evidence of how their approach to the sourcing/provision of food can improve the health, wellbeing and education of communities and appropriate food standards certification or equivalent including animal welfare requirements and / or welfare inspections which can promote the highest standards of animal welfare.

As detailed in the Council's Sustainable Procurement Strategy:

- We will, where practicable and where it is sustainable, specify fresh, seasonal and nutritious food.

- We will not knowingly purchase genetically modified food or food with genetically modified ingredients.
- We will specify Protected Geographical Indication and Protected Designation of Origin standards where they are justified by menu requirements.
- We will consider animal welfare when making procurement decisions.
- We will not purchase goods which have been developed using animal testing.

Consideration to be given to the reduction of “food miles” in the context of usage of food produced locally where appropriate and practical and in accordance with procurement legislation.

Consideration will be given to the following publications for all procurements involving the provision of food as appropriate:

Good Food Nation: a Land of Food and Drink.
http://www.gov.scot/Topics/Business-Industry/Food-Industry/national-strategy/good-food-nation

Catering for Change: Buying food sustainably in the public sector.
http://www.gov.scot/Publications/2011/01/12154555/0

14. Aims of the Procurement Strategy

- Ensure that the procurement strategy is aligned with the Council’s corporate priorities.
- Ensure a clear pathway for identifying and acting on improvements by maintaining and improving on the measure of “conformance” performance as measured by the PCIP.
- Ensure compliance with all relevant legislation and achieve financial savings.
- Ensure that best value / value for money is being obtained consistently when goods and services are purchased.
- Ensure that steps are taken to facilitate Supported Businesses in Orkney to be involved in regulated procurement opportunities.
- Ensure that all suppliers have access to supplier development support.
- Ensure compliance with the Sustainable Procurement Duty.
- Ensure that community benefit requirements are imposed as part of a regulated procurement where appropriate.
- Ensure that suppliers are able to access information regarding future potential contract opportunities up to two years in advance.
- Ensure that a Procurement Annual Report is prepared to report on the progress made for meeting the Aims of the Procurement Strategy.

15. Outcomes of the Procurement Strategy

- Better contracts resulting in better services and facilities for the people of Orkney.
- Increased savings, freeing up money to protect the Councils front line services.
- Standardisation of Council processes to protect the Council from risk.
- Improved contract and supplier management.
- A publicly available summary of the regulated procurements that have been completed.
- An annual review of whether those procurements complied with the organisation’s procurement strategy.

- An annual review of the extent to which any regulated procurements did not comply, and a statement detailing how the organisation will ensure that future regulated procurements do comply.
- A summary of community benefit requirements imposed as part of a regulated procurement that were fulfilled during the year covered by the report.
- A summary of any steps taken to facilitate the involvement of supported businesses in regulated procurements during the report period.
- A summary of regulated procurements expected to commence in the next two financial years.

16. Spend Profile in Orkney

The Council is required by the Scottish Government to input its annual spend data to the Procurement Hub which records all purchasing transactions made by the Council for each financial year. The information is processed and released back to the Council for the purposes of analysis and forward planning.

The following table provides a summary of key data for the Council spend data for the past three financial years.

Category.	Financial Year.		
	2015 to 2016.	2016 to 2017.	2017 to 2018.
Total spend.	£44,002,015.	£40,922,973.	£43,949,847.
Core trade spend.	£39,228,692.	£36,836,233.	£38,934,328.
Suppliers.	2,183.	2,216.	2,218.
SME suppliers.	761.	733.	702.
Local suppliers.	235.	225.	228.
Transactions.	35,728.	34,655.	34,292.
Average spend per supplier.	£20,156.	£18,467.	£19,815.
Purchase card spend.	0%	0%	0%
SME spend.	70%	75%	63%
Local spend.	48%	43%	41%
Percentage of core trade spend	89.15%	90.01%	88.59%

Procurement Spend – National Context
Orkney Islands Council has the second highest value (39%) on local SMEs in comparison to the whole of Scotland for the reporting period 2016 to 2017, for total procurement spend on local small / medium enterprises. Orkney's local procurement spend is almost twice the national average of 20%.

Please note that the figures referred to in this section are the percentage of the Council's spend on local SMEs which is a different data set to the figures recorded for percentage of SME spend and percentage of Local spend in the table above.

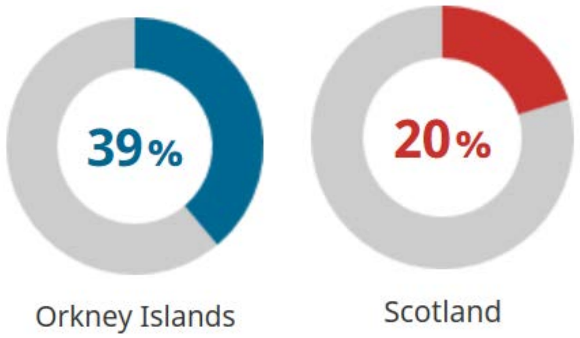


Figure01 Percentage of council procurement spent on local small/medium enterprises 2016-17. Source: www.improvementservice.org.uk, accessed 02 August 2018.

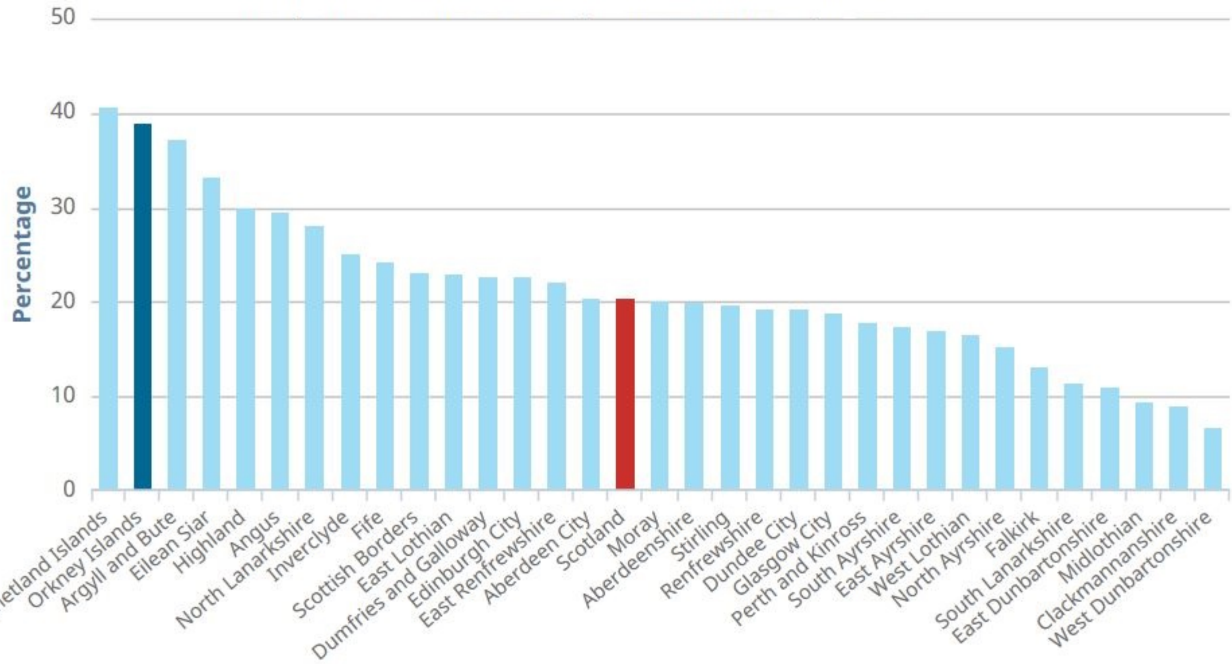


Figure-2 Percentage of council procurement spent on local small/medium enterprises – Scottish Local Authorities 2016-17. Source: As above.

17. Payment Policy

Once certified, payment vouchers should be passed without delay to the Payments Section for processing. Prior to payment the Payments Section will examine payment vouchers and are entitled to make enquiries and to receive information and explanations as required. All payments must be made on time, to comply with the requirements of the Late Payment of Commercial Debts (Interest) Act 1998.

The Council is committed to ensure that where invoices are submitted accurately, these will be paid within 30 days of the invoice date.

18. Implementation, Monitoring, Reviewing and Reporting

The Council already has several performance indicators on procurement and any outcomes and targets from this Procurement Strategy not already included in these indicators will be added for monitoring.

The Procurement Annual Report was published in October 2018 and reported on the targets set in the Procurement Strategy 2016 to 2018. The targets set in the first

Procurement Strategy have been reviewed and amended for the Procurement Strategy 2019 to 2021.

Additionally, overall reporting on the six themes noted at section 5 of this Strategy will be reported upon where appropriate via the Procurement Member Officer Working Group and the Council Committee reporting process.

19. Policies, Tools and Procedures

19.1. Local Policies and Procedures

- Council Plan.
- Key Stakeholder Map / internal / external customers.
- Risk Management.
- Gifts, hospitality and other inducements.
- Conflicts of interest / anti-competitive behaviour / fraud awareness.
- Suppliers charter.
- Financial Regulations.
- Contract Standing Orders.
- Sustainability Prioritisation Tool.
- Flexible Framework.
- National Competency Framework.

Examples of National Policies, Tools and Legislation can be found by searching for the following:

- Legislation.
- Legislation Guidance.
- Scottish Model of Procurement changes to European Directives.
- Public Procurement Reform Programme.
- Suppliers Charter.
- EU Procurement Thresholds.
- Procurement Journey.
- Supplier Journey.
- Procurement Construction Manual.
- PCIP.
- Public Contracts Scotland.
- Public Contracts Scotland – Tender.
- Information Hub (Spikes Cavell).
- Pecos Catalogue Management System (PCM).
- Supplier Development Programme.
- Business Gateway Orkney.

20. Strategic priorities

The Council will always strive to achieve value for money through procurement within an environment of transparency and non-discrimination. The Council must achieve efficiencies and cash savings through procurement whilst considering its responsibilities for the environmental impact of any procurement decisions made in terms of sustainability, equality, diversity and other social implications.

The Council's priorities for 2019 to 2021 in relation to procurement are set out as follows:

20.1. Sustainability

The Council is conscious that its procurement decisions must take account of the social, economic and environmental impact it has on the people and communities of Orkney and elsewhere.

Council commitment:

- To embed sustainability into the procurement process where it is relevant to the subject matter of the contract and to comply with the Council's Sustainability Duty.
- Implementation of the Scottish Government 10 steps to Sustainable Procurement to assist sustainability and other responsible procurement themes
- To engage with the local supplier base to develop Community Benefit Clauses to maximise the potential of the local economy to compete for Council business for the economic benefit and sustainability of Orkney.
- To implement the use of Community Benefit Clauses in contracts as appropriate.

Indicator.	**Actual.**		**Target.**	**Target.**	**Target.**
	2016 to 2017.	**2017 to 2018.**	**2018 to 2019.**	**2019 to 2020.**	**2020 to 2021.**
Percentage of relevant Procurements where Community Benefit Clauses have been included in the award criteria.	5% (100%)	10% (100%)	N / A	N / A	N / A
Number of Procurements where Community Benefit Clauses have been included in the award criteria.	3.	4.	6.	8.	10.
Percentage of overall spend with the third sector and supported businesses.	7% (5.52%)	8% (10.65%)	11%	12%	13%
Percentage of contract spend with local supplier base in Orkney.	50% (43%)	52% (52%)	55%	56%	57%

20.2. Working with suppliers

The Council recognises that there is a popular view amongst suppliers and contractors, and particularly amongst Small and Medium Sized Enterprises (SMEs), that Councils are difficult to deal with and that communications are often poor.

Council Commitment:

- At all times adopt a professional approach in all its business undertakings with suppliers and contractors. Where decisions are made every effort will be made, within the confines of the law and commercial confidentiality, to provide a full explanation of the reasoning behind the procurement decision making process.

- To ensure that the procurement process is appropriate to the value and complexity of the goods, services or works that are being acquired and to keep bidding costs to the minimum necessary and remove barriers to participation by, for example small firms, the self-employed and the third sector without discriminating against others.
- To review contract award procedure – to ensure that they place the minimum possible burden of suppliers.
- Use outcome based tender specifications wherever possible – to allow businesses to propose innovative and alternative solutions to the Council's needs.
- To consider the use of lots as appropriate in contract opportunities to enable small firms, the self-employed and the third sector to bid for contracts.
- To develop systems where suppliers are able to provide feedback on a regular basis.

Indicator.	**Actual.**		**Target.**	**Target.**	**Target.**
	2016 to 2017.	**2017 to 2018.**	**2018 to 2019.**	**2019 to 2020.**	**2020 to 2021.**
Percentage of local supply base registered with the Supplier Development Programme.	8% (No systems in place to record this data).	12% (No systems in place to record this data).	N / A.	N / A.	N / A.
Number of local suppliers registered with the Supplier Development Programme.	N / A.	36.	40.	45.	50.
Number of local supply base registered on the Public Contracts Scotland Advertising Portal	N / A.	N / A.	89.	95.	100.
Percentage of outcome based specifications in place.	2% (No systems in place to record this data).	5% (No systems in place to record this data).	N / A.	N / A.	N / A.
Percentage of Council spend attributed to SMEs.	50% (75%).	52% (63%).	65%	66%	67%
Number of Local Suppliers (Local suppliers providing goods, services or works to the Council).	250 (225).	265 (228).	230.	235.	240.

20.3. Value for money

Section 1, Local Government in Scotland Act 2003 places a statutory duty on the Council to secure best value. Procurement activities which deliver value for money will contribute to the achievement of value for money.

Best Value is continuous improvement in the performance of the Council's functions. In accordance with Best Value principles all proposed and current service arrangements shall be subject to review and option appraisal.

The aim of Council procurement must be the achievement of value for money (the optimum combination of whole life cost and quality) for the Council.

Council commitment

- To further develop tender evaluation procedures in order that contracts awarded represent value for money (or Most Economically Advantageous Tender where the full provisions of the Procurement Regulations apply) taking quality and price into consideration in all instances.
- As part of value for money considerations the Council will take account of other relevant Council policies in relation to corporate social responsibility, sustainability and the use of Community Benefits.
- To raise awareness internally of potential framework savings and make recommendations to ensure a more consistent approach across all Council services.

Indicator.	**Actual.**		**Target.**	**Target.**
	2016 to 2017.	**2017 to 2018.**	**2018 to 2019.**	**2019 to 2020.**
Percentage savings target secured through increase on-contract spend.	1 (No systems in place to record this data).	2.5 (No systems in place to record this data).	N / A.	N / A.
Percentage of procurement spend covered by a contract.	55% (66%)	60% (78%)	80%	85%
Savings targets for frequently purchased items.	£50,000 (Systems under development to record this).	£103,000 (Systems under development to record this).	£97,000.	TBC.

20.4. Collaboration and partnering

Greater efficiencies can be achieved by improved collaboration between different organisations within the public sector with similar requirements, whether within the local government sector or in other areas of the public sector, such as the Scottish Government, the Crown Commercial Service, Non Departmental Public Bodies and the NHS. Collaboration maximises the value of procurement whether it be through aggregation of demand or through the sharing of resources to reduce administration.

Council commitment

- Where collaborative arrangements provide a benefit to the Council there will be a strong presumption towards the use of contracts that have been established by Procurement

Scotland (the national centre of procurement expertise), Scotland Excel (the local government centre of procurement expertise) and the Crown Commercial Service.

- Where it is demonstrated that collaborative contracts represent value for money to the Council the use of such contracts should be mandatory across the Council to reduce off-contract buying.
- Where there is a known local supply base as well as collaborative/framework contracts available for the Council to use, a twin track approach should be used to ensure best value is achieved and the local market has the opportunity to respond to contract opportunities. This will be in accordance with the Council's Contract Standing Orders and appropriate to the value of the contract.
- To collaborate wherever possible with the various Centres of Expertise Procurement Expertise to maximise the value of strategic procurement.

Indicator.	**Actual.**		**Target.**	**Target.**	**Target.**
	2016 to 2017.	**2017 to 2018.**	**2018 to 2019.**	**2019 to 2020.**	**2020 to 2021.**
Percentages of contract spend utilising Collaborative Contracts.	15% (21.09%).	20% (19.78%).	22%	23%	25%
Percentage of locally based contractors participating in Collaborative/Framework Contract Opportunities.	0 (0%)	1% (0%)	1%	1%	1%
Percentage of contract opportunities where local supply base have had the opportunity to submit bids.	N / A.	N / A.	10%	15%	20%
Percentage of contract spend with local supplier base in Orkney.	50% (43%)	52% (41%)	50%	50%	50%

20.5. Governance

The Council currently has a highly devolved procurement structure with the majority of services still carrying out a sizeable procurement role. The culture of compliance with the Councils governance arrangements is difficult to manage. The Council expects that all possible attention is given to the issue of accountability and governance in the area of procurement.

Council commitment:

- The Council's Procurement Member Officer Working Group will consider the strategic direction of Procurement.
- The Council will develop the embedded procurement officer network (a network of staff who are formally authorised to undertake procurement activities on behalf of the Council).
- Suppliers will be given notice that goods, services and works should only be provided to the Council on the award of a contract or purchase order.

- That no member of Council staff may award a contract or purchase order without written delegated authority.
- The key roles of budget holder and procurer will not be performed by the same member of staff.
- The Council will endeavor to comply with the Scottish Procurement Policy Handbook http://www.gov.scot/Publications/2008/12/23151017/0.
- The Council will comply with the Contract Standing Orders http://www.orkney.gov.uk/Council/C/Contract-Standing-Orders.htm.

20.6. Contract management

Active contract management is increasing across the Council with segmentation used to identify high value / high risk contracts to ensure targeting of staff resources to develop and apply a contract management plan at the implementation stage following contract award.

Council commitment:

- To strengthen contract management procedures by holding regular meetings with major contractors to review performance and improve levels of contract compliance.
- Roll out contract management arrangements to all high value high risk contracts.
- Incorporate an appropriate exit strategy into contract management plans.

Indicator.	**Actual.**		**Target.**	**Target.**	**Target.**
	2016 to 2017.	**2017 to 2018.**	**2018 to 2019.**	**2019 to 2020.**	**2020 to 2021.**
Percentage of contracts classified as high value/high risk with an appropriate contract management plan in place.	25% (26.99%)	30% (53.85%)	60%	65%	70%
Percentage of contracts with an exit plan in place where appropriate.	N / A.	N / A.	60%	65%	70%
Percentage value of savings negotiated during the annualised contract period where there is a contract in place.	1% (No data currently available).	2% (No data currently available).	N / A.	N / A.	N / A.
Percentage of contracts where improvements have been agreed and implemented.	1% (No data currently available).	2% (No data currently available).	N / A.	N / A.	N / A.

20.7. Communication

Communication is key to the successful implementation of any new procurement processes or policy, there has to be an understanding amongst all stakeholders of the reasons behind such actions.

Council commitment:

To inform and advise its stakeholders by means of:

- Increasing the use of the Public Contracts Scotland website at www.publiccontractsscotland.gov.uk.
- Increasing the use of the procurement page on the Council's intranet (portal).
- Increasing the use of the procurement section of the Council's website.
- Increase attendance at "meet the buyer" or equivalent events to cover areas of concern, engage with local suppliers and advice on how to become a supplier to the Council. Encourage main contractors to engage with SMEs through the inclusion of Community Benefit clauses.
- Encourage suppliers to the Council to access support available to business, via Business Gateway Orkney and the Supplier Development Programme.

19.8. E-Procurement

The Council has yet to implement a process for the replacement of all paper-based purchase ordering systems with a modern e-Procurement system and where appropriate with corporate purchasing cards.

Council commitment:

- To implement an e-Procurement system by end of December 2021.
- To consider (as appropriate) use of e-procurement tools (e.g. e-tendering and e-ESPD i.e. PCS - Tender).
- To maximise the use of the Public Contracts Scotland "Quick Quote" facility for low value / low risk procurements.

Indicator.	**Actual.**		**Target.**	**Target.**	**Target.**
	2016 to 2017.	**2017 to 2018.**	**2018 to 2019.**	**2019 to 2020.**	**2020 to 2021.**
Percentage of invoices paid within 30 days.	80%	90%	TBC.	TBC.	TBC.
Percentage of invoices using e-procurement/purchase to pay system.	4% (Systems not in place yet).	25% (Systems not in place yet).	60%	TBC.	TBC.
Percentage of procurement undertaken using e-tendering system i.e. PCS-T or ESPD Module	N / A.	N / A.	10%	50%	100%

20.9. Monitoring and measurement

In order to measure improvement in effectiveness and efficiency it is important that an agreed set of standard indicators are adopted. The methods of monitoring and measuring procurement performance are required to be proportionate to the scale and complexity of the Council's procurement activities.

Council Commitment:

- The Council will implement as standard, the Best Practice Indicators that were recommended by the Public Procurement Reform Board as a means of measuring the effectiveness and efficiency of the procurement function.
- The Procurement and Commercial Improvement Programme (PCIP) performance reporting framework to be considered for incorporation and adoption of additional Best Practice indicators as appropriate.

20.10. Guidance

An important aspect of the role of the procurement function is to provide guidance and advice to Council services and to all stakeholders.

Council commitment:

The Council will continue to develop procedural guidance as follows:

- The introduction of standard procurement guidance.
- Provide training in the use of standard procurement guidance.
- To develop a purchasing guide for those involved in the ordering of supplies and services.
- To introduce and publish the European Standard Procurement Document (ESPD), standard tender documentation and standard letters.
- One suite of terms and conditions for all Council Requirements.

20.11. Training

The Council recognises that training and development are essential to an effective procurement function and that this is a key element of the ongoing Procurement Commerical Improvement Programme.

Council Commitment:

- Develop training to ensure that procurement activities are compliant with legislation and obtaining value for money.

21. Document Control Sheet

Review / approval history.

Date.	Name.	Position.	Version Approved.
10 December 2013.	General Meeting of the Council.		Version 1.0.
13 December 2016.	General Meeting of the Council.		Version 3.0.
	General Meeting of the Council.		Version 4.0

Change Record Table.

Date.	Author.	Version.	Status.	Reason.
29 November 2016.	Rosemary Colsell.	2.0.	Final.	Draft revised strategy prepared for public consultation to include the provisions of the Procurement Reform (Scotland) Act 2014 and the Procurement Scotland Regulations 2016.
21 January 2019.	Rosemary Colsell.	4.0	Draft.	Draft updated strategy following consultation for 2019 to 2021.

Minute

Police and Fire Sub-committee

Tuesday, 20 November 2018, 14:00.

Committee Room 1, Council Offices, School Place, Kirkwall.

Present

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

Clerk

- Sandra Craigie, Committees Officer.

In Attendance

- Gillian Morrison, Executive Director of Corporate Services.

Police Scotland:

- Chief Inspector Matthew Webb, Area Commander (for Item 1).

Scottish Fire and Rescue Service:

- John McKenna, Group Manager.

Declaration of Interest

- Councillor Andrew Drever – Item 1.

Chair

- Councillor Andrew Drever.

1. 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:

Noted:

1.1. Progress made against the objectives set within the Orkney Islands Local Policing Plan 2017 to 2020 Year 2, attached as Appendix 1 to the report by Area Commander, for the period 1 April to 30 September 2018.

1.2. Information in relation to Third Party Reporting Centres, attached as Appendix 2 to the report by the Area Commander.

Councillor J Harvey Johnston left the meeting at this point.

2. 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 John McKenna, Group Manager, the Sub-committee:

Noted the Quarterly Performance report for the period 1 July to 30 September 2018, attached as Appendix 1 to the report by the Local Senior Officer.

Councillor Magnus O Thomson left the meeting during discussion of this item.

3. Conclusion of Meeting

At 15:12 the Chair declared the meeting concluded.

Signed: A Drever.

Minute

Pension Fund Sub-committee, together with Pension Board

Wednesday, 21 November 2018, 10:30.

Council Chamber, Council Offices, School Place, Kirkwall.

Present

Pension Fund Sub-committee:

Councillors W Leslie Manson, Rachael A King, Stephen Sankey, John A R Scott, Graham L Sinclair and James W Stockan.

Pension Board:

Employer Representatives:

Councillors J Harvey Johnston, Owen Tierney and Duncan A Tullock, Orkney Islands Council.
Andrew Blake, Orkney Ferries Limited.

Trade Union Representatives:

Karen Kent (Unison), Eoin Miller (Unite) and Eileen Swanney (Unison).

Clerk

- Sandra Craigie, Committees Officer.

In Attendance

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

Hymans Robertson:

- David Walker, Head of Local Government and Pension Schemes Investments.

Apology

Pension Fund Sub-committee:

- Councillor Steven B Heddle.

Not Present

- Mark Vincent, Trade Union Representative.

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 9 and 10, 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, and after hearing a report from the Accounting Manager (Corporate Finance), 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 2018, attached as Annex 1 to the report by the Head of Finance, indicating a surplus position of £15,014,600.

2.2. The revenue financial detail by Service Area statement for the period 1 April to 30 September 2018, 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.

Karen Kent joined the meeting during discussion of this item.

3. Pensions Administration – Performance

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 the performance of Pensions administration for the period 1 April to 30 September 2018, as detailed in sections 4 to 12 of the report by the Head of Finance.

4. Pension Fund Risk Register

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 the updated Risk Register relating to the Orkney Islands Council Pension Fund, attached as Appendix 1 to the report by the Head of Finance.

5. Scottish Local Government Pension Scheme – Review of Structure

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

Noted:

5.1. That the Pensions Institute, on behalf of the Scottish Local Government Pension Scheme Advisory Board, was undertaking a consultation on the review of the structure of the Scottish Local Government Pension Scheme, attached as Appendix 1 to the report by the Head of Finance, for which responses required to be submitted by 7 December 2018.

5.2. That the consultation contained four options for active consideration, namely:

- Option 1 – Retain the current structure of 11 Scottish Local Government Pension Scheme Funds.
- Option 2 – Promote co-operation in investing and administration between the 11 Funds.
- Option 3 – Pool investments between the 11 Funds.
- Option 4 – Merge the 11 Funds into one or more new Funds.

5.3. That differing opinions had been expressed by stakeholders on the preferred options in the consultation with a higher proportion of opinion tending to support larger scale pension operations.

5.4. The Council's draft response to the public consultation on the structure of the Scottish Local Government Pension Scheme, attached as Appendix 2 to the report by the Head of Finance, which favoured Option 1, namely to retain the current structure.

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

5.5. That the response to the public consultation on the review of the structure of the Scottish Local Government Pension Scheme, attached as Appendix 1 to this Minute, be approved as the Council's response, as an Administering Authority.

Eileen Swanney left the meeting at this point.

6. Local Government Pension Scheme – Discretionary Provisions

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

Noted:

6.1. That, following implementation of the Local Government Pension Scheme (Scotland) Regulations 2018, the Council was required, as administering authority of the Local Government Pension Scheme, to formulate and publish discretionary policies.

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

6.2. That the Administering Authority Discretions, attached as Appendix 2 to this Minute, be approved.

Eileen Swanney rejoined the meeting at this point.

7. Statement of Investment Principles

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:

7.1. The requirement of the Council, as administering authority for the Orkney Islands Council Pension Fund, to review the Statement of Investment Principles at least every three years.

7.2. That the Statement of Investment Principles, attached as Appendix 1 to the report by the Head of Finance, set out a number of detailed investment principles for achieving the prime objective of the Pension Fund, namely to be able to meet employers' pension liabilities into the future, as set out in the Funding Strategy Statement.

7.3. That the Statement of Investment Principles had been updated, following completion of the last actuarial valuation, which was conducted as at 31 March 2017, and reflected the updated funding level of 112.7%.

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

7.4. That the Statement of Investment Principles, including the Statement of Compliance with the Chartered Institute of Public Finance and Accountancy Principles, attached as Appendix 3 to this Minute, be approved.

8. Exclusion of the 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 Part 1 of Schedule 7A of the Local Government (Scotland) Act 1973 as amended.

Karen Kent left the meeting at this point.

9. Review of Investment Strategy

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

After consideration of a report by the Head of Finance, copies of which had been circulated, and after hearing a report from the Corporate Finance Senior Manager, the Sub-committee:

Noted:

9.1. That Hymans Robertson, as investment advisers to the Pension Fund, had undertaken an independent review of the existing investment strategy in order to evaluate the suitability of the existing investment strategy, as well as assess the potential for the Pension Fund to maintain a longer term, lower risk, “steady state” funding basis going forward.

9.2. That the Pension Fund had performed well in recent years and, as at the triennial actuarial valuation date in 2017, was 112.7% funded.

9.3. That the current investment strategy of the Pension Fund had a relatively high allocation to growth assets, being approximately 85%, managed by a single Fund Manager.

9.4. That the current investment and funding strategies had a good chance of meeting the long-term funding objectives, but did expose the Pension Fund to significant volatility.

9.5. That, based on current market conditions, there was significant scope to de-risk and diversify the current investment strategy of the Pension Fund.

9.6. That the review undertaken by Hymans Robertson identified a requirement for members to receive further training on alternative sources of income, as well as giving due consideration to the practical implications associated with de-risking and diversifying the investment strategy.

9.7. A summary of the findings of the review by Hymans Robertson in respect of the investment strategy for the Pension Fund, as detailed in section 4 of the report by the Head of Finance.

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

9.8. That the Head of Finance, in consultation with Hymans Robertson, develop the findings of the review of the investment strategy for the Pension Fund into a set of specific proposals for de-risking and diversifying the investment strategy.

9.9. That the Head of Finance should thereafter submit a report, to the Sub-committee, setting out a revised investment strategy for the Pension Fund.

Councillor Stephen Sankey left the meeting during discussion of this item.

10. Statement of Managed Pension Funds

Under section 50A(4) of the Local Government (Scotland) Act 1973, the public had been excluded from the meeting for this item on the grounds that it involved the disclosure of exempt information as defined in paragraph 6 of Part 1 of Schedule 7A of the Act.

After consideration of a report by the Head of Finance, copies of which had been circulated, and after hearing a report from the Corporate Finance Senior Manager, the Sub-committee:

Noted:

10.1. The review of the investment manager’s performance for the quarter to 30 September 2018, attached as Appendix 1 to the report by the Head of Finance, prepared by Hymans Robertson, the Council’s appointed investment advisors.

10.2. That, although Pension Fund investments returned a gain of 1.6% over the quarter to 30 September 2018, this was 1.2% below the benchmark and was therefore considered poor.

10.3. That the value of the Pension Fund had increased by 9.3% over the 12-month period to 30 September 2018, which in absolute performance terms was good, however being only 0.8% ahead of the benchmark, was considered average.

10.4. That an average return of 15.6% per annum for the Pension Fund remained well ahead of the mandate over the three-year period.

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

10.6. The Governance Summary extracted from the Fund Manager’s performance report for the quarter ending 30 September 2018, attached as Appendix 3 to the report by the Head of Finance.

10.7. The annual Global Alpha Stewardship Report 2018 from the Fund Manager, attached as Appendix 4 to the report by the Head of Finance.

Councillor John A R Scott left the meeting during discussion of this item.

11. Conclusion of Meeting

At 13:19 the Chair declared the meeting concluded.

Signed: L Manson.

Appendix 1

Review of the Structure of the Scottish Local Government Pension Scheme

CONSULTATION RESPONSE FORM

Instructions
Responses in this form should be drafted in conjunction with the accompanying consultation report. To respond, please complete the **respondent details** and as many of the **consultation questions** your organisation wishes to complete and return the form via email to the Pensions Institute at consultation@pensions-intitute.org no later than **Friday, 7 December 2018**.

This consultation is being conducted in electronic form only, so **responses must be emailed**; hard copy posted or delivered responses cannot be received. Any queries about the consultation should be addressed to Matthew Roy, Fellow, Pensions Institute at matthew.roy@pensions-institute.org.

RESPONDENT DETAILS

Name of responding organisation(s) Please list the full name of each organisation participating in this response.	**Organisation type** Is your organisation an administering authority, employer, or employee group? Please record for each responding organisation.
Orkney Island Council Pension Fund	**Administering Authority**

Authors Please list any people that wish to be recorded as authors of this response, including name, job title and organisation.	**Consent** Please confirm each author consents to their information being retained for analysing the consultation responses by writing 'confirm' by their name.
Gareth Waterson, Head of Finance, Orkney Islands Council	**Confirm**

Date Please date the response.	**04 December 2018**

Covering information
If you wish to include covering information with your response, please include the text here. The text can wrap onto additional pages if needed.

Orkney Islands Council is the Administering Authority for the Orkney Islands Council Pension Fund.

Key figures for the Orkney Islands Council Pension Fund at 31 March 2018 are as follows: -

FUNDING

At the 2017 triennial actuarial valuation, the Fund was assessed as 112.7% funded (114.4% at the March 2014 valuation).

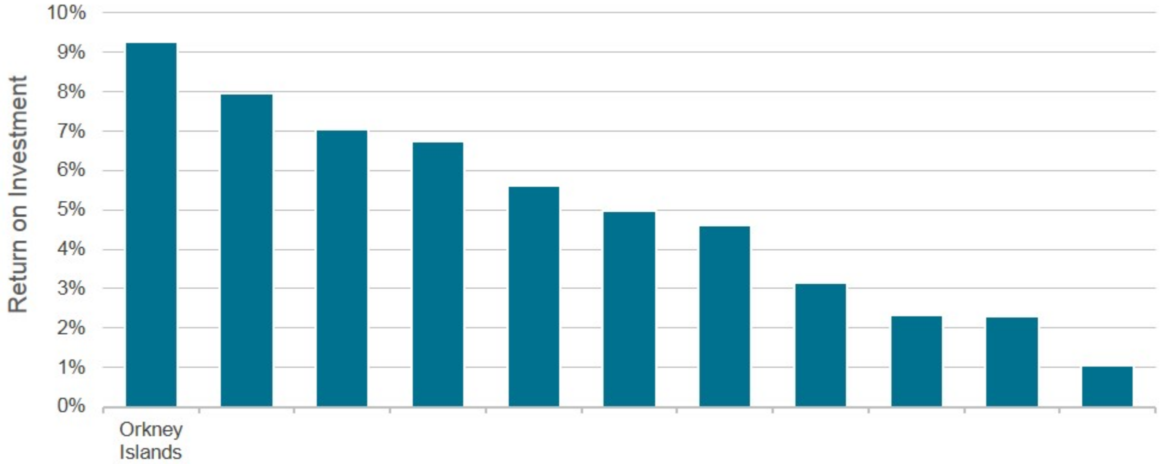
All Employers participating in the Orkney Islands Pension Fund pay a common contribution rate that has been reducing in recent years:

2014/15	21.4%
2015/16	19.8%
2016/17	19.2%
2017/18	19.2%
2018/19	18.2%
2019/20	17.6%
2020/21	17.0%

INVESTMENT PERFORMANCE

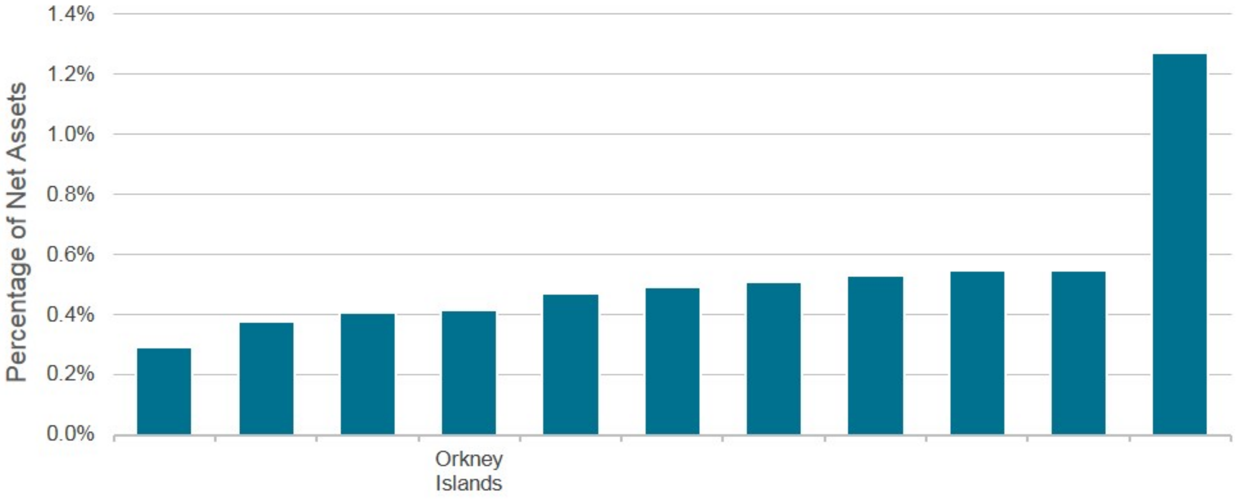
1 – year:	8.9%
3 - years:	10.6%
5 - years:	11.1%
Since Inception: (1995)	9.7%

LGPS pension funds – Net return on investment 2017/18 (unaudited figures)



Source: - Audit Scotland. "Orkney Islands Council Pension Fund has achieved, for the second year running, the highest return on assets across all local government pension funds in Scotland."

Investment management expenses 2017/18



Source: - Audit Scotland.

MEMBERSHIP

Membership	2016-2017	2017-2018
Contributing members	1,942	1,966
Pensioners	829	888
Deferred members	892	973
Total	**3,663**	**3,827**

EMPLOYERS

The Fund invests and administers pensions on behalf of 7 current and former employers. These include scheduled bodies and admitted bodies.

Membership Details at 31/03/2018	Active	Deferred	Pensioner	Dependant
Orkney Islands Council	1,796	877	722	104
Orkney Islands Property Development	2	4	4	0
Orkney Towage Company Limited	18	14	18	0
Pickaquoy Centre Trust	55	23	6	0
Orkney Enterprise	4	5	2	0
Orkney Tourist Board (Visit Scotland)	0	5	3	1
Orkney Ferries Limited	91	45	25	3
Summary of Members				
OIC	1,796	877	722	104
Admitted Bodies	170	96	58	4
Totals	**1,966**	**973**	**780**	**108**

INVESTMENT ASSETS

The value of the Fund at 31 March 2018 was £366.4 million (£335.3m at 31 March 2017).

The Fund is invested in a globally diversified strategy through a single fund manager. The Statement of Investment Principles was revised in November 2017 to reflect a review of Environmental, Social and Governance factors including a requirement for the Fund Managers to adopt the United Nation Principles of Responsible Investment.

2017-2018	Opening Market Value £'000	Purchases £'000	Sales £'000	Change in Market Value £'000	Closing Market Value £'000
Investment Assets	0	0	0	0	0
Managed Fund Investments					
Equities	194,980	35,573	(33,320)	21,269	218,502
UK Bonds	19,607	4,399	(3,322)	(412)	20,272
Pooled Investment – British Small Companies	1,330	18	0	34	1,382
Pooled Investment – Fixed Interest	19,869	276	0	20	20,165
Pooled Investment – Multi-Asset Growth	49,493	4,442	0	2,090	56,025
Pooled Investment – Diversified Growth	39,930	2,975	0	1,069	43,974
Total Transactions	**325,209**	**47,683**	**(36,642)**	**24,070**	**360,320**
Cash Deposits	**9,400**				**5,466**
Internal Net Current Assets / (Liabilities)	**681**				**606**
Total	**335,290**				**366,392**

The consultation questions follow.

CONSULTATION QUESTIONS

Question 1: Retain the current structure with 11 funds

The text can wrap onto additional pages.

a) Cost of investing:

- *How well informed do you feel about the investment costs in your fund? What information do you rely on to specify and measure these?*

The Orkney Islands Council Pension Fund is managed by a single fund manager that is a signatory to the LGPS Transparency code.

The investment costs are disclosed in the Pension Fund Annual Report and Accounts in sufficient detail that stakeholders should be able to gain a good insight into the cost of managing the pension fund and it's investments:-

	2016-2017 £'000	2017-2018 £'000
Investment Management Expenses		
Investment managers fees	852	1,055
Custodian fees	32	43
Other Investment management expenses	4	7
Stamp Duty	50	13
Other Transaction Taxes and Levies	0	20
Broker Commission	0	31
Total Investment Management Expenses	**938**	**1,169**
Administration Costs		
Staff time and Support allocations	238	256
Total Administration Costs	**238**	**256**
Governance		
Audit costs	20	20
Professional fees	25	75
Total Governance Costs	**45**	**95**
Total	**1,221**	**1,520**

The Code of Transparency enables a greater understanding of the investment process and better cost management through the fund managers disclosure of transaction costs.

Total transaction costs for each asset class are detailed below:

2017-2018	Transaction Taxes £	Broker Commission £	Implicit Costs £	Indirect Transaction Costs £	Total Transaction Costs £
Equities	32,638	31,360	71,223	0	**135,221**
Bonds	0	0	(4,232)	0	**(4,232)**
Pooled Funds	0	0	75	6,187	**6,262**
Foreign Exchange	0	0	2,638	0	**2,638**

The nature of the transaction costs groups are as follows:

- Transaction Taxes – Incudes stamp duty and any other financial transaction taxes.
- Broker Commissions – Payments for execution services, including exchange fees, settlement fees and clearing fees.
- Implicit Costs – Indirect costs associated with buying and selling securities, being an estimate of market impact.
- Indirect Transaction Costs – transaction costs incurred within pooled funds when they buy and sell their underlying investments.

In addition to the transaction costs, the portfolio has incurred indirect fees of £284,570 paid from the Net Asset Value of the pooled funds.

- *How well does the current system manage investment costs?*

Investment management costs for the Orkney Islands Council Fund when viewed in isolation, have increased over recent years as the investment strategy has been developed and investment mandates have changed with the Fund Managers seeking higher fees commensurate with the more complex investment strategies. The investment costs are however only a part of the consideration and performance net of costs is the real measure of the value added by investment managers.

Despite the evolution of framework agreements and benchmarking arrangements, there is still no central and easily accessible resource that discloses the full range of investment mandates and fees charged to the LGPS that would allow Funds to shop around for the best fees.

- *How would you improve the measurement and management of investment costs in the current system?*

Following on from the development of the Code of Transparency and the disclosure templates, there may be a role for the Scheme Advisory Board to collate and publish an analysis of the investment costs of the different investment mandates being followed by the 11 Administering Authorities.

b) Governance:

- *How well informed do you feel about the governance of your fund? What information do you rely on to measure this?*

The Annual Report and Accounts of the Pension Fund are an important document in informing stakeholders about the governance of the fund. There is a section of the annual report that contains a Governance Compliance Statement giving an assessment of how the Fund measures up to best practice principles.

The Annual Report and Accounts of the Pension Fund are also subject to External Audit and the Audit Certificate on the Accounts and the Annual Audit report provide assurance that the Fund has sound governance practices in place. If there are governance weaknesses these are reported in the Annual Audit Report.

An annual assessment of the Orkney Islands Council Pension against the Local Code of Corporate Governance is also carried out to identify areas where improvements may be possible.

- *How well is the current system governed?*

The Governance of the LGPS in Scotland has not been a significant feature of any national overview reports from Audit Scotland. This would support the conclusion that there are not many systemic or inherent governance issues with the current system that are being reported at an individual fund level. The governance procedures have been bolstered over recent years with the requirement to prepare separate accounts and establish Pension Boards and Committees.

The Council believes that local accountability and oversight carried out by local elected members in decisions relating to the pension funds should remain a matter for local determination and that this ‘local’ ownership is crucial to effective cost control and sustaining good governance. The local nature of decision making guarantees an effective voice for employee representatives on pension fund boards, as well as that of employers. This local voice may be lost or diluted under aggregated, less local models of governance.

- *How would you improve governance of the current system?*

The Governance of the current system is believed to be strong but perhaps a national overview report by Audit Scotland highlighting areas where improvements could be made by individual funds would be beneficial.

- *How important is it to maintain a local connection with respect to oversight and strategy?*

It is very important for accountability of decision making to maintain a local connection with respect to oversight and strategy. If the Government were to decide on a Full Merger and a single fund for the LGPS in Scotland there would thereafter be a disconnect between the fund’s performance and the local authorities who are required to pay Employer’s contributions into the fund.

Any change to the current model that extended to pooling or merger could be seen as a weakening of local democratic oversight and governance of the pension funds.

- *How would you determine if the benefits of a local connection in governance outweigh the benefits of scale?*

The Orkney Islands Council pension fund is the smallest of the LGPS funds in Scotland yet according to Audit Scotland “Orkney has the highest funding level relative to other pension funds in 2017/18”. The Orkney Islands Council Pension Fund therefore retains the benefits of a local connection in terms of governance whilst it is difficult to see what benefits "scale " would bring to the fund in terms of investment performance.

c) Operating risks:

- *How well informed do feel about the operating risks of your fund? What information do you rely on to specify and measure these?*

The Orkney Islands Council pension fund has a risk register that is reviewed regularly.

- *How well are operating risks managed in the current system?*

The audit process has not identified any significant failings.

- *How would you improve the measurement and management of operating risks in the current system?*

All 11 Administering Authorities use the Heywoods Altair Pension software but on an individual fund specific basis. If the LGPS in Scotland had a common software platform that was cloud based it would be possible to obtain common reports that captured the statistical information from all funds giving much better management information. There may be a risk to this of concentrating all the administration data on one platform but as a cloud based platform the usual redundancies should be built in.

d) Infrastructure:

- *How well informed do you feel about your fund's investments in infrastructure? What information do you rely on?*

The Orkney Islands Council Pension Fund has no direct investments in Infrastructure, the Investment Strategy set out in the Statement of Investment Principles is to invest monies in a prudent and diversified manner, in accordance with the Scheme regulations and in recognition of the inherent risks that accompany investment in various asset classes. The revised asset allocation and range guidelines that were applied with effect from February 2017 are shown in the Asset Allocation table below together with the actual asset allocation at 31 March 2018.

Asset Class	**Asset Allocation at 31/03/2018**	**Range Guideline**	**Fund Specific Benchmark**
	%	**%**	%
UK Equities	10.2	48-68	9.0
Overseas Equities	49.6		49.0
Government Bonds	11.0	5-25	15.0
Alternative Investments	0.0	0.0	0.0
Property	0.0	0.0	0.0
Cash	1.5	0-10	0.0
Global Pooled - Diversified/Multi-Asset Growth	27.7	17-37	27.0
Total	**100.0**		**100.0**

- *How do you rate the current system's ability to invest in infrastructure?*

The principle impediment to investment in infrastructure for small funds is the lack of suitably attractive investment opportunities that are packaged in a manner that make them easy to access. For larger funds that have larger sums to invest there are significant infrastructure investments already completed.

The due diligence requirements, scale of investment required and high level of entry costs is definitely a deterrent to direct investment in infrastructure for small funds.

- *How would you increase investment in infrastructure in the current system?*

If there were a suitable investment vehicle that offered the pension fund a route into infrastructure investment with an appropriate return for the level of risk, that might be persuasive. It should also be recognised that Infrastructure by its very nature is long term and such an asset class may be more suited to mature funds that are seeking to match pension payments to secure steady cash flows. The Orkney Islands Council Pension Fund is gradually maturing but has not yet reached the point where it has to change its investment strategy to a matching approach.

e) Do you have any additional comments about this option?

Restructuring the Scottish LGPS simply to secure additional investment in Scottish infrastructure could be a hugely costly mistake. Those charged with stewardship of the LGPS require to invest the funds for which they are responsible to earn the maximum return possible for the level of risk taken. Just as investments in arms, fracking, fossil fuels etc may be controversial, if they are on balance the best investments to meet the objectives of pensions funds then that is where pension funds are invested. Government should therefore concentrate on developing a package of infrastructure projects that can be placed in a suitable "wrapper" to make investment in Scottish infrastructure an attractive option for the Scottish LGPS funds.

Question 2: Promote cooperation in investing and administration between the 11 funds

The text can wrap onto additional pages.

a) Cost of investing:

- *What impact do you think promoting agreements between funds would have on investment costs?*

Increased purchasing power has the potential to lead to reduced investment costs as most investment managers have fee structures that are more expensive for smaller levels of investment. Agreement between funds could see greater sums invested in the lower cost fee range which would be beneficial to the funds.

Infrastructure investment may be possible through a collaborative approach that would not have been possible for individual funds as infrastructure investments tend to be for significant sums.

The investment performance is just as important or possibly more so as the investment return after costs is the real measure of investment success.

A small number of comprehensive framework procurement agreements for fund managers and professional advisers might be a good start.

- *What would be the positive impacts?*

The positive impact would be reduced costs through having larger sums at lower fee levels.

- *What would be the negative impacts?*

The drafting of agreements between funds could be time consuming and expensive while there could be significant transaction costs involved with getting a strategy in place.

b) Governance:

- *What impact do you think promoting agreements between funds would have on governance?*

Fund governance at a local a level would potentially be diminished as a result of funds reaching agreement on investment.

- *What would be the positive impacts?*

Through a sharing of best practice and knowledge there may be opportunities to improve scheme governance.

- *What would be the negative impacts?*

Provided the investment decisions reached will fully meet the objectives of each fund there should not be any significant negative impacts. Consideration would need to be given to the levels of delegation, representation of individual funds interests and flows of information across the participating funds which would require to be set out in appropriate legal agreements.

Agreements require to be documented and maintained – once they lapse they are an easy target for auditors to criticise and are therefore a governance risk.

c) Operating risks:

- *What impact do you think promoting agreements between funds would have on operating risks?*

In the context of a small pension fund with ~~very~~ limited resources there will be an increased workload to get agreements in place in the first instance but thereafter there should be improved resilience.

- *What would be the positive impacts?*

Improved resilience.

- *What would be the negative impacts?*

There may be an increased workload in establishing, monitoring and then maintaining agreements which will be time limited and subject to negotiation.

d) Infrastructure:

- *What impact do you think promoting agreements between funds would have on funds' ability to invest in infrastructure?*

If the Scottish Government established a model agreement for funds to use for collaboration in infrastructure investment and had available suitable investment opportunities then promoting agreement between funds should lead to an increased ability to invest in infrastructure. Suggesting agreements are made on its own is unlikely to have much impact.

- *What would be the positive impacts?*

Increased diversification for pension funds and achievement of a political aspiration to see LGPS Funds investing in Scottish infrastructure projects.

- *What would be the negative impacts?*

It is possible that both the duration and returns from an infrastructure investment are not sufficiently attractive to merit the pension fund making an investment on purely financial grounds. Also, ~~but~~ if the investment opportunity is in a key project in the local area the decision makers judgement may be clouded by a desire to see the project delivered for reasons other than the investment return.

e) Do you have any additional comments about this option?

The merits of an initiative that appears to promote public sector infrastructure investment opportunities to private sector investors, while at the same time encouraging public sector pension schemes to go out and seek investment opportunities from across the private sector is questionable.

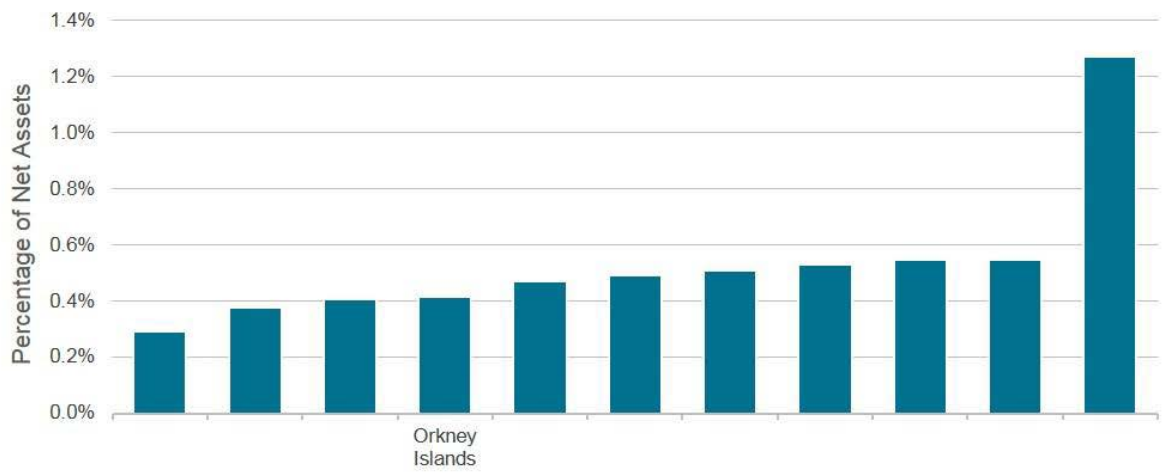
Question 3: Pool investments between the 11 funds

The text can wrap onto additional pages.

a) Cost of investing:

- *What impact do you think pooling investments between funds would have on the cost of investing?*

It should be possible for larger pools to enjoy lower costs however it is not necessarily the case that bigger funds have lower investment costs: -



Source: Audit Scotland

- *What would be the positive impacts?*

Some direct investment opportunities may be possible that would not have been considered by the Fund due to the higher initial due diligence costs and/or scale of investment required.

- *What would be the negative impacts?*

The costs of restructuring would be significant and could be a drag on Fund performance for many years.

There would appear to be little justification for forcing through pooling of Funds when the funding levels are already good and fees levels are generally quite competitive.

- *If asset pooling were possible, under what circumstances should a fund consider joining an asset pool?*

If an asset pool is established that is invested in an asset class or classes that meet the Pension Fund's investment strategy and the fee structure is better than is currently enjoyed then it may be worth joining the pool. This is essentially the same as any other investment decision made by the Fund.

Or, if the pool is able to offer an investment in an assets classes that the fund cannot access by another means.

- *Under which circumstances should the SLGPS consider directing funds to pool?*

If there is evidence that the funds are failing to achieve their objectives which can be attributed to poor investment returns and high fees and there is a firm belief that a pooling of investments will bring about an improvement in investment performance.

b) Governance:

- *What impact do you think pooling investments between funds would have on governance?*

There would be a further disconnect introduced between the investment decisions made by the pool and the fund leading to a reduction in accountability for investment performance. This will not be an improvement in governance but is arguably not that different from the position many admitted bodies are in currently.

- *What would be the positive impacts?*

It is hard to envisage any positive impacts on scheme governance through pooling of investments.

- *What would be the negative impacts?*

There is likely to be a significant diversion of resources required to establish the pools in the first instance which might be a detriment to governance.

With the funds being more remote there may be a reduction in good governance.

c) Operating risks:

- *What impact do you think pooling investments between funds would have on operating risks?*

For the Orkney Islands Council Pension Fund, it is unlikely that there would be any significant change. All investment decisions are currently delegated to Fund Managers who operate within investment guidelines. Pooled funds would operate in much the same way.

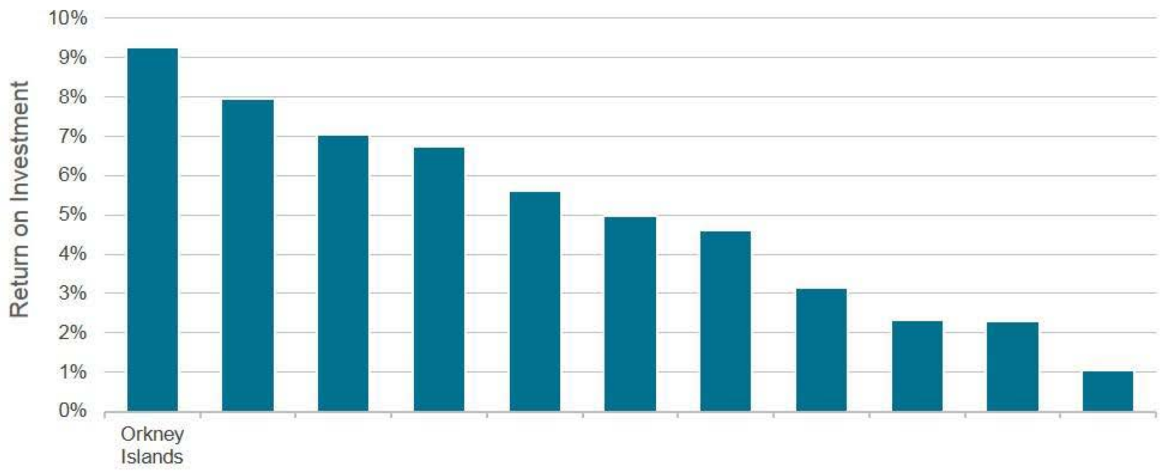
- *What would be the positive impacts?*

The operating risks may be slightly reduced through pooling if the due diligence on investment decisions is more extensive on account of the larger investments being made.

- *What would be the negative impacts?*

There is a lack of evidence to support pooling as a means to improve investment performance and the current and past performance of the Orkney Islands Council Pension Fund would suggest that the impact of pooling would be detrimental to investment returns.

LGPS pension funds – Net return on investment 2017/18 (unaudited figures)



Source: Audit Scotland

d) Infrastructure:

- *What impact do you think pooling investments between funds would have on funds' ability to invest in infrastructure?*

Pooling of investments may make infrastructure investments more accessible to smaller funds but is unlikely to have much impact on the larger funds that already have infrastructure investments.

If the Scottish Government had available suitable infrastructure investment opportunities through a pooled vehicle in which the Scottish LGPS can invest then pooling of Pension Funds would not be necessary to achieve more infrastructure investment.

- *What would be the positive impacts?*

Achievement of a political objective.

Pooled funds with the critical mass to absorb very high startup costs for infrastructure investments.

- *What would be the negative impacts?*

The Government has an objective to secure more investment in infrastructure, however this may not fit with the Pension Scheme objectives.

There may be conflicts of interest between infrastructure investments and financial performance.

- **Do you have any additional comments about this option?**

Question 4: Merge the funds into one or more new funds

The text can wrap onto additional pages.

- **Cost of investing:**
- *What impact do you think mergers between funds would have on the cost of investing?*

There may be savings on investment managers fees with larger portfolio sums but as for pooling there will be significant restructuring costs incurred along the way with no guarantee that improved investment performance will be achieved.

The critical measure of success would be investment performance net of fees.

- *What would be the positive impacts?*

Some direct investment opportunities may be possible that would not have been considered by the individual funds due to the higher initial due diligence costs or scale of investment required.

- *What would be the negative impacts?*

The costs of restructuring would be significant and could be drag on fund performance for many years.

There would appear to be little justification for forcing through mergers of funds when the funding levels are already good and fees levels are generally quite competitive.

- *If merging were possible, under what circumstances should a fund consider a merger?*

If it is mutually beneficial to the funds considering a merger.

- *Under what circumstances should the SLGPS consider directing funds to merge?*

If there is evidence that the funds are failing to achieve their objectives which can be attributed to poor investment returns and high fees and there is a firm belief that a merger of funds will bring about an improvement in performance.

- **Governance:**
- *What impact do you think mergers between funds would have on governance?*

There would be a detrimental impact on governance as decisions would be completely removed from local control and accountability.

- *What would be the positive impacts?*

There would be less for the Pension Committees and Pensions Boards to concern themselves with as the investment activities would be the domain of the merged funds.

There may be improved resilience through having a larger organization.

- *What would be the negative impacts?*

A concentration of risks and reduction in diversification.

The merged fund would be accountable to more masters so may not truly be accountable to anyone.

- **Operating risks:**

- *What impact do you think mergers between funds would have on operating risks?*

Merged funds may have more resources to effectively analyse risks and with larger structures could have in place better segregation of duties and invest in better research and risk management strategies.

- *What would be the positive impacts?*

Better management of risks.

- *What would be the negative impacts?*

A reduction in diversification and concentration of risks.

- **Infrastructure:**

- *What impact do you think mergers between funds would have on funds' ability to invest in infrastructure?*

Mergers between funds may make infrastructure investments more accessible to smaller funds but is unlikely to have much impact on the larger funds that already have infrastructure investments.

If the Scottish Government had available suitable infrastructure investment opportunities through a pooled vehicle in which the Scottish LGPS funds could invest then merger of Pension Funds would not be necessary to achieve more infrastructure investment.

- *What would be the positive impacts?*

Achievement of a political objective.

Merged funds with the critical mass to absorb very high startup costs for infrastructure investments.

- *What would be the negative impacts?*

The Government has an objective to secure more investment in infrastructure, however this may not fit with the Pension Scheme objectives.

There may be conflicts of interest between infrastructure investments and financial performance.

- **Do you have any additional comments about this option?**

The Orkney Islands Council, the administering authority for the Orkney Islands Council Pension Fund, also manages a portfolio of £215m of managed funds investments associated with the operation of an Oil Port under the Orkney County Council Act 1974. It is considered that the resilience of both Council members and officers to discharge their duties effectively would be adversely impacted if the Pension funds were to be merged into one or more funds. This could potentially see both the governance and performance of these non-pension fund investments deteriorate going forward, which would not be in the best interests of the people of Orkney.

Question 5: Preferred and additional options

The text can wrap onto additional pages.

a) Which option does your organisation prefer? Please explain your preference.

Orkney Islands Council Pension Fund recognises that due to the small scale of its Fund that it has some vulnerabilities that may be removed in a larger organisation but it is highly sceptical that there would be any significant improvement in cost management or performance. From a position of relative strength our Fund is concerned that any change would be to our detrimenta~~l~~ and we would therefore prefer to retain the status quo of Option 1 to “Retain the current structure with 11 funds”.

If the Government were to develop an infrastructure investment vehicle that presented an attractive investment opportunity in which the Scottish LGPS funds could invest it should be possible to secure additional investment in infrastructure without incurring the very significant costs of pooling or mergers.

Our second choice would be Option 2 to “Promote cooperation in investing and administration between the 11 funds.”

b) What other options should be considered for the future structure of the LGPS?

With a scheme that is largely doing what it is intended to do at a reasonable cost there doesn’t really seem to be a compelling argument to fix something that isn’t broken.

c) What would be the advantages and disadvantages of these other option for funds’ investment costs, governance, operating risks and ability to invest in infrastructure?

N/a

d) Are there any other comments you would like to make?

If a new scheme were being designed from scratch it is highly unlikely that the agreed design would be the current structure of 11 funds for 32 local authorities and many more admitted bodies with the smallest local authority also being one of the 11 administering authorities.

The consultation questions end.

Orkney Islands Council Pension Fund – Administering Authority Discretions

Regulations.	Discretion.	Current policy.	Proposed change.
R4(4)(b).	Whether to enter into an admission agreement with a NHS Scheme employing authority.	None.	The Fund will generally enter into an admission agreement with bodies in Orkney, provided that such a body meets certain scheme criteria and provides evidence of legal status, good financial covenant, a financial guarantor where required and any other related material factors deemed appropriate.
R3(4) & RSch 2 Part 2, paragraph 1.	Whether to enter into an admission agreement with a body applying to be an admission body.	None.	The Fund will generally enter into an admission agreement with bodies in Orkney, provided that such a body meets certain scheme criteria and provides evidence of legal status, good financial covenant, a financial guarantor where required and any other related material factors deemed appropriate.

Appendix 2

Regulations.	Discretion.	Current policy.	Proposed change.
RSch 2 Part 2, paragraph 9(d).	Whether to terminate a transferee admission agreement in the event of:- • insolvency, winding up or liquidation of the body. • breach by that body of its obligations under the admission agreement. • failure by that body to pay over sums due to the Fund within a reasonable period of being requested to do so.	None.	The Fund will consider each case on its merits.
RSch2, Part2, para 12(a).	Define what is meant by “employed in connection with”.	None.	The Fund determines that only employees of the body who are employed directly with the provision of the service to a scheme employer may be members of the scheme.

Regulations.	Discretion.	Current policy.	Proposed change.
R16(1).	Whether to turn down a request to pay additional pension contributions (APC) or shared cost additional pension contributions (SCAPC) over a period of time where it would be impractical to allow such a request (e.g. where the sum being paid is very small and could be paid as a single payment).	None.	The Head of Finance will consider each case on its merits.
R16(10).	Whether to require a satisfactory medical report before agreeing to an APC / SCAPC election. Whether to turn down an application to pay an APC / SCAPC if not satisfied that the member is in reasonably good health.	None.	The Fund has determined that a satisfactory medical report is required to buy extra pension but is not required to buy pension lost due to unpaid leave. The Fund has determined that an application to buy extra pension will be refused if the member is not in reasonably good health.

Regulations.	Discretion.	Current policy.	Proposed change.
R22(3)(c).	A member’s pension account may be kept in such form as is considered appropriate.	None.	The Fund has determined that the decision as to what form a member’s pension account may be kept in is delegated to the Head of Finance.
TP10(9).	In the absence of an election from a scheme member within 12 months of ceasing a concurrent employment, the Fund must decide which ongoing employment the benefits from the ceasing employment should be aggregated with, where the scheme member has more than one ongoing employment.	None.	The Fund has determined that the decision on aggregation of concurrent employments should be delegated to the Head of Finance.

Regulations.	Discretion.	Current policy.	Proposed change.
R63(2) & L79(5).	Whether to require any strain on Fund costs to be paid up front by an employer following the:- • payment of benefits as a result of redundancy/business efficiency. • payment of benefits as a result of flexible retirement. • waiver (in whole or in part) of any actuarial reduction on flexible retirement. • waiver (in whole or in part) of any actuarial reduction on voluntary early retirement.	None.	The Fund has determined that strain costs should be paid up front by a single lump sum payment.

Regulations.	Discretion.	Current policy.	Proposed change.
TPSch2, para 2(3).	Whether to require any strain on Fund costs to be paid up front by an employer if the employer:- • applies the 85 year rule for a member voluntarily retiring (other than flexible retirement) prior to age 60. • waives an actuarial reduction under TPSch 2, para 2(1). • releases benefits before age 60 under B30(1).	The Council will recover any costs associated with the early payment of pension benefits (strain on fund costs) by a single lump sum payment.	The Fund has determined that strain costs should be paid up front by a single lump sum payment.
R31(8).	Whether to amend the time limits within which a member must give notice of the wish to draw benefits before normal pension age or upon flexible retirement.	None.	The Fund has determined that the decision on amending the time limits within which a member must give notice of the wish to draw benefits before normal pension age or upon flexible retirement should be delegated to the Head of Finance.

Regulations.	Discretion.	Current policy.	Proposed change.
R33(1), B39, A98, L48 & L153.	Decide whether to commute a small pension to a one-off lump sum payment.	None.	The Fund has determined that the decision on commuting small pensions should be delegated to the Head of Finance.
R35(3), A52(2), & L96(10).	Approve medical advisors used by employers (for ill health benefits).	None.	The Fund has determined that medical advisors used by employers should be Registered Medical Practitioners approved by the Head of Finance.
R36(3) & B31.	Decide whether a deferred member meets the criteria of being permanently incapable of undertaking the duties of their former job because of ill health and is unlikely to be capable of undertaking gainful employment before age Normal Pension Age.	None.	The Fund determines that a member meets the criteria for the payment of deferred benefits on health grounds where a certificate has been received from an appropriately qualified Independent Registered Medical Practitioner (IRMP).

Regulations.	Discretion.	Current policy.	Proposed change.
R17(12).	Decide to whom any Additional Voluntary Contribution (AVC) or Shared Cost Additional Voluntary Contribution (SCAVC) monies (including life assurance monies) are to be paid on the death of a member.	None.	The Fund will use its absolute discretion in accordance with the regulations and, in the first instance, will consider the member's nomination of beneficiary form. Where no valid nomination exists, or the nomination is considered inappropriate, the Fund will gather background information including any valid will before deciding to whom the death grant should be paid. Where a will has been made, consideration will be given to the deceased member's wishes. Where no valid will exists, payment may be made to obvious beneficiaries i.e. spouse, children, dependant, relative, executors or any other person who makes a valid claim. In cases where a number of potential beneficiaries exist, dependency and intestate law will be considered as a guide to determining claims.

Regulations.	Discretion.	Current policy.	Proposed change.
TP17(5) to (8), R38(2), R41(2) R44(2), B23(2), B32(2), B35(2), A95(4), L37(1), L150(4), & E11ZA.	Decide to whom a death grant is paid.	The Council will pay any death grant to a member's nominated beneficiary or, if appropriate, to a member's estate.	The Fund will use its absolute discretion in accordance with the regulations and, in the first instance, will consider the member's nomination of beneficiary form. Where no valid nomination exists, or the nomination is considered inappropriate, the Fund will gather background information including any valid will before deciding to whom the death grant should be paid. Where a will has been made, consideration will be given to the deceased member's wishes. Where no valid will exists, payment may be made to obvious beneficiaries i.e. spouse, children, dependant, relative, executors or any other person who makes a valid claim. In cases where a number of potential beneficiaries exist, dependency and intestate law will be considered as a guide to determining claims.

Regulations.	Discretion.	Current policy.	Proposed change.
R77(2), A48(2) & L94.	Whether to pay a death grant to personal representatives or anyone appearing to be entitled to the estate without the need for grant of probate/letters of administration where payment is less than the amount specified in S6 of the Administration of Estates (Small Payments) Act 1965.	None.	The Fund will use its absolute discretion in accordance with the regulations and, in the first instance, will consider the member's nomination of beneficiary form. Where no valid nomination exists, or the nomination is considered inappropriate, the Fund will gather background information including any valid will before deciding to whom the death grant should be paid. Where a will has been made, consideration will be given to the deceased member's wishes. Where no valid will exists, payment may be made to obvious beneficiaries i.e. spouse, children, dependant, relative, executors or any other person who makes a valid claim. In cases where a number of potential beneficiaries exist, dependency and intestate law will be considered as a guide to determining claims.

Regulations.	Discretion.	Current policy.	Proposed change.
R47(1)(c) & B43(1)(c).	Decide, in the absence of an election from the member, which benefit is to be paid where the member would be entitled to a benefit under two or more regulations in respect of the same period of scheme membership.	None.	The Fund has determined that in the absence of an election from the member, the provision which appears to be the most beneficial to the member will be applied.
R52(1).	Whether to set up a separate admission agreement fund.	None.	The Fund has determined that no separate pension funds will be set up for admitted bodies.
R53*.	An administering authority must have a written statement setting out whether it delegates its functions or part of its functions under the Regulations to a committee, a sub-committee or an officer of the authority.	The Fund's current Governance statement stipulates the roles and responsibilities of the Pension Board in relation to maintaining the Pension Fund.	No changes at present however the Governance Statement is reviewed at each year-end during preparation of the Pension Fund accounts.
R56*.	An administering authority must decide on a funding strategy for inclusion in its Funding Strategy Statement.	The Funding Strategy Statement, agreed in June 2017, sets out the objectives of the Fund's strategy to ensure the long term solvency of the fund.	No changes at present however the Funding Strategy Statement is reviewed at least every three years as part of the triennial valuation process.

Regulations.	Discretion.	Current policy.	Proposed change.
R57(1) & (2).	Whether to have a written pension administration strategy and, if so, the matters it should include.	The Fund's Pension Administration Strategy, agreed in June 2017, stipulates roles, responsibilities and performance standards.	No changes at present however the Pension Administration Strategy will be reviewed regularly.
R59*.	An administering authority must have a written communication policy which sets out:- • the provision of information and publicity of the scheme to members, representatives of members and scheme employers. • the format, frequency and method of distributing such information or publicity. • the promotion of the scheme to prospective members and scheme employers.	The Fund's current Communication Strategy, agreed in June 2017, contains details of the Fund's communication objectives, key audiences and communication tools.	No changes at present however the Communication Strategy will be reviewed regularly.

Regulations.	Discretion.	Current policy.	Proposed change.
R61(6).	Whether to obtain revision of an employer's contribution rate if there are circumstances which make it likely a scheme employer will become an exiting employer.	None.	The Fund has determined to obtain revision of an employer's contribution rate if there are circumstances which make it likely that the employer will become an exiting employer.
R64.	Decide frequency of payments to be made over to the fund by employers and whether to make an admin charge.	Details of the frequency of payments paid to the fund by employers and whether or not to make an admin charge are included in the Funding Strategy Statement	No change.
R64(4).	Decide form and frequency of information to accompany payments to the fund.	Details of the form and frequency of information to accompany payments to the fund are included in the Pension Administration Strategy	No change.
R65 & TP22(2).	Whether to issue an employer with notice to recover additional costs incurred as a result of the employer's level of performance.	The Pension Administration Strategy states that the Council will notify an employer and recover any additional costs as a result of an employer's poor performance	No change.

Regulations.	Discretion.	Current policy.	Proposed change.
R66(1).	Whether to charge interest on payments by employers which are overdue.	Details of interest charged on overdue payments are included in the Pension Administration Strategy	No change.
R74(2), A59(2) & L104(1).	Whether the administering authority should appeal against an employer's decision (or lack of decision) under R67 (first instance decisions).	None.	The Fund has determined to appeal to Scottish Ministers where an employer fails to reach a decision as required under the regulations. Where the Fund disagrees with a decision made by an employer on the grounds that it conflicts with the regulations or is not in the best interests of the member or the fund, attempts will be made to reach an acceptable compromise. Failure to reach a compromise will result in the matter being referred to the Scottish Ministers.

Regulations.	Discretion.	Current policy.	Proposed change.
R75(1)(b) & TP22(1).	Specify information to be supplied by employers to enable the administering authority to discharge its functions.	None.	The Fund has determined that responsibility be delegated to the Head of Finance to decide on the information required to enable the administering authority to discharge its functions.
R78.	Whether to pay the whole or part of a person's pension benefits to another individual for that person's benefit, where the person is incapable of managing their affairs.	None.	The Fund has determined that a trustee arrangement must be put in place where a person is incapable of managing their affairs.
R95(7).	Allow a transfer of pension rights into the fund.	None.	The Fund will accept transfers from pension schemes regardless of whether or not they are members of the Public Sector Transfer Club, i.e. club and non-club transfers. An application to transfer benefits into the fund must be made within 12 months of joining the pension scheme.

Regulations.	Discretion.	Current policy.	Proposed change.
TP3(6), TP4(6)(c), TP8(4), TP10(2)(a), TP17(2)(b) & A43(10).	Make an election on behalf of a deceased member who was issued with a certificate of protection of pension benefits prior to 1 April 2015 (i.e. to determine the best pay figure to be used in the calculation of pension benefits).	None.	The Fund has determined that responsibility be delegated to the Head of Finance to make an election on behalf of a deceased member.
RSch 1 & TP17(9)(a).	Decide to treat a child as being in continuous full time education or vocational training despite a break.	The Council will deem full-time education or training to be continuous provided that any break in full-time education or training is for a period of no more than one academic year. Payment of any children’s pension will be suspended during such a break.	No change.

Regulations.	Discretion.	Current policy.	Proposed change.
RSch 1, TP17(9)(b) & B25.	Decide on the evidence required to determine the financial dependence of a co-habiting partner on a scheme member or the financial interdependence of a co-habiting partner and scheme member.	None.	The Fund has determined that any one of the following, from at least two years prior to the date of death, will evidence financial dependence or interdependence: - • a joint tenancy agreement. • a joint mortgage statement. • a joint Council Tax statement. • a joint bank statement showing payments i.e. rent, mortgage, shopping etc. • a copy of a will naming the cohabitee as a beneficiary. • a life insurance policy naming the cohabitee as a beneficiary.

Regulations.	Discretion.	Current policy.	Proposed change.
TP3(11), A64(1)*, A65(4)(c), T12, L109* & L110(4)(b).	Decide policy on abatement of pre 1 April 2015 elements of pensions in payment following re-employment.	The Council will not reduce or suspend a member’s pension where that member has been elected to serve as a Councillor. The Council will not reduce or suspend a member’s pension where that member is re-employed by any other LGPS employer. The Council will only reduce or suspend a member’s pension where a strain on the fund cost has been paid to avoid a reduction in the member’s pension and that member is subsequently re-employed by the Orkney Islands Council	The Fund has determined that it will not abate the pensions of pensioner members on re-employment. Pension benefits resulting from the award of additional service granted to a member under the Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulations are still subject to abatement on re-employment as abatement is mandatory under these regulations.
TP15(1)(c), TSch1, L82(5), TSch1 & L82(5).	Whether to extend the 3 month election period that allows a member on leaving employment (by reasons of redundancy) to capitalise their added years contract.	None.	The Fund will not extend the election time period of 3 months for capitalisation except where a member was not made aware of this right.

Regulations.	Discretion.	Current policy.	Proposed change.
B40, A99, L49 & L154.	Decide whether to commute a pension to a one-off lump sum on the grounds of serious ill health.	None.	Subject to the member's wishes and medical certification that life expectancy is less than one year, the Fund will commute a pension on the grounds of serious ill-health.
A86(5).	Decide valuation day for a Pension Sharing Order.	None.	The Fund has determined that the valuation day for pension sharing orders will be date of separation.
A89(1), A89(2) & L144.	How to discharge a Pension Credit liability.	None.	The Fund will discharge pension credit liabilities by conferring appropriate rights under the Scheme on the ex-spouse or ex-civil partner. The ex-spouse or ex-civil partner may request a transfer of pension rights to another qualifying arrangement.
A101.	Decide charges to be levied in Pension Sharing cases.	None.	Charges are set with reference to the National Association of Pension Funds schedule of charges and are increased in line with the cost of living each year.

Regulations.	Discretion.	Current policy.	Proposed change.
L46(1).	Apportionment of children's pension amongst eligible children (children of post 31 March1998 and pre 1 April 2009 leavers)	None.	The Fund has determined that the pension will be divided equally amongst the children.
E9(7).	Apportionment of children's pension amongst eligible children (children of pre 1 April1998 retirees and pre 1 April1998 deferreds).	None.	The Fund has determined that the pension will be divided equally amongst the children.
L46(2).	Pay a child's pension to another person for the benefit of the child (children of post 31 March 1998 and pre 1 April 2009 leavers).	None.	The Fund has determined that payment will be made direct to a child unless legal documentation dictates otherwise.
E9(7).	Pay a child's pension to another person for the benefit of the child (children of pre 1 April 1998 retirees and pre 1 April1998 deferreds).	None.	The Fund has determined that payment will be made direct to a child unless legal documentation dictates otherwise.
L105A(5).	Decide the date to which benefits shown on an annual deferred benefit statement are calculated for pre 1 April 2009 leavers.	None.	The Fund has determined that annual deferred benefit statements will show benefits calculated as at the most recent pension increase date.

Regulations.	Discretion.	Current policy.	Proposed change.
L118.	Retention of a Contributions Equivalent Premium (CEP) where a member transfers out to a contracted-in pension scheme (pre 1 April 2009 leavers).	None.	The Fund will retain a CEP in the event that a member transfers their benefits to a contracted-in pension scheme.
D29(1).	Intervals at which instalments of annual compensation are payable (may agree different date to the date LGPS pensions are paid)	None.	The Fund will pay annual compensation on the same date as LGPS pensions (i.e on the 15th of each month, subject to any future reviews of the process).
D31(2).	Agree to pay annual compensation on behalf of an employer and recharge payments to that employer.	The Council will not pay any future compensatory pensions on behalf of other employers participating in the Council's Pension Scheme.	The Fund will not pay any future annual compensation on behalf of other employers participating in the Pension Scheme.

Regulations: -
R – The Local Government Pension Scheme (Scotland) Regulations 2018.
TP – The Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014.
T – The Local Government Pension Scheme (Transitional Provisions) (Scotland) Regulations 2008.
B – The Local Government Pension Scheme (Benefits, Membership and Contributions) (Scotland) Regulations 2008 (as amended).
A – The Local Government Pension Scheme (Administration) (Scotland) Regulations 2008.
L – The Local Government Pension Scheme (Scotland) Regulations 1998 (as amended).
D – The Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulations 1998 (as amended).
E – The Local Government Superannuation (Scotland) Regulations 1987 (as amended).

* These are matters about which the Fund must have a written policy.

Statement of Investment Principles

This is the Statement of Investment Principles (the "Statement") required by the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 (the "2010 Regulations").

The Statement has been adopted by the Pension Fund Sub Committee (the "Committee"), which acts on the delegated authority of the Orkney Islands Council, the administering authority for the Orkney Islands Council Pension Fund ("the Fund"). The Statement is subject to review from time to time and certainly within six months of any material change in investment policy or other matters as required by law. In preparing this Statement the Committee has consulted with the administrating authority and has taken and considered written advice from the Investment Practice of Hymans Robertson LLP.

Fund Objective

The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependents, on a defined benefits basis.

The Committee aims to fund the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions is agreed by the employer to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary increases.

This funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

Investment Strategy

The Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund (details of which are set out in the Fund's CIPFA Adherence document, attached to this Statement). The strategic benchmark is reflected in the investment structure adopted by the Committee; this comprises a mix of segregated and pooled investments. The Fund benchmark is consistent with the Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities.

The Committee monitors investment strategy relative to the agreed asset allocation benchmark. It is intended that investment strategy will be reviewed at least every three years following actuarial valuations of the Fund.

Limits on Investments

In 2010, the Committee agreed to increase the limit on investments in open-ended investment companies where the collective investment schemes constituted by the companies are managed by one body, from 25% to 35% (the upper limit specified in Schedule 1 of the 2010 Regulations). Before taking this decision, the Committee took appropriate advice from its investment adviser, Hymans Robertson LLP, in relation to the impact of the increase on overall risk within the Fund and how the Committee monitors and manages that risk. The Committee made this decision on the basis that investment in the pooled funds concerned was effective both in terms of cost and in terms of broader portfolio diversification within the pooled funds concerned.

This decision has recently been reviewed in light of amendments to the existing Fund structure and the exposure to underlying pooled funds. The Committee continues to believe the upper limit is appropriate and has also taken written advice on this matter. The decision will be reviewed on a triennial basis or more frequently if required.

Types of investment to be held

The Fund may invest in quoted and unquoted securities of UK and overseas markets, including equities, fixed interest and index linked bonds, corporate bonds, alternative credit, cash, property, infrastructure and commodities, either directly or through pooled funds.

The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products, for the purpose of efficient portfolio management or to hedge specific risks. The Committee considers all of these classes of investment to be suitable in the circumstances of the Fund.

The strategic asset allocation of the Fund includes a mix of asset types across a range of geographies in order to provide diversification of returns.

Balance between different kinds of investments

The Committee has appointed an investment manager who is authorised under the Financial Services and Markets Act 2000 to undertake investment business.

The Committee, after seeking appropriate investment advice, has agreed a specific benchmark with the manager so that it is consistent with the overall asset allocation for the Fund. The Fund's investment manager will hold a mix of investments which reflects its views relative to its respective benchmark. Within each major market and asset class, the manager will maintain diversified portfolios through direct investment or pooled vehicles.

Risk

The Fund is exposed to a number of risks which pose a threat to the Fund meeting its objectives. The principal risks affecting the Fund are:

Funding risks:

- Financial mismatch – 1. The risk that Fund assets fail to grow in line with the developing cost of meeting Fund liabilities. 2. The risk that unexpected inflation increases the pension and benefit payments and the Fund assets do not grow fast enough to meet the increased cost.

- Changing demographics –The risk that longevity improves and other demographic factors change increasing the cost of Fund benefits.

- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting Fund liabilities. .

The Committee measures and manages financial mismatch in two ways. As indicated above, it has set a strategic asset allocation benchmark for the Fund. It assesses risk relative to that benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. It also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

The Committee keeps under review mortality and other demographic assumptions which could influence the cost of the benefits. These assumptions are considered formally at the triennial valuation.

The Committee seeks to mitigate systemic risk through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

Asset risks

- Concentration - The risk that significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity - The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
- Manager underperformance - The failure by the fund manager to achieve the rate of investment return assumed in setting its mandate.
- Currency risk – The risk that the currency of the Fund's assets underperforms relative to Sterling (i.e. the currency of the liabilities).

The Committee manages asset risks as follows. It provides a practical constraint on Fund investments deviating greatly from the intended approach by setting itself diversification guidelines and by investing in a range of investment approaches each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, constrain risk within the Committees' expected parameters. By investing across a range of assets, including quoted equities and bonds, the Committee has recognised the need for some access to liquidity in the short term. The decision to appoint only one investment manager does involve some degree of risk (from potential underperformance of that manager) which the Committee accept as a reasonable in the circumstances of the Fund.

Other provider risk

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Committee takes professional advice and considers the appointment of specialist transition managers.
- Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.

The Committee monitors and manages risks in these areas through a process of regular scrutiny of its providers and audit of the operations they conduct for the Fund.

Expected return on investments

Over the long term, the overall level of investment returns is expected to exceed the rate of return assumed by the actuary in funding the Fund.

Realisation of investments

The majority of assets held by the Fund may be realised quickly if required.

Environmental, Social and Governance (ESG) Considerations

The Committee recognises that ESG issues including social, environmental and ethical considerations are among the factors which investment managers will take into account, where relevant, when selecting investments for purchase, retention or sale. The manager has produced statements setting out its policy in this regard. The manager has been delegated by the Committee to act accordingly. The Committee requires all managers appointed to manage assets for the Fund to be signatories to the United Nations Principles for Responsible Investment (UN PRI). The principles are set out in the appendix to this document.

Exercise of Voting Rights

The Committee has delegated the exercise of voting rights to the investment manager(s) on the basis that voting power will be exercised by it with the objective of preserving and enhancing long term shareholder value alongside ensuring that investments meet the ESG considerations outlined in their policy statements in this regard. Papers to committee will include information on voting, engagement and disinvestment activity which seeks to effect change on ESG considerations. Accordingly, the manager has produced written guidelines of its process and practice in this regard. The manager is encouraged to vote in line with its guidelines in respect of all resolutions at annual and extraordinary general meetings of companies.

Stock Lending

The policy on stock lending reflects the nature of the mandate awarded to the investment manager by the Committee, which includes both pooled and segregated holdings.

Within segregated mandates, the Committee has absolute discretion over whether stock lending is permitted. The Committee has considered its approach to stock lending, taking advice from its investment adviser. After consideration of that advice, the Committee has decided not to permit stock lending within any of its segregated investment mandates.

The manager may undertake a certain amount of stock lending on behalf of unitholders within its pooled fund holdings. Where a pooled fund engages in this activity, the extent to which it does is disclosed by the manager. The Committee has no direct control over stock lending in pooled funds; nevertheless, it is comfortable that the extent and nature of this activity is appropriate to the circumstances of the Fund.

The Committee reviews its policy on stock lending (including the amount and type of collateral used) on a regular basis.

Additional Voluntary Contributions (AVCs)

The Committee gives members the opportunity to invest in a range of vehicles at the members' discretion.

CIPFA Compliance

The Committee has set out details of the extent to which the Fund complies with the six principles set out in the Chartered Institute of Public Finance and Accountancy’s publication, ‘Investment Decision Making and Disclosure in the Local Government Pension Scheme – a guide to the application of the Myners Principles’ in the Fund’s CIPFA Adherence document which is attached to this Statement.

Signed For and on Behalf of the Pension Fund Sub Committee of the Orkney Islands Council as Administering Authority for the Orkney Islands Council Pension Fund

Position	Position

Appendix – UN Principles for Responsible Investment

The Principles for Responsible Investment were developed by an international group of institutional investors reflecting the increasing relevance of environmental, social and corporate governance issues to investment practices. The process was convened by the United Nations Secretary-General.

In signing the Principles, investors publicly commit to adopt and implement them, where consistent with their fiduciary responsibilities. They also commit to evaluate the effectiveness and improve the content of the Principles over time. They believe this will improve the ability to meet commitments to beneficiaries as well as better align investment activities with the broader interests of society.

The six principles are as follows:

Principle 1
We will incorporate ESG issues into investment analysis and decision-making processes.

Principle 2
We will be active owners and incorporate ESG issues into our ownership policies and practices.

Principle 3
We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Principle 4
We will promote acceptance and implementation of the Principles within the investment industry.

Principle 5
We will work together to enhance our effectiveness in implementing the Principles.

Principle 6
We will each report on our activities and progress towards implementing the Principles.

Orkney Islands Council Pension Fund

Statement of Compliance with the CIPFA Principles

September 2018 Version 2018 V9

Prepared by the Pension Fund Sub Committee of Orkney Islands Council

Contents

STATEMENT OF COMPLIANCE WITH CIPFA PRINCIPLES PAGE

CIPFA Principles of Investment Practice	3
1 Effective decision making	4
2 Investment objective	7
3 Risk and liabilities	10
4 Performance assessment	11
5 Responsible ownership	12
6 Transparency and reporting	13
Appendix A - Version control record	14

CIPFA Principles of Investment Practice

This document forms the Statement of Compliance with the Principles of Investment Practice as set out by CIPFA, the Chartered Institute of Public Finance Accountancy. It is maintained by Hymans Robertson LLP and the Head of Finance on behalf of the Pension Fund Sub Committee ("the Sub Committee") of Orkney Islands Council.

This document was brought into force on 30 June 2003. The practices described within this document form the basis for investment decision making by the Sub Committee. This document is reviewed from time to time, and is made available to members on request. Details of version control and changes are provided in the Appendix to this document.

The document also provides information on all of the Fund's investment service providers (investment manager(s), custodian(s), adviser(s), etc.) along with details of the nature of the services they provide and how their performance in these roles is assessed.

This is current version of the document (2018 V9) was agreed by the Committee Members in September 2018.

Signed:

Chairman of the Pension Fund Sub Committee

Orkney Islands Council Pension Fund

September 2018

1 Effective decision making

Principle

Administering authorities should ensure:

- That decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and
- That those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

Orkney Islands Council

The Council is responsible for the following activities.

- The Council will determine the allocation of new money to the manager. Similarly, in the event that assets need to be realised in order to meet the Fund's liabilities, the Council will determine the source of this funding.
- The Council will be responsible for any changes to the terms of the mandates of existing managers.
- The Council will be responsible for the appointment and termination of managers.
- The Council is responsible for socially responsible investment, corporate governance and shareholder activism. It has delegated these tasks to the Fund's managers, who conduct the delegated tasks in line with the Council's policies.
- The Council will be responsible for the appointment and termination of AVC providers.
- The Council is responsible for maintenance of the Statement of Investment Principles (SIP) and the document setting out the Fund's CIPFA Principles of Investment Practice disclosure.

The Council has delegated the Fund's monitoring responsibilities to the Pension Fund Sub Committee.

Pension Fund Sub Committee Terms of Reference

- The Sub Committee is responsible for monitoring all aspects relating to the investment of the assets of the Fund. Their specific responsibilities are as follows:
- The Sub Committee will formally review the Fund's asset allocation at least annually, taking account of any changes in the profile of Fund liabilities and any guidance regarding tolerance of risk. They will recommend changes in asset allocation to the Council.
- The Sub Committee will consider and monitor the Quarterly Reports produced by their Investment Manager and investment Consultant. In addition to managers' portfolio and performance reporting, the Sub Committee will also receive and review information from the managers on risk analysis, transaction costs, and details of corporate governance (including ESG matters).
- The Sub Committee will formally review annually each mandate, and its adherence to its expected investment process and style. The Sub Committee will ensure that the explicit written mandate of each of the Fund's managers is consistent with the Fund's overall objective and is appropriately defined in terms of performance target, risk parameters and timescale.
- The Sub Committee will consider the need for any changes to the Fund's investment manager arrangements (e.g. replacement, addition, termination) at least annually.
- In the event of a proposed change of managers, the Sub Committee will evaluate the credentials of potential managers.

- The Sub Committee will monitor the Fund's approach to Environmental, Social and Governance (ESG) issues.
- The Sub Committee will review the Fund's AVC arrangements annually. If they consider a change is appropriate, they will make recommendations to the Council.
- The Sub Committee will monitor the investment advice from their investment consultant and investment services obtained from other providers (e.g. custodian) at least annually. The Sub Committee will be responsible for the appointment and termination of providers.
- The Sub Committee will conduct and conclude the negotiation of formal agreements with managers, custodians and other investment service providers.
- In order to fulfil their roles, the members of the Sub Committee will be provided with appropriate training, initially and on an ongoing basis.
- The Sub Committee is able to take such professional advice as it considers necessary.
- The Sub Committee will keep Minutes and other appropriate records of its proceedings, and circulate these Minutes to the Council.
- The Sub Committee may also carry out any additional tasks delegated to it by the Council.

Any changes to the membership of the Sub Committee require the approval of the Council.

Membership of the Sub Committee consists of a minimum of seven members with a quorum of three members. All Sub Committee members are expected to have or, for new members, to develop sufficient expertise in investment matters to be able to conduct their Sub Committee responsibilities and to interpret the advice which they receive.

Other Delegated Investment Decisions

Delegation to Officers

Preparation of annual budgets and business plan for the Fund.

Delegation to Investment Manager

Day to day management of the Fund's investment portfolios and related activities has been delegated to the Fund's investment manager, Baillie Gifford. This includes:

- Investment of the Fund's assets.
- Tactical asset allocation around the Fund's strategic benchmark.
- Preparation of quarterly reporting including a review of investment performance, voting, and engagement activity in relation to ESG considerations and the purchase, retention and disinvestment of assets.
- Attending meetings of the Investment Sub Committee.
- Providing Fund accounting data concerning the investment portfolio and transactions.

Delegation to Custodian

The Custodian is responsible for settlement of all investment transactions, collection of income, tax reclaims and corporate action administration.

Actuary to the Fund

The Actuary is responsible for

- Undertaking a triennial valuation of the Fund's assets and liabilities.
- Setting the Fund's contribution rate.
- Providing advice on the funding level and maturity of the Fund which the Pension Fund Sub Committee can take into consideration when balancing the Fund's investment and funding objectives.

Expert Advice

- The Sub Committee receives investment and actuarial advice from Hymans Robertson LLP.
- At the time of appointment of consultants, the Sub Committee did not invite tenders for actuarial and investment advice separately. The Sub Committee will arrange for separate competition when it next tenders either activity.
- At present there are no separate contracts in place.

Other Advice

- In addition to the investment consultant, the Sub Committee also seeks advice (where relevant) from the Fund's Actuary and the Council's Head of Finance.
- There are no independent advisers appointed to the Pension Fund Sub Committee.

Assessment of Advice

All advice is assessed as described in Section 4.

2 Investment objective

Principle

An overall investment objective should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisers and investment managers.

Fund Objective

The Fund is a Local Government Pension Scheme (LGPS).

The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis. Benefits for active members increase in line with salaries. Benefits for preserved members are subject to statutory increases.

The Council aims to fund the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions is agreed by the employer (Orkney Islands Council) to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary increases.

Basis of Evaluation

An actuarial valuation of the Fund is conducted at least every three years in accordance with the LGPS regulations. The last actuarial valuation was conducted as at 31 March 2017. The results disclosed an ongoing funding level of 113%.

The position of the Fund is monitored each year in consultation with the employers and the Actuary.

Strategic Asset Allocation and Manager Structure

The Fund's investment manager arrangements are summarised in Table 2.1 below:

Table 2.1

Manager	Appointed	Brief	%
Baillie Gifford	April 1995	Multi-asset	100

Custody

The Fund's custodian is the Bank of New York Mellon.

Baillie Gifford

Baillie Gifford's mandate was formally reviewed in 2015/16 and is currently being reviewed post the conclusions of the 2017 actuarial valuation. The detail of the investment structure was reviewed and a new strategy and structure implemented during February 2017. The benchmark and range guidelines that currently apply are shown in Table 2.2. Baillie Gifford's target is to outperform the aggregate benchmark, with underlying outperformance targets for each of the different asset classes that are assessed over rolling 5 year periods, effective from February 2017.

Table 2.2

Asset Class	Target (%)	Range (%)
Total Equities	58	48 - 68
UK Equities	*9*	
Overseas Equities	*49*	
Alternatives	27	17 - 37
UK Gilts	7.5	2.5 – 12.5
Index-linked gilts	7.5	2.5 – 12.5
Cash	0	0 - 10
Total	100	

Baillie Gifford manages the fund in line with the LGPS regulations. There are no restrictions in Baillie Gifford's agreement which prevents it from investing in any financial instrument permitted in these regulations, except to the extent that derivative instruments may only be used on a segregated basis for the purposes of risk reduction and efficient portfolio management.

The Sub Committee recognises that the pursuit of superior performance through active management also carries the risk of underperformance. However, they believe and the manager accepts that the range guidelines set will contain risk within the tolerance that the Sub Committee deems acceptable.

The Sub Committee has considered the extent to which their managers expect to achieve outperformance through stock and sector selection and asset allocation. They have considered the risks associated with stock and sector concentration in each of the markets in which they invest.

Baillie Gifford provides details on its level of turnover and commission levels on a quarterly basis. The Sub Committee will monitor Baillie Gifford's transaction costs (every 6 months) (in line with the transaction cost reporting framework of the Fund Management Association with which the Baillie Gifford complies).

Baillie Gifford does not make use of soft commission arrangements.

The Sub Committee takes advice from its investment consultant relating to Baillie Gifford's transaction costs.

Benchmarks

Since only one manager is employed, the Scheme and investment manager share the same benchmark.

The benchmark is used

- To evaluate the manager's relative performance
- To monitor the extent of the manager's deviations from benchmark performance
- To specify the limits on manager's asset allocation deviations (specified by size of active bets and aggregate tracking error).

At the asset class level, the manager's activity is assessed relative to specific stock market indices (e.g. the FTSE All-Share index for UK equities).

The use of benchmarks for assessing managers, providers, officers and the Sub Committee is discussed in Section 4.

Benchmark Indices

The Sub Committee discusses the appropriateness of the asset class indices with its investment manager and investment consultant on an annual basis. The review takes account of changes in the constituency of indices, their degree of concentration, changes made by index providers, new classes of assets, and changes in the profile of liabilities which may affect the duration of bond indices. The benchmarks currently in place are set out in the table below:

Table 2.3

Asset Class	Target (%)	Benchmark
UK Equities	9	FTSE All Share
Overseas Equities	49	MSCI All Countries World
Alternatives	27	UK base rate +3.5%
UK Gilts	7.5	FTSE UK Gilts All Stocks
Index-linked gilts	7.5	FTSE Over 5 years index-linked gilts
Total	100	Composite

The Sub Committee recognises that the setting of benchmark targets can encourage managers to closet index, i.e. to hug the index too closely to be able to deliver the performance target set. The Sub Committee has discussed this subject with its manager and investment consultant. In setting tracking error guidelines, the Sub Committee has indicated limits to its manager so that the risk it takes is consistent (i.e. neither too little or too great) in relation to its performance target. The Sub Committee monitors the manager's tracking error (see Section 4).

Investment Structure

The Sub Committee has considered its investment structure, the choice between active and passive management, the number of managers it might employ, and where risk might best be exploited.

It employs a single active manager who is responsible for all of the asset classes within the benchmark and for asset allocation around that benchmark within the guideline ranges set. In choosing a single active multi-asset manager, the Sub Committee has considered, and is prepared to tolerate the potential risks associated with that manager's pursuit of outperformance.

3 Risk and liabilities

Principle

In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.

These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

Basis for Determining Fund Benchmark

The Benchmark of the Fund is a bespoke and reflects the objectives and circumstances of the fund.

The asset mix takes account of diversification between asset classes.

The Investment Manager has its own individual benchmark as outlined in Section 2. The manager's benchmark is consistent with the Scheme benchmark.

Risk

The return assumptions required to achieve and maintain the Fund Objective are set out in the Actuarial Valuation. The benchmark adopted by the Sub Committee for the Fund is designed to achieve that return over the long term. The Sub Committee recognises that there will be periods when market conditions do not permit those assumptions to be met and that the benchmark needs to be kept under periodic review in order to confirm that it is still suitable for the purpose for which it was designed.

Asset Classes

In setting the Scheme benchmark, the Sub Committee considered all the principal asset classes listed in the CIPFA Guidance.

Periodic Review

The Sub Committee most recently reviewed the Fund benchmark at their meeting in July 2016.

4 Performance assessment

Principle

Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers.

Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.

Investment managers

Baillie Gifford provides summary and detailed portfolio valuations, consolidated transaction reports and balance sheet and income statements on a quarterly basis. It also provides details of performance at the individual asset class and aggregate level. The Sub Committee obtains independent measurement of returns from a specialist agency and regular performance and manager monitoring from Hymans Robertson LLP with effect from 1 April 2017.

Manager Monitoring Activity

The Sub Committee monitors the relative and absolute performance of its investment manager, Baillie Gifford, on a quarterly basis. However, it reviews Baillie Gifford's performance more formally once a year. This review considers not only investment returns but also an assessment of Baillie Gifford's adherence to its mandate requirements including the full range of activities delegated to them. The Sub Committee also considers the manager's investment process, stability of key personnel, market position and Environmental, Social and Governance considerations.

Investment Consultant Monitoring Activity

The Sub Committee monitors performance of its investment consultant, Hymans Robertson, largely on a qualitative basis. The consultant provides guidance on asset allocation, benchmark setting, risk and goal setting of the investment manager, manager monitoring, manager selection and general information on legislation, industry background and securities markets (all from an investment perspective).

Sub Committee and Officers

The Sub Committee reviews the investment decisions undertaken by officers and by the Sub Committee, to check their appropriateness and whether outcomes might have been improved. This includes:

- How the overall Fund benchmark has performed relative to liabilities and relative to its comparable LGPS peers.
- How the Sub Committee interpreted advice provided by the investment consultant.
- Sub Committee recommendations and Council decisions undertaken over year concerning service provider and manager changes, benchmark changes, mandate changes, and transitions between mandates.
- How the managers performed on voting rights and engagement to address ESG concerns.

5 Responsible ownership

Principle

Administering authorities should

- adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.
- include a statement of their policy on responsible ownership in the Statement of Investment Principles.
- report periodically to scheme members on the discharge of such responsibilities.

Governance and Voting

The Council has delegated the following tasks to the investment manager.

- Engaging with companies in which the Fund invests concerning ESG matters.
- The exercises of voting rights on the basis that voting power will be exercised by the manager with the objective of preserving and enhancing long term shareholder value and exposure to the risks associated with poor ESG records.

Accordingly, Baillie Gifford has produced written guidelines of its process and practice in both matters.

Baillie Gifford is encouraged to vote in line with its guidelines in respect of all resolutions at annual and extraordinary general meetings of companies.

Engagement and Activism

Baillie Gifford has disclosed its own policy on ESG, engagement and activism which it exercises on behalf of client's investment mandates when the client has delegated responsibility for these activities to Baillie Gifford. It votes proxies on behalf of the Fund and engages with the UK companies (and larger international companies) in which it invests. Baillie Gifford reports its voting activity to the Sub Committee on a regular basis.

In general, Baillie Gifford does not intervene in companies, except in unusual circumstances and then generally as part of an investment industry grouping. The Sub Committee accepts that it is not in the economic interests of the Fund for its manager to intervene more generally.

UN Principles for Responsible Investment (PRI)

The Sub Committee have made it a requirement that all managers appointed to manage assets on behalf of the Fund are signatories to the UN PRI. Baillie Gifford are a signatory under UN PRI and therefore meet this requirement.

6 Transparency and reporting

Principle

Administering authorities should

- act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.
- should provide regular communication to scheme members in the form they consider most appropriate.

Approach

This document should be read in conjunction with the Fund's Statement of Investment Principles. Taken together, these documents provide the framework for the Fund's investment operations.

Section 1 of this document describes the structure for making investment decisions for the Fund, the split of responsibilities among the Council, Pension Fund Sub Committee, Investment Manager, Custodian, Scheme Actuary, Investment Consultant and other providers.

Sections 2 describes the roles and mandates of external providers (consultant, investment manager, etc).

Other Advice

In addition to the investment consultant, the Sub Committee also seeks advice (where relevant) from the Fund's Actuary and the Council's Head of Finance.

There are no independent advisers appointed to the Pension Fund Sub Committee.

Assessment of Advice and Decision Making

All advice and decision making is assessed as described in Section 4.

Regular reporting

The Council makes the following documents available to Fund members on request.

- The Statement of Investment Principles.
- Details of the Fund's adoption of the CIPFA Principles of Investment Practice (i.e. this document).

Both documents are revised periodically, in any event, and when changes occur.

Appendix A - Version control record

Table of Amendments

The attached Table records changes to this document.

Version	Nature of Change	Implemented
2003 V1	Initial Creation	30 June 2003
2004 V2	Final Document	31 October 2004
2007 V3	Benchmark change	10 July 2007
2009 V4	Review document	30 June 2009
2010 V5	Update following structure change and consolidation on principles from 10 to 6	21 December 2010
2011 V6	Increase range limit on cash holding from 0-5% to 0-10%	27 September 2011
2013 V7	Regular review and update following valuation and proposal on pooled funds	28 February 2013
2017 V8	Review and update following completion of strategic review, discussions on ESG and adopting and implementation of new Fund specific benchmark	22 November 2017
2018 V9	Regular review and update following valuation	September 2018

Minute

Investments Sub-committee

Thursday, 22 November 2018, 10:30.

Council Chamber, Council Offices, School Place, Kirkwall.

ORKNEY
ISLANDS COUNCIL

Present

Councillors James W Stockan, Rachael A King, Stephen Sankey, John A R Scott and Graham L Sinclair.

Clerk

Sandra Craigie, Committees Officer.

In Attendance

- Gareth Waterson, Head of Finance.
- Colin Kemp, Corporate Finance Senior Manager.
- Graeme Christie, Estates Manager (for Items 1 and 2).
- Shonagh Merriman, Accounting Manager (Corporate Finance).
- Michael Scott, Solicitor.

Apologies

- Councillor Steven B Heddle.
- Councillor W Leslie Manson.

Declarations of Interest

- No declarations of interest were intimated.

Chair

- Councillor James W Stockan.

1. Disclosure of Exempt Information

The Sub-committee noted the proposal that the public be excluded from the meeting for consideration of Items 5 and 6, 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, and after hearing a report from the Accounting Manager (Corporate Finance), 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 2018, attached as Annex 1 to the report by the Head of Finance, indicating a budget surplus position of £5,471,800.

2.2. The revenue financial detail by Service Area statement for the period 1 April to 30 September 2018, 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, and after hearing a report from the Accounting Manager (Corporate Finance), the Sub-committee:

Noted:

3.1. The status of the temporary loan portfolio as at 30 September 2018, as detailed in section 3 of the report by the Head of Finance.

3.2. That, for the period 1 April to 30 September 2018, the temporary loans portfolio made a return of £115,217.53 at an average interest rate of 0.74%.

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

4. Exclusion of the Public

On the motion of Councillor James W Stockan, seconded by Councillor Rachael A King, the Sub-committee resolved that the public be excluded for the remainder of the meeting, as the business to be considered involved the disclosure of exempt information of the classes described in Part 1 of Schedule 7A of the Local Government (Scotland) Act 1973 as amended.

5. Strategic Reserve Fund – Investment Strategy

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

After consideration of a report by the Head of Finance, copies of which had been circulated, and after hearing a report from the Corporate Finance Senior Manager, the Sub-committee:

Noted:

5.1. The review of the Strategic Reserve Fund managed funds investment strategy by Hymans Robertson, the Council's investment advisers, attached as Appendix 1 to the report by the Head of Finance.

5.2. That plans for future distributions and how those would be financed would have an impact on the attitude to the level of investment risk and return and, therefore, the investment objectives of the Strategic Reserve Fund.

5.3. That a number of strategies had been identified depending on whether the objective or focus of the Strategic Reserve Fund managed fund investments was to achieve growth or income generation going forward.

5.4. That, in reviewing the investment strategy, an option existed to require either new and/or existing Fund Managers to be signatories to the United Nations Principles of Responsible Investment.

5.5. That Hymans Robertson was supportive both of the existing value style bias within the Fund's equity allocation and a switch towards a passive approach for managing corporate bonds but recognised that the current structure was not optimal.

5.6. That, while an allocation to infrastructure had the potential to provide additional diversification away from equities, as a long term investment the appropriateness of this was dependent on whether the focus of the Strategic Reserve Fund was on growth or income generation over the medium term.

5.7. That the review undertaken by Hymans Robertson identified a requirement for members to receive further training on alternative sources of income, as well as to give due consideration to the practical implications associated with de-risking and diversifying the investment strategy.

5.8. A summary of the findings of the review by Hymans Robertson in respect of the investment strategy for the Strategic Reserve Fund, as set out in section 4 of the report by the Head of Finance.

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

5.9. That the Head of Finance, in consultation with Hymans Robertson, develop the findings of the review of the investment strategy for the Strategic Reserve Fund into a set of specific proposals for a revised investment strategy of the managed funds.

5.10. That the Head of Finance should thereafter submit a report, to the Sub-committee, setting out a revised investment strategy for the Strategic Reserve Fund.

6. Statement of Managed Funds

Under section 50A(4) of the Local Government (Scotland) Act 1973, the public had been excluded from the meeting for this item on the grounds that it involved the disclosure of exempt information as defined in paragraph 6 of Part 1 of Schedule 7A of the Act.

After consideration of a report by the Head of Finance, copies of which had been circulated, and after hearing a report from the Corporate Finance Senior Manager, the Sub-committee:

Noted:

6.1. The review of investment performance by Hymans Robertson, the Council's appointed investment advisors, for the quarter to 30 September 2018, attached as Appendix 1 to the report by the Head of Finance.

6.2. That performance of the Strategic Reserve Fund investments was considered average over the quarter to 30 September 2018, increasing in value by 1.7%, being 0.4% ahead of the benchmark.

6.3. That performance of the Strategic Reserve Fund had been average over the 12-month period to 30 September 2018, with the value of the Fund increasing by 5.9%, being only 0.7% ahead of the benchmark.

6.4. The Sustainable Investment Report as at 30 September 2018, produced by the Equities and Bonds Portfolio Manager, attached as Appendix 2 to the report by the Head of Finance.

6.5. The Investment Stewardship Report as at 30 September 2018, produced by the UK Property and Diversified Growth Portfolio Manager, attached as Appendix 3 to the report by the Head of Finance.

The above constitutes the summary of the Minute in terms of the Local Government (Scotland) Act 1973 section 50C(2) as amended by the Local Government (Access to Information) Act 1985.

7. Conclusion of Meeting

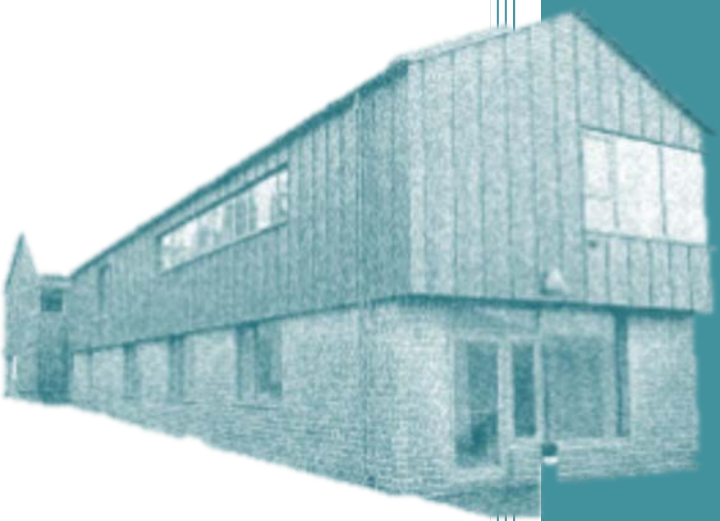
At 12:05 the Chair declared the meeting concluded.

Signed: James W Stockan.

Appendix 1

The Orkney Partnership

Property Asset Management Future Property Sharing Protocol



Version 1.4
December 2018

The Orkney Partnership

Orkney Islands Council

NHS Orkney

HIE
Highlands and Islands Enterprise
Iomairt na Gàidhealtachd 's nan Eilean

Police Scotland
Keeping people safe

Scottish Fire and Rescue Service
Working together for a safer Scotland

Scottish Natural Heritage
Dualchas Nàdair na h-Alba
All of nature for all of Scotland
Nàdar air fad airson Alba air fad

sportscotland

SEPA
Scottish Environment Protection Agency

Historic Environment Scotland
Shaping our Future
Working together for Scotland's historic environment

OHAC orkney health and care

University of the Highlands and Islands
Orkney College

HITRANS
The Highlands and Islands Transport Partnership

Skills Development Scotland

VisitScotland™
Scotland's National Tourism Organisation
Buidheann Turasachd Nàiseanta na h-Alba

VAO
Supporting The Orkney Communi

improvement service

Orkney Housing Association Limited

Orkney Community Justice Partnership

Working together for a better Orkney

TABLE OF CONTENTS

1. Introduction 1

2. Principles.. 1

3. Aims 1

4. Framework 2

Appendix 4

Confidentiality Agreement 4

If you would like this report in a different language or format,
please contact the Community Planning Business Manager
Telephone 01856 873535 extension 2153
Email corporateservices@orkney.gov.uk

1. INTRODUCTION

We are in a challenging era for public and community services. The economic situation has created some significant financial challenges leading all organisations to search for efficiencies both within their organisations and together as a community planning partnership. Services also need to change as customer needs and expectations evolve over time. Customer services are becoming increasingly digitalised through developing technologies. For all these reasons, we are becoming increasingly focused on the future of our estates portfolios to ensure they meet our current and future requirements, but no more. Redundant space, property or land without any strategic future is an obvious target to free up revenue maintenance funding and capital receipts.

A shared approach to this challenge offers public service organisations and community agencies the opportunity to co-locate, purchase or lease property from each other through improved information sharing, and plan the development of multipurpose buildings which will improve customer services and reduce revenue overheads. These are very positive reasons for developing a shared approach to property asset management planning. However, we also know that opting for this approach also brings its challenges and dilemmas. It requires sustained trust and bold, creative thinking to achieve these efficiencies. Some basic principles have therefore been agreed which form the core of our joint approach.

2. PRINCIPLES

1. Board/Council members, senior managers and, where applicable, officers and staff are committed to working together to achieve better value and customer service through shared planning on property assets held or made available for service delivery.
2. The partners are committed to sharing information in principle, subject to commercial, political or security restrictions.
3. Confidentiality will be respected in principle and through a confidentiality agreement.
4. Freedom of Information matters will be addressed through the confidentiality agreement.

3. AIMS

1. To support the public sector and community agencies in Orkney to improve services through better use of buildings and other property assets by working together in planning use and disposal.
2. To ensure the most efficient use of funding and statutory obligations to secure best value.
3. To promote a more innovative and creative approach to property use and development.

4. To improve the experience for our service users by, where possible, seeking to co-locate services that have a logical interaction.

4. FRAMEWORK

1. Partners will share information about their property portfolios, either held or allocated to them with other partners and consent to the inclusion of information relative to such property within a spreadsheet which will be accessible to all partners.
2. The shared information will (subject to commercial, political or security restrictions) include:
   - Location.
   - A short description of each property.
   - Whether there is public access.
   - Whether there is disabled access.
   - Size.
   - Condition.
   - Whether surplus.
   - Whether owned or leased, and if latter, length of lease; type of lease and whether leased in or out.
   - Vacant space.
   - Whether there are meeting rooms.
   - The extent to which it is fit for current purpose or other purpose.
   - Current valuation.
   - Current running costs.
   - Whether there are VC facilities.
   - Whether it has IT connectivity available for staff.
   - Whether there is public/guest WiFi.
   - Whether there are any future plans for the property.
   - General comments box.
3. A collective asset map will be maintained through information made available by all partners. This map will show the property assets held or allocated for use of each partner throughout Orkney enabling a view of the particular partnership property assets in any location to allow for future planning.
4. Partners will be responsible for ensuring that the information accessed for the purposes of inclusion on the spreadsheet and collective asset map is kept up to date.
5. Partners will share as much information as is feasible to achieve the aims of the protocol, subject to commercial, political or security restrictions subject always to there being no undue burden on the partners.
6. Any partner wishing to share, with another partner, information which is not in the public domain will require to sign a confidentiality agreement in the form attached

as the Appendix hereto and shall, in addition, comply with and adhere to the terms of paragraphs 7 and 8 of this protocol.

7. The status of information will be clearly identified so that all managers who have access to the information will understand the nature of any restrictions.

8. Information will be circulated only to an agreed group of staff within each agency, both to facilitate the aims of the protocol and to protect the confidentiality of information as relevant.

APPENDIX

CONFIDENTIALITY AGREEMENT

This Confidentiality Agreement (the “**Agreement**”) is entered into between:

(A) Orkney Islands Council, constituted by the Local Government (Scotland) Act 1973 as amended and the Local Government etc. (Scotland) Act 1994 and having its principal offices at Council Offices, School Place, Kirkwall, Orkney, KW15 1NY (“**the Council**”); and

(B) Orkney Health Board, a statutory body constituted pursuant to the National Health Service (Scotland) Act 1978 (as amended) and having its principal office at NHS Orkney, Garden House, New Scapa Road, Kirkwall, Orkney, KW15 1BQ (“**NHS Orkney**”).

(C) Highlands and Islands Enterprise, established by the Enterprise and New Town (Scotland) Act 1990 and having its Principal Office at An Lochran, 10 Inverness Campus, Inverness, IV2 5NA (“**Highlands and Islands Enterprise**”).

(D) The Chief Constable of the Police Service of Scotland, appointed in terms of section 7 of the Police and Fire Reform (Scotland) Act 2012 and having his headquarters at Tulliallan Castle, Kincardine, Fife, FK10 4BE (“**the Chief Constable”**) (to whom property is made available for police functions by the Scottish Police Authority, constituted in terms of Section 1 of the Police and Fire Reform (Scotland) Act 2012 and having its principal place of business formerly at Elphinstone House, 65 West Regent Street, Glasgow G2 2AF and now at 1 Pacific Quay, Glasgow G51 1DZ) .

(E) Scottish Fire and Rescue Service a body corporate established by statute namely, the Fire (Scotland) Act 2005, as amended by the Police and Fire Reform (Scotland) Act 2012 and having its Headquarters at Westburn Drive, Cambuslang, G72 7NA (“**Scottish Fire and Rescue Service**”).

(F) Orkney Housing Association Limited, a registered Scottish Charity (Registered Number SC031734), registered under the Co-operative and Community Benefit Societies Act 2014 (Registered Number 2201RS) and registered as a Registered Social Landlord with the Scottish Housing Regulator (Registered Number 164) whose registered address is 39a Victoria Street, Kirkwall, Orkney, KW15 1DN (“**Orkney Housing Association Limited**”).

(G) Orkney Health and Care, being a body corporate (Integration Joint Board) established by Order under Section 9 of the Public Bodies (Joint Working) (Scotland) Act 2014 (“**Orkney Health and Care**”).

(H) The Skills Development Scotland Co. Limited, a company registered in Scotland with company number SC202659 and having its registered office at Floor 1, Monteith House, 11 George Square, Glasgow, G2 1DY (“**SDS**”)

collectively referred to as the Parties, and individually as a Party.

WHEREAS:

(A) The Parties are committed to working together to achieve better value and customer service through shared planning on partnership property assets (the “**Disclosure Purpose**”); and

(B) The Parties intend to share information in pursuit of the Disclosure Purpose.

NOW THEREFORE, in recognition and in consideration of the above and the mutual covenants contained herein, the Parties agree to be strictly bound by the terms and conditions set forth below.

1. Secrecy of the Confidential Information

(a) The receiving Party (“**Receiver**”) shall hold the disclosing Party’s (“**Discloser**”) Confidential Information (as defined below) in confidence using the same degree of care it uses to protect its own confidential information, and shall use the Confidential Information only in connection with the Disclosure Purpose. Unless otherwise permitted hereunder, the Receiver shall not directly or indirectly disclose the Discloser’s Confidential Information, except that the Receiver may disclose the Confidential Information to those employees, officers, directors, members, agents, consultants and representatives of the Receiver or its affiliates (collectively, the “**Representatives**”) who have a need to know such information and who have been advised of the confidential nature of said information and who are bound to keep said information confidential on terms that are substantially similar to the obligations of said Receiver under this Agreement.

(b) For purposes of this Agreement, “**Confidential Information**” shall mean, but not be limited to, all property-related information, trade secrets, process knowledge, know-how, specifications, drawings and proprietary data and technical data of any kind of the Discloser, which is communicated to the Receiver, or to which the Receiver is given access, whether furnished before or after the date of the Agreement, regardless of the form in which such information is communicated or maintained.

(c) As used herein, the term “Confidential Information” does not include information which (i) is or becomes publicly known through no wrongful act of the Receiver; (ii) is rightfully received from a third party, provided that such third party was not bound by a confidentiality agreement with respect to such information; (iii) is disclosed to any government body or other authority pursuant to a lawful requirement of such body or authority or as required by law; or (iv) is approved for release, use or disclosure by previous written authorisation of the Discloser.

(d) If the Receiver is required by law or a legal or regulatory process (including any applicable provision of the Freedom of Information (Scotland) Act 2002 or the Environmental Information (Scotland) Regulations 2004) to disclose any of the Confidential Information of the Discloser, the Receiver shall promptly notify the Discloser in writing. In any event, the Receiver shall furnish only that portion of such Confidential Information which it is legally obliged to disclose. Notwithstanding any such disclosure, any such Confidential Information so disclosed shall, for all other purposes, continue to be treated as Confidential Information for the purposes of this Agreement.

(e) The Receiver understands and acknowledges that neither the Discloser nor its directors, officers, members, employees, agents, advisers, lawyers or accountants give any representation or warranty, express or implied, as to the accuracy or completeness of the Confidential Information or any other information furnished to the Receiver in the course of discussions concerning the Disclosure Purpose, nor have any liability to the Receiver or any other person resulting from their use of or reliance on such information. The Receiver agrees that it shall make and solely rely on its own independent investigation, judgment and assessment of the information. Furthermore, neither the Discloser nor its directors, officers, members, employees, agents, advisers, lawyers or accountants undertake any obligation to update any such information or to provide the Receiver with access to any additional information.

(f) The Receiver shall use the Confidential Information for the Disclosure Purpose only and shall not use or appropriate the Confidential Information for its own benefit for any other project or otherwise in any other manner without the prior written consent of the Discloser.

2. Status of Agreement

Nothing contained in this Agreement shall be construed to obligate any Party to enter into any kind of business or to execute any other agreement. The disclosure of Confidential Information pursuant to this Agreement, and any prior or future discussions, evaluations or other communications amongst the Parties, shall not confer any right nor impose or create any obligation on the Parties other than those expressly agreed to in this Agreement or in a future written agreement amongst the Parties.

3. Ownership/Intellectual Property

The ownership rights to the Confidential Information, as well as any intellectual property rights connected with the Confidential Information, shall at all times vest in the Party originally owning such rights over the Confidential Information.

4. Return or Destruction of Confidential Information

The Receiver agrees that it and its Representatives shall return or destroy upon the Discloser's written request (and shall so certify if requested), and in any event if the Receiver no longer wishes to participate in the Disclosure Purpose, any and all documents (including notes, analysis or memoranda prepared by the Receiver or its Representatives) containing any Confidential Information and all copies thereof which shall have been made by or on behalf of the Receiver or its Representatives and/or shall take all reasonable steps to expunge all Confidential Information from any computer, word processor or other device containing information provided that the Receiver and its Representatives shall not be required to return or destroy copies which they are required by law or regulation to retain. Confidential Information which is held in electronic form shall be deemed destroyed when deleted from local hard drives so long as no attempt is made to recover such information from back-up tapes, servers or other sources.

5. Assignation

This Agreement may not be assigned, novated or transferred by any Party in any way without the prior written consent of all of the other Parties.

6. Notices

Any notices to be given hereunder by any Party to the others shall be sent by registered post or courier to the other Parties at the addresses stated below:

For Orkney Islands Council: Gavin Mitchell, Solicitor to the Council Orkney Islands Council, Council Offices, School Place, Kirkwall, Orkney, KW15 1NY or such other party as may be intimated in substitution therefor.

For NHS Orkney: Gerry O'Brien, Chief Executive, NHS Orkney, Garden House, New Scapa Road, Kirkwall, Orkney, KW15 1BQ or such other party as may be intimated in substitution therefor.

For Highlands and Islands Enterprise: Graeme Harrison, Area Manager, Highlands and Islands Enterprise, 14 Queen Street, Kirkwall, Orkney, KW15 1JE or such other party as may be intimated in substitution therefor.

For the Chief Constable of the Police Service of Scotland: Senior Asset Manager, Estates, Police Scotland Clyde Gateway, 2 French Street, Dalmarnock, Glasgow, G40 4EH.

For Scottish Fire and Rescue Service: Area Manager, Western Isles, Orkney and Shetland, Scottish Fire and Rescue Service, 16 Harbour Road, Inverness, IV1 1TB.

For Orkney Housing Association Limited: Craig Spence, Chief Executive, 39a Victoria Street, Kirkwall, Orkney, KW15 1DN or such other party as may be intimated in substitution therefor.

For Orkney Health and Care: Sally Shaw, Chief Officer, Orkney Health and Care, Council Offices, School Place, Kirkwall, Orkney, KW15 1NY, or such other party as may be intimated in substitution therefor.

For SDS: Head of Region for Operations on Orkney Islands (Anthony Standing), 1-5 Church Street, Inverness, IV1 1DY, or such other party as may be intimated in substitution therefor.

Any notices shall be deemed to be received on the day of actual receipt at the address stated above if the day of such receipt is a working day. If the day of actual receipt is not a working day, any notice shall be deemed to be received on the first working day thereafter.

7. Duration

This Agreement and the obligations of confidentiality and non-use imposed therein upon the Parties shall remain effective for a period of 10 years from the last date of execution hereof. Clauses which expressly or by implication survive expiry or termination of the Agreement shall continue in full force and effect after the expiry or termination of the Agreement.

8. Entire Agreement

This Agreement constitutes the entire understanding and agreement of the Parties with respect to the subject matter set forth herein, and supersedes all prior or contemporaneous agreements, arrangements and understandings, whether written or oral, of the Parties.

9. Counterparts and Amendments

(a) This Agreement may be executed in counterparts.

(b) This Agreement may not be amended and none of the provisions of this Agreement may be waived except by an instrument in writing signed by the Parties.

10. Severability

If at any point during the Agreement period any one or more of the provisions of this Agreement are found to be, or become, illegal, invalid or unenforceable in any respect under law, that provision(s) shall be struck from the Agreement and the validity, legality and enforceability of this remaining provisions shall not be in any way affected or impaired.

11. Governing Law and Jurisdiction

The Parties agree that this Agreement shall be construed, interpreted, and applied in accordance with the laws of Scotland. Any disputes or claims arising out of or in connection with this Agreement shall be subject to the exclusive jurisdiction of the Scottish courts.

IN WITNESS WHEREOF this Agreement consisting of this page and the preceding seven pages is executed as follows:

FOR AND ON BEHALF OF Orkney Islands Council Signature: Name: Title: Date:	In the presence of: Witness Signature: Witness Name: Address: Date:
FOR AND ON BEHALF OF NHS Orkney Signature: Name: Title: Date:	In the presence of: Witness Signature: Witness Name: Address: Date:

FOR AND ON BEHALF OF Highlands and Islands Enterprise Signature: Name: Title: Date:	In the presence of: Witness Signature: Witness Name: Address: Date:
FOR AND ON BEHALF OF Police Scotland Signature: Name: Title: Date:	In the presence of: Witness Signature: Witness Name: Address: Date:
FOR AND ON BEHALF OF Scottish Fire and Rescue Service Signature: Name: Title: Date:	In the presence of: Witness Signature: Witness Name: Address: Date:
FOR AND ON BEHALF OF Orkney Housing Association Limited Signature: Name: Title: Date:	In the presence of: Witness Signature: Witness Name: Address: Date:
FOR AND ON BEHALF OF Orkney Health and Care Signature: Name: Title: Date:	In the presence of: Witness Signature: Witness Name: Address: Date:
FOR AND ON BEHALF OF The Skills Development Scotland Co. Limited Signature: Name: Title: Date:	In the presence of: Witness Signature: Witness Name: Address: Date: