

## **Item: 8**

**Policy and Resources Committee: 27 November 2018.**

**Enterprising Communities – Strategic Operating Principles.**

**Joint Report by Chief Executive and Executive Director of Development and Infrastructure.**

### **1. Purpose of Report**

To establish strategic operating principles for the Council to progress its Enterprising Communities priority.

### **2. Recommendations**

The Committee is invited to note:

#### **2.1.**

The financial context which has dominated the Council's budget capacity for the last 10 years and that new approaches are now necessary to ensure the Council can continue to have the option to deliver the valued discretionary and other enhanced services which make Orkney perform much higher than other parts of the United Kingdom in terms of quality of life considerations.

#### **2.2.**

The national context in relation to the Needs Case for new grid connections which will direct the future opportunity for Orkney to continue to provide a platform for leading renewable energy development, including marine wave and tidal development.

#### **2.3.**

The Council Plan Enterprising Communities priority which includes the commitment to strategic investment in projects to generate income and/or deliver significant community benefits, with a particular focus on the renewables sector.

#### **2.4.**

That, in progressing the Enterprising Communities priority, the Council has the opportunity to contribute to delivery of a new grid connection and also acquire and/or create assets which have the potential to generate a long term income to the Council and/or achieve broader community benefits to Orkney.

#### **2.5.**

The opportunity for the income, referred to at paragraph 2.4 above, to be applied to a range of beneficial outcomes, including supporting a range of Orkney wide and localised community outcomes, as detailed in section 6 of this report.

## **2.6.**

The potential consequences arising from development which will require to be balanced against the potential benefits, referred to at paragraphs 2.4 and 2.5 above, through the planning process, as summarised in section 7 of this report.

## **2.7.**

The need to be responsive to changing circumstances which will arise through development of strategic projects which may result in changing design, location and scale of projects and the need to acquire the property or assets necessary to meet project outcomes at short notice.

## **2.8.**

The need for the Council to establish strategic operating principles to orientate and enable the timescales and development programme which will be necessary to successfully progress the Enterprising Communities priority.

## **2.9.**

Existing governance arrangements, as outlined in section 8 of this report, which are considered sufficient to progress the Enterprising Communities priority.

## **2.10.**

That, whilst the Council has an Enterprising Communities priority, it also requires to operate within a financial and governance framework as outlined in the financial implications detailed at section 12 of this report.

### **It is recommended:**

## **2.11.**

That the following operating principles be approved to enable the Council's Enterprising Communities priority:

- In pursuance of the Enterprising Communities priority, officers will operate confidently and in the most timeous manner possible within the Scheme of Delegation to Officers where this can contribute to at least one of the following factors:
  - Reduction or offsetting Council revenue costs.
  - Establishment of new income which can be applied to fund Council and/or community or other economic development priorities.
  - Achievement of a meaningful contribution to the overall Needs Case for a new grid connection to Orkney.
  - A demonstrable best value outcome for the Council or the Orkney community more generally.
- That it is accepted that it will be necessary for the Council to commit substantial sums of money in the short to medium term either on development activity or the acquisition of assets having carried out appropriate due diligence of the risk

involved and following an assessment of the likelihood of long term returns to the Council and/or the community.

- That it is accepted that there is potential for negative consequences arising from development in relation to natural and built heritage and localised property and community interests which will be considered through the statutory planning process.

### **3. National Context - Finance**

#### **3.1.**

For the last 10 years, in common with UK public finances and local government finance more generally, the Council has experienced unprecedented downward pressure on budgets which has led to a lengthy attrition in the capacity for the Council to fund the wide range of statutory and non-statutory services which it has traditionally provided. This is a problem because the broad scope and relative high quality of Council services has contributed to the consistent high performance of Orkney as a great place to live, work and to visit.

#### **3.2.**

The Council's medium-term resource strategy has managed this pressure in part through the judicious allocation of additional funding from the Strategic Reserve Fund totalling some £60 million over the last 10 years. Through careful management there remains a level of capacity to continue to cushion national pressures through the existing reserves. However, the Council Plan 2018 to 2023 has also established a priority of Enterprising Communities. Within this is an aspiration for the Council to begin a new approach to managing its own resources through risk based investment in projects and acquisitions which may generate new income to the Council. This new income can be used to support Council funding pressures, and potentially support other community initiatives.

#### **3.3.**

The Council's Strategic Reserve Fund is predominantly invested through fund managers with an investment strategy estimated to return a long term return of 5.5%. The return to the Council and the community from investment in projects to deliver on the Enterprising Communities priority therefore needs to take account of the anticipated return from these managed fund investments.

### **4. National Context - Grid**

#### **4.1.**

The continual growth of renewable generation on Orkney resulted in the network reaching its full capacity and, in September 2012, Scottish and Southern Energy Power Distribution Ltd (SHEPD) announced that future grid connection requests for electricity generation installations above 3.7kW would be dependent on either grid reinforcement, an increase in local demand for electricity or further technical solutions to improve smart grid management.

## **4.2.**

In March 2018, Scottish and Southern Electricity Networks (SSEN), operating as Scottish Hydro Electric Transmission under licence, submitted to the energy regulator, Ofgem, a Strategic Wider Works (SWW) 'Final Needs Case' for a subsea cable transmission link from Orkney to the Scottish mainland. SSEN has submitted a detailed business case to support construction of a cable that would deliver up to 220MW of new capacity.

## **4.3.**

As part of the Needs Case, SSEN submitted a comprehensive analysis to Ofgem of the investment options available to meet a range of future generation scenarios on the Orkney Islands. This analysis concluded that the 'tipping point' to justify the investment for the first cable is approximately 70MW of new generation. SSEN has requested a conditional approval of the Needs Case from Ofgem subject to demonstration that 70MW of generation has been committed to by developers.

## **4.4.**

Ofgem, as part of its assessment will assess uncertainty/risk such as whether any development has the necessary consents. This will be considered along with commercial and economic risks that the developers will need to consider before deciding whether their project is viable.

## **4.5.**

Clearly the Orkney Needs Case will be strengthened by evidence of a sufficient volume of consented generation capacity. Orkney has no consented projects of sufficient capacity which may well be considered by Ofgem as an increased risk when assessing the need for investment in a transmission link to Orkney. The Council has the opportunity to consider an appropriate role in this process moving forward, in the context of its own strategic project development activities.

# **5. The Council Plan and Strategic Projects**

## **5.1.**

The Council Plan Enterprising Communities priority includes the commitment to develop strategic projects, with a particular focus on the renewables sector. The Council has determined that the primary outcomes of this priority will be the sustainable generation, use and export of energy and through this the generation of income for recirculation within Orkney. This new approach is considered an essential part of the wider budget challenges which the Council and the Orkney community faces, noting for example the general reduction in capacity for the Council to support discretionary services over the last 10 years. This has included, for example, substantial reduction in the Economic Development budget capacity which the Council has traditionally had available to address market failure and support a range of business, community and economically beneficial activities across Orkney. Enterprising Communities intends to counter these pressure through generating new income streams which can be applied to services and investments across the county.

## **5.2.**

During 2017 and 2018 the Council has committed substantial resources to the progression of strategic project activities to deliver these outcomes, including the scale wind and private wire network projects.

## **5.3.**

Work undertaken to date has shown that, in order to meaningfully contribute to justification of a Needs Case for a transmission connection for Orkney, as well as to deliver the scale of returns desired to ease service pressures, simultaneous development of several projects is required. For scale wind this means a shift in focus from developing one wind energy project, to developing numerous projects at several locations. The Council strategic projects activity therefore has the opportunity to make a meaningful contribution to the overall Needs Case for the Orkney transmission connection.

# **6. Council Income generation and Community benefits**

## **6.1.**

In progressing the Strategic Projects activities, the Council has the opportunity to contribute towards a number of potential beneficial outcomes, as follows:

### **6.1.1.**

Delivery of a new transmission grid connection to Orkney enabling development of new energy projects including generation, storage and smart grid technologies and helping to de-risk further development and activity related to marine energy thereby supporting economic activity and the local supply chain in Orkney.

### **6.1.2.**

Changing the way that the Council spends money and ensuring that more of the Council's spend stays in Orkney.

### **6.1.3.**

Cost savings through self-supply or smart control of energy leading to reduction in costs and reducing pressures on services.

### **6.1.4**

Generating substantial and long term income streams for the Council and local communities to help reduce pressures on and maintain services and fund community led initiatives.

## **6.2.**

The Strategic Projects activities, and the Enterprising Communities priority more generally, is a cornerstone to all of the Council's priorities and values. In addressing the challenges of falling revenues, mitigating future years' pressures and generating income provides the Council with the ability to make decisions with its communities on how best to support delivery of those essential front line services but also the essential work done in communities not necessarily by the Council.

## **7. Consequences**

### **7.1.**

The Council must accept that there will be potential consequences arising from its strategic development activities in relation to natural and built heritage and local property and community interests. These will require to be balanced against the potential benefits, referred to in section 6 above, through the planning process.

### **7.2.**

It is also necessary to acknowledge and to accept that, in order to deliver the strategic projects, the Council will require, during 2019 and beyond, to commit to spending substantial amounts of money. This will potentially commit several tens of millions of Council capital capacity on the basis of an expectation of long term return to the Council and the community. This level of commitment will be considered through the Capital Project Appraisal process and be supported through an extensive business case and risk appraisal. It will require formal confirmation and agreement through the Committee process. However, it is important to acknowledge in the context of this present report the fact that, to progress the Enterprising Communities priority, the Council must accept these levels of financial spend and the associated risks.

### **7.3.**

In order to mitigate these risks, there is a need to be responsive to changing circumstances which will arise through the development process of strategic projects which may result in changing design, location and scale of projects being necessary as these projects are progressed. For example, the need to ensure the overall Needs Case for a new cable to Orkney may mean that several sites of 25MW or more generation capacity will need to be explored.

## **8. Governance**

### **8.1.**

On 9 October 2018, the Council established a Strategic Projects Project Board to ensure appropriate scrutiny of the strategic projects being undertaken by the Council, including oversight of the various planned steps and stages, any variances and mitigations and thereby any impact in time or financial terms. The Project Board ensures that any changes to the projects are made within the mandate approved by Council, following consideration by the relevant committee.

### **8.2.**

The Project Board, which is supported by professional officer input from the Strategic Projects Director, and a range of other professional officers as required, comprises the following:

- Leader.
- Depute Leader.
- Chair, Development and Infrastructure Committee.

- Vice Chair, Development and Infrastructure Committee.
- Councillor Stephen Sankey.
- Chief Executive.
- Executive Director of Development and Infrastructure.
- Head of Finance.
- Head of Legal Services.
- Head of Infrastructure and Strategic Projects.

### **8.3.**

The Project Board currently meets on a quarterly basis to review progress against the overall programme and budget, including spend to date, as well as detailed issues arising as part of the necessary steps, stages and tasks needing to be completed to achieve the overall outcome. Should the need arise, intervening meetings are convened.

### **8.4**

At a project level, team meetings continue to take place at an officer level using project and programme protocols based around the Council's 'Prince2' processes, with additional senior management scrutiny provided through a leadership group comprising the Chief Executive, the Executive Director of Development and Infrastructure and the Head of Infrastructure and Strategic Projects, with the purpose of such meetings being to review all aspects with the Strategic Projects Director in advance of Project Board meetings.

### **8.5.**

In addition, it is important to recognise that, in order to deliver strategic projects of the type currently being undertaken, the Council needs to be able to rapidly change key factors including the design, location and scale of projects and to acquire the property or assets necessary to meet project outcomes at short notice. In order to facilitate the taking of urgent action where required, in terms of the Scheme of Delegation to Officers, the Chief Executive is authorised to take action on behalf of the Council where considered necessary in the event of an emergency, or as required as a matter of urgency, following consultation with the Convener, the Leader and Depute Leader and/or the Chair and Vice Chair of the relevant Service Committee.

## **9. Strategic Operating Principles**

### **9.1.**

There is a need for the Council to establish strategic operating principles to orientate and enable the timescales and development programme which will be necessary to successfully progress the Enterprising Communities priority. This is particularly relevant to progression of the strategic project activities in relation to the timescales and capacity for change which are likely to be required to achieve the desired outcomes of Orkney Grid Connections and long-term income generating assets for the Council.

## **9.2.**

That the following operating principles be approved to enable the Council's Enterprising Communities priority:

- In pursuance of the Enterprising Communities priority, officers will operate confidently and in the most timeous manner possible within the Scheme of Delegation to Officers where this can contribute to at least one of the following factors:
  - Reduction or offsetting Council revenue costs.
  - Establishment of new income which can be applied to fund Council and/or community or other economic development priorities.
  - Achievement of a meaningful contribution to the overall Needs Case for a new grid connection to Orkney.
  - A demonstrable best value outcome for the Council or the Orkney community more generally.
- That it is accepted that it will be necessary for the Council to commit substantial sums of money in the short to medium term either on development activity or the acquisition of assets having carried out appropriate due diligence of the risk involved and following an assessment of the likelihood of long term returns to the Council and/or the community.
- That it is accepted that there is potential for negative consequences arising from development in relation to natural and built heritage and localised property and community interests which will be considered through the statutory planning process.

## **10. Links to Council Plan**

The proposals in this report support and contribute to improved outcomes for communities as outlined in the Council Plan strategic priority of Enterprising Communities.

## **11. Links to Local Outcomes Improvement Plan**

The proposals in this report support and contribute to improved outcomes for communities as outlined in the Local Outcomes Improvement Plan priority of a Vibrant Community.

## **12. Financial Implications**

### **12.1.**

Local authority investment powers are for any purpose relevant to its functions and for the purposes of the prudent management of its financial affairs. As with all local authority powers they must be used reasonably and in accordance with an authority's primary function as a service provider.



## **12.2.**

The Council's approved investment strategy for 2018 to 2019 states that for all types of investment instruments the authority will not undertake any form of investing until it has ensured that it has all necessary powers and complied with all regulations.

## **12.3.**

The Chartered Institute of Public Finance and Accountancy (CIPFA) considers that, where the scale of commercial investments made by an authority including in investment property are not proportionate to the resources of the authority, this is unlikely to be consistent with the requirements of the Prudential Code and the Treasury Management Code.

## **12.4.**

CIPFA recently expressed concerns in relation to the recent continuation and (in a small number of cases) acceleration of the practice of borrowing to invest in commercial property. The concern is around whether such investments are consistent with the requirements of fiscal sustainability, prudence and affordability.

## **12.5.**

There are no direct financial implications arising from the recommendations of this report. However, the report seeks to formalise an acknowledgement of the principle that, to progress the strategic projects activity and achieve the potential benefits outlined in this report, it will be necessary at some stage for the Council to commit substantial sums of money to projects having carried out appropriate due diligence of the risk involved.

## **13. Legal Aspects**

In terms of Section 20 of the Local Government in Scotland Act 2003 the Council has power to do anything that it considers is likely to promote or improve the well-being of its area and persons within that area, or either of those. This includes power to incur expenditure and enter into contracts.

## **14. Contact Officers**

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