Agenda Item
1

Shetland Islands Council

Policy and Resources Committee **22 June 2015**
Shetland Islands Council **30 June 2015**

Risk Management Strategy, Policy and associated documents	
Report No : IA-09-15-F	
Executive Manager, Audit, Risk and Improvement	**Corporate Services**

1.0 Summary

1.1 The purpose of this report is to update the Committee on recent work in relation to the management of risk in the organisation and to seek approval for the attached Risk Management Strategy (Appendix 1), Risk Management Policy (Appendix 2) and associated documentation (Appendices 3 - 7).

2.0 Decision Required

2.1 That the Policy and Resources Committee RECOMMEND that Shetland Islands Council RESOLVE to adopt the revised Risk Management Strategy as part of the Strategy Framework, including the Risk Management Policy and associated documentation.

3.0 Background

3.1 Previous comment from Audit Scotland in relation to the way the organisation manages risk and an assessment facilitated by Internal Audit and presented to Corporate Management Team (CMT) using the Audit Scotland Best Value toolkit, preceded a restructure within Corporate Services. This resulted in the Risk Management Section now being within the remit of the newly formed Audit, Risk and Improvement Service.

3.2 An independent review of the management of risk across the organisation was commissioned with the resultant report being presented to CMT in November 2014. It was agreed that the recommendations should be progressed by the Executive Manager – Audit, Risk & Improvement and the risk management team in accordance with an agreed action plan. The approval of this report meets the identified action points nos. 3, 8, 14, 24, 9 and 4.

3.3 On 10 February 2015, CMT agreed the Terms of Reference for a new Risk Board (effectively a dedicated meeting of CMT). Subsequent to that, the Risk Board met on 19 May 2015 and agreed that the Risk Management Strategy, Risk Management Policy and associated documents be recommended to Policy and Resources Committee and Shetland Islands Council for approval.

3.4 It is further intended that the Corporate Risk Register, which is currently being revised, will be presented to Policy & Resources Committee in due course and annually thereafter, as the managing body for the Risk Management Strategy. It will also be subject to quarterly review by the Risk Board. In addition risk management reports will be presented by Directors on a quarterly basis to the relevant functional Committees as part of the PPMF cycle.

4.0 Implications

Strategic

4.1 Delivery On Corporate Priorities – The Corporate Plan states that we have a 'strong improvement-led and performance-driven culture and systems, and we have a systematic approach to identify risk and develop effective responses.' Integral to that systematic approach is the requirement for an agreed Risk Management Strategy and Policy.

4.2 Community /Stakeholder Issues – The Community Planning Partnership have not yet agreed the specific mechanisms and approaches that they will take in relation to reporting, recording and managing risk. It is anticipated that this will develop over the coming months.

4.3 Policy And/Or Delegated Authority – In terms of Section 2.2.1 (1a) of the Scheme of Administration and Delegations, the Policy and Resources Committee has referred authority to develop and recommend the overall framework of strategies contained in the Strategy Framework.

The Risk Management Strategy forms part of the Policy Framework contained in Section A of the Constitution – Governance, which states that the management body for the Risk Management Strategy lies within the remit of the Policy and Resources Committee.

Section 2.1.3 (4) of the Scheme also states that the approval or material variation of any plan which forms part of the Strategy Framework is a matter reserved to the Council.

4.4 Risk Management – A failure to agree on a Risk Management Strategy and Risk Management Policy, and hence a failure to implement the findings of the Risk Review, may lead to censure from Audit Scotland and also expose the organisation to the effects of unidentified and unmanaged risks.

4.5 Equalities, Health And Human Rights – none

4.6 Environmental – None

Resources

4.7 Financial – There are no direct financial implications arising from this report, however the effective identification and management of risks will contribute to the control of financial exposures, losses and inefficiencies.

4.8 Legal – Effective risk management can identify potential liabilities or breaches of legislation before they occur and prevent them happening.

4.9 Human Resources – none

4.10 Assets And Property – none

5.0 Conclusions

5.1 The attached Risk Management Strategy, Risk Management Policy and associated documents satisfy the recommendations in the Shetland Islands Council Risk Management Review report and set in place a solid foundation on which the organisation can build a risk aware culture.

For further information please contact:
Joanne Jamieson, Risk Management Officer
74 (4558), Joanne.jamieson@shetland.gov.uk
4 June 2015

List of Appendices
Appendix 1 – Risk Management Strategy
Appendix 2 – Risk Management Policy
Appendix 3 – Risk Matrix
Appendix 4 – Risk Training Plan
Appendix 5 – Risk Flow Chart
Appendix 6 – ALARM National Performance Model for Risk Management
Appendix 7 – Audit Scotland Best Value 2 toolkit

Background documents:

1. Shetland Islands Council Risk Management Review – Scott-Moncrieff, 18 November 2014
2. Risk Management Review timetable
3. Risk Board Terms of Reference
4. Shetland Islands Health and Social Care Partnership Integration Scheme 2015 (to be signed of formally by Scottish minister and an order laid in parliament for the I.J.B. to be legally constituted)

END

Shetland
Islands Council

Risk Management Strategy

"*Embedding a culture of continuous improvement and customer focus are key aspects of the Council's improvement activity*"
Shetland Islands Council Corporate Plan 2014/15

Audit, Risk and Improvement
Council Headquarters
8 North Ness
Lerwick
ZE1 0LZ

1. Introduction

The Shetland Islands Council is committed to the management of risk which is a key element of Corporate Governance. The organisation is risk aware, not risk averse; it recognises and seeks to exploit opportunities, particularly where they are within our areas of core competency.

As an organisation, we are committed to having “strong improvement-led and performance-driven culture and systems, and we have a systematic approach to identify risk and develop effective responses.” [Our Corporate Plan 2014]

In October 2014, the Council commissioned a review of the management of risk across the organisation. Much of this document is based on the findings of that review and on the resulting Action Plan.

This Strategy defines the aims, scope and principles of the Shetland Islands Council in relation to risk and risk management.

The Risk Management Policy complements this strategy in that it sets out the risk processes, tools and methodologies, defines the Council’s risk appetite, responses and performance frameworks. [http://Risk Management Policy]

The Risk Board Terms of Reference document [http://CMT RB Terms of Reference] sets out the governance structure for the management of risk and the associated roles and responsibilities.

2. Risk

Risk is an event or outcome which, if it occurs, will have an impact upon the Council’s ability to achieve its business priorities. That outcome can be positive or negative.

Risk can be described as:

- the effect of uncertainty on the objectives of the Council;
- (the chance of) a deviation from the expected;
- the chance that damage or an adverse outcome will occur as the result of a hazard;
- uncertain future events that can adversely influence the achievement of the organisation’s strategic, operational and financial objectives;
- a combination of the consequences of an event or change in circumstances, and the associated likelihood of occurrence;
- the chance that an outcome will be different from that which was planned or expected.

3. Risk management

The British Standard [BS 31100] provides a basis for understanding, developing, implementing and maintaining proportionate and effective risk management throughout the organisation, in order to enhance the organisation's likelihood of achieving its objectives.

Risk management:
- is a continuous activity;
- means the coordinated activities that direct and control an organisation with regard to risk [ISO 31000];
- is the systematic application of management policies, procedures and practices in order to identify, analyse, contextualise, control, monitor and review risks that may impact on the Council or its Plans.

4. The objectives of the Risk Management Strategy

The objectives of the Council's Risk Management Strategy are to:
- ensure consistency and transparency in the management of risk throughout the organisation;
- create greater ownership and awareness of risk, reduce uncertainty and strive for more resilient services;
- add value to the decision-making, Corporate, Directorate, Service and project planning and financial management systems;
- protect the Council, its staff, services, assets, reputation and finances.

By managing risk effectively, the Council benefits from improved and effective strategic, operational and financial management and customer service, and thus has the best possible opportunities to achieve its objectives on time and within budget as set out in the Corporate and Directorate Plans.

5. Scope

The Risk Management Strategy applies to everything the Council does, without geographical restriction.

The Council's Risk Management Strategy and Policy apply to:
- all Council activities, services, infrastructure, and assets;
- all projects including those with partners;
- all partners and partnership working activities;
- all Council activities that are delivered from, or take place in, shared premises or sites.

Where the Council is working with a partner individual or organisation, the Council's risk management standards as set out in the Risk Management Strategy and Risk Management policy, or those of an equivalent standard, must be applied. For the absence of doubt, this includes the Integrated Joint Board and any activities managed, specified, contracted or controlled by that Board. More information is available in the Shetland Islands Health and Social Care Partnership Integration Scheme document which is available on the intranet [hyperlink].

The Council has committed to PRINCE2 as a methodology for all significant projects. PRINCE2 projects have a separate Risk Management Strategy and Risk Register. The PRINCE2 approach to project risks complements, but does not replace, the principles and commitments contained within the strategy or policy documents.

6. The principles of risk management

The Council commits to the following principles:

Risk management:

- is an integral part of all organisational processes;
- is part of decision-making;
- explicitly addresses uncertainty;
- is systematic, structured and timely;
- is based on the best available information;
- operates under a common language;
- takes human, organisational and cultural factors into account;
- is transparent and inclusive;
- is dynamic, iterative and responsive to change;
- facilitates continual improvement of the organisation; and,
- creates and protects value.

7. Risk management and the organisation

Reporting of risks is an integral part of the Planning and Performance Management Framework and to the effective management of risk across the organisation. Risk reporting requirements are set out in the Risk Board terms of Reference document.

The governance structure for the management of risk is defined in the Risk Board Terms of Reference.

The key stakeholders and their roles and responsibilities in relation to the management of risk are defined in the Risk Board Terms of Reference.

The provision of risk management training is the responsibility of Audit, Risk and Improvement Service and is detailed in the Risk Management Policy.

8. Risk appetite

The Council's risk appetite is the amount and type of risk it is willing to seek out or tolerate in pursuit of its corporate objectives. Defining the Council's risk appetite:

- Provides informative data to support decision-making across the organisation;
- Ensures the organisation is only taking a level of risk and the type of risk that it is comfortable with;
- Ensures that opportunity, potential benefit and risk are proportionate.

Where the organisation's risk appetite is exceeded, the details must be communicated to the relevant Management Team and/or Risk Board.

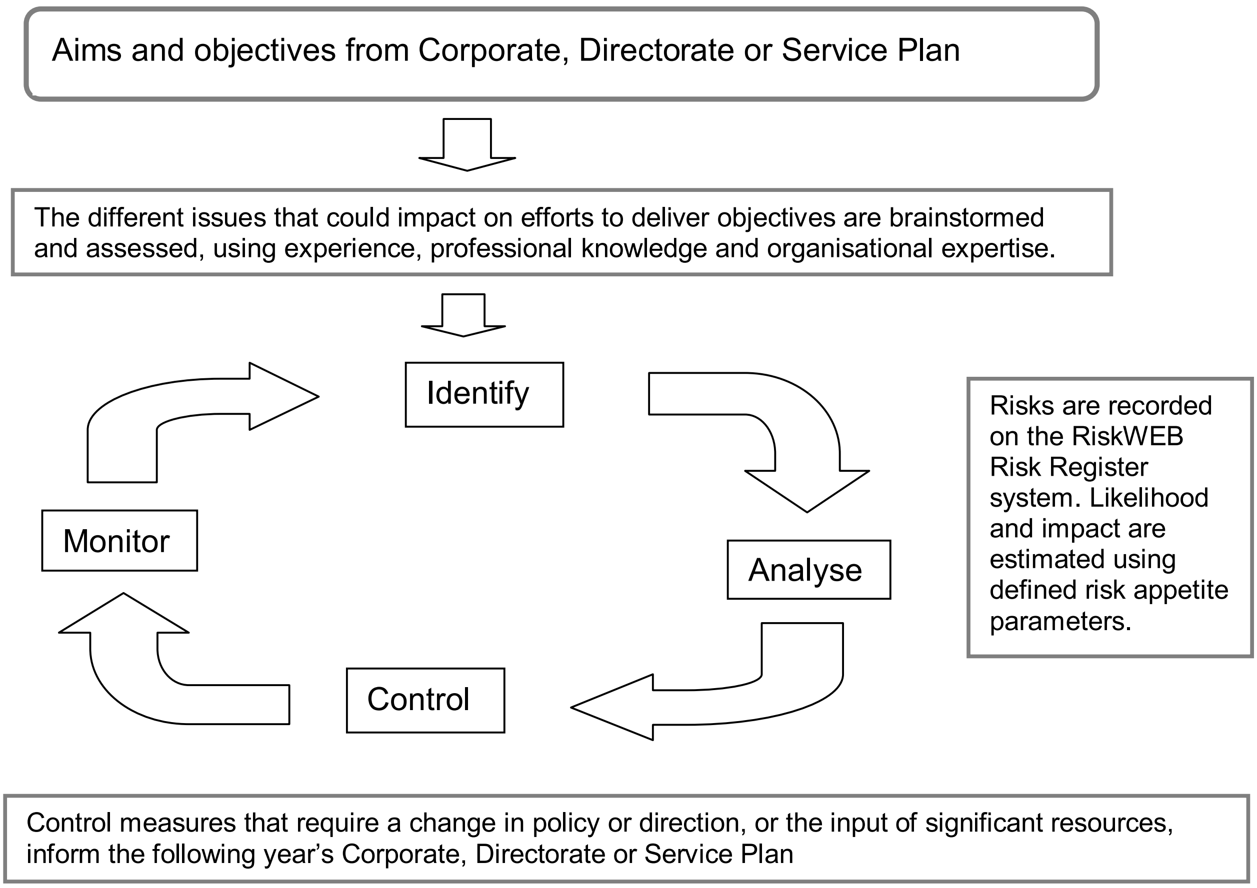
The Council's risk appetite is defined in the Risk Management Policy, along with explanations of proportionate and appropriate responses.

It is recognised that the organisation may be prepared to accept higher than usual proportions or levels of risk in a specific area if the overall balance of risk is acceptable. Deviation from those overall parameters must be considered by the appropriate Management Team and/ or the Risk Board.

9. Risk management process

The Council sets out its aims and objectives in the Corporate Plan, the Directorate Plans and the various Service Plans. Each plan identifies the risks that could threaten the activities, actions and goals set out in that plan and those risks are detailed in the RiskWEB Risk Register system.

Identification, analysis, control and monitoring of risks are ongoing, continuous activities and core to planning and the management of projects, services and the organisation.



Risk tools, procedures and methodologies are set out in the Risk Management Policy.

10. Performance and targets for the management of risk

Performance monitoring, performance targets and assurance requirements and the reporting of those requirements are set out in the Risk Management Policy.

11. Capabilities

Risk management capabilities and levels of training for staff and managers are set out in the Risk Management Policy.

Strategy issue date: 2 July 2015
Strategy review date: 1 July 2017

Risk Management Policy

Policy implementation date: 2 July 2015
Policy review date: 1 July 2017

Policy owner: Executive Manager, Audit, Risk and Improvement

Revision history:

1. Risk Management

1.1 Risks are those uncertain future events that could adversely influence the achievement of an organisation's strategic, operational and financial objectives.

1.2 Risk management concerns itself with the identification and management of risk; it seeks to protect and add value to the organisation and its objectives by continuously, systematically and proportionately addressing risk.

1.3 The Risk Board's Terms of Reference [hyperlink] sets out the framework and defines the governance structure, roles and responsibilities for the management of risk.

1.4 The Risk Management Strategy [hyperlink] sets out the objectives, direction, scope and priorities for the Shetland Islands Council in relation to the management of risk and how it supports the organisation's plans as set out in the Single Outcome Agreement, Corporate Plan and Directorate plans.

1.5 This Risk Management Policy sets out risk processes and methodologies and defines the Council's risk appetite.

1.6 The organisation's risk appetite is defined in the strategic risk appetite statement (4.2), and quantitatively in the risk matrix [hyperlink] which sets out levels of likelihood and potential impact. The organisation recognises and seeks to exploit opportunities and the risk appetite statement and matrix support this approach.

1.7 The Council's Planning and Performance Management Framework (PPMF) sets out the timeframe for performance reporting. Service Committees and Council PPMF meetings are held quarterly on dates agreed annually by the Council.

2. Systems

2.1 A suite of software systems is in place to facilitate the effective recording, management and reporting of risk. Collectively these systems:

- ensure compliance with statutory and contractual obligations,
- enable the effective delivery of insurance and claims handling services, risk register management and Safety incident recording, and
- support and provide enhanced management reporting and analysis functionality.

2.2 For all Council activities identified in the Risk Management Strategy, risks are recorded and managed on the web-based JCAD RiskWEB Risk Register system, known as RiskWEB;

2.3 Insurance claims and incidents are recorded and managed using the JCAD LACHS system;

2.4 Personal Incident Notifications are recorded on the JCAD LACHS system.

3. Risk Registers - RiskWEB

3.1 All risks are recorded on the RiskWEB Risk register system, with the likelihood and severity estimated using the risk matrix [hyperlink].

3.2 Guidance on the use of RiskWEB is available online under Support Information in RiskWEB, and training is available from Audit, Risk and Improvement service both on a scheduled basis and on request, as set out in the current Risk Training Plan document [hyperlink].

3.2.1 All staff with responsibility for recording, reporting and reviewing risks must attend training to enable them to undertake this role to the required standard. Training needs will be indentified through the Employee Review and Development process.

3.3 The different levels and parameters of risk have been set to reflect Shetland Island Council's risk appetite and are shown on the Risk Matrix.

3.4 Where the management of a risk is outwith the authority or remit of the manager, that risk should be escalated to the next organisational level following discussion at the relevant management team meeting, with the minute reflecting that decision.

3.4.1 The decision to escalate a risk to Directorate level, must be taken by the relevant Directorate Management Team, who are then required to identify, and seek to implement, appropriate control measures.

3.4.2 Where a Directorate Management Team seeks to escalate a risk to corporate/ organisational level, it must be reported to the Risk Board who have sole authority to add risks to, review and update the Corporate Risk Register.

3.4.3 The Risk Flow Chart provides a simple diagram and guidance on risk escalation [hyperlink].

4. Risk

4.1 Risk appetite

4.1.1 The Shetland Islands Council's risk appetite is described in the risk appetite statement, below, defined via the scoring matrix and is supported through the risk response and review procedures, (4.3).

4.1.2 Risk appetite statement

To deliver its objectives the Council supports well managed risk taking and recognises the need to be risk aware, not risk averse. Appetite for risk will vary across service areas. However, if we are to be successful, avoiding all types of risks is not realistic and is not an effective use of limited resources.

While the Council does everything in its power to prevent harm to an individual, and wants to limit its exposure to health & safety, environmental, reputational, legal, financial and regulatory and compliance risks, it recognises that some level of risk is necessary in pursuit of better outcomes for the community and service users. The Council embraces the idea that opportunities can be positive risks in that their outcomes may be uncertain, but there could be the potential for, or likelihood of, worthwhile outcomes.

When considering whether or not a risk is being managed appropriately, officers must consider:

- The potential benefits from accepting the risk as it is;
- The views of key stakeholders;
- The possible costs (including opportunity costs) of taking action to manage the risk;
- The risk rating (likelihood and severity of the risk) as scored using the Council's risk management scoring criteria matrix;
- The Council's capability to manage the risk effectively, e.g. does effective management of the risk sit outside core competencies or is the Council getting involved in activities it has little track record in delivering?

When considering any risk, account must be taken of:

- The political salience of the risk, and if it is something members would be interested in e.g. should the risk be referred to members?
- If accepting the risk or taking an action would breach any Council standing order, policy or procedure;
- If the risk represents a breach of any relevant laws or regulations, or where any breach could lead to potential damage to the Council's legitimacy bearing in mind its separate enforcement roles;
- At what level the Council's scheme of delegated authority allows the risk to be managed.

4.2 **Opportunity**

4.2.1 The organisation seeks to exploit opportunities within areas of it's core competencies. Risks to successfully exploiting an opportunity should be identified and recorded in the same way as risks to other objectives, and appropriate control measures recorded and actioned as appropriate.

4.3 **Risk responses**

4.3.1 Using a combination of likelihood and potential severity, risks are rated. That numerical measurement is translated into a risk profile, i.e. red (high), amber (medium) and green (low).

4.3.2 Proportionate and appropriate responses to risks will depend on the combined likelihood and potential severity of each risk, and the associated risk profile (red/ amber/ green). Control measure choices should be guided by the experience of the management team and by the risk rating and profile, with higher-rated risks prioritised over lower-rated risks within a given profile. Managing a risk down to the lowest possible impact and likelihood may not be cost-effective or desirable. A risk may be allowed to become more likely or to have a higher potential impact, if the resources required to control that risk can be put to more effective use elsewhere. This cost-benefit analysis approach must be borne in mind when identifying and considering proportionate and appropriate control measures.

4.4 **Risk controls**

4.4.1 Risks must be appropriately controlled. All risks on RiskWEB are required to have appropriate control measure(s) identified, recorded in the system and updated periodically.

4.4.2 The efficacy of risk controls is reviewed and updated periodically, with a consequent change shown in the rating of the risk.

4.4.3 The costs and resource implications of control measures should inform Service and/or Directorate planning.

4.5 **Risk Reviews**

4.5.1 Red risks have the potential to significantly impact on services and are therefore considered as a high priority. Control measures are established and implemented as soon as is practicable with a view to seeing a measurable reduction within a year. Red risks are reviewed at least every two months, and more frequently for the highest rated risks.

4.5.2 Amber risks have the potential to either significantly impact on services, or for frequently occurring, smaller impacts to happen. The size and timing of controls are guided by the risk rating with measurable reductions evident within a year. Amber risks are reviewed every six months at least, and more frequently for the higher-rated amber risks.

4.5.3 Green risks are generally those which are adequately managed but require to be monitored, or which could be managed down further, and which have the potential to have a limited impact on the service. Where a green risk is recorded, it is reviewed annually or more frequently where there is potential for it to change in the shorter term.

4.6 **Risk in committee reports**

4.6.1 Committee reports include Risk Management within the implications section. Guidance is available in the report pro-forma and directly from Risk Management staff.

5. Performance monitoring, performance targets and assurance

5.1 Performance of the management of risk within the Shetland Islands Council is measured and targets set using the ALARM National Performance Model for Risk Management [hyperlink], and reported to the Risk Board and Audit Committee annually.

5.2 An assurance check on the organisation’s management of risk will be carried out in 15/16 using the Audit Scotland Best Value 2 Toolkit [hyperlink], and reported to the Risk Board and Audit Committee.

5.3 Progress on the three year Risk Review Action Plan is reported on a quarterly basis to Corporate Management Team as part of the Audit, Risk and Improvement Service Plan update report under the Planning and Performance Management Framework, and annually to the Risk Board.

5.4 Internal Audit has responsibility, in its Strategic Audit Plan, for providing independent assurance of the Risk Management Policy, Strategy, Risk Management Section and the various elements of the framework for the management of risk across the organisation as well as its delivery. This will be discharged on a periodic basis.

IA-09-15 - Appendix 3 – Matrix

Estimating risk likelihood and severity - **Step One -** Look at the text in the box below and decide which descriptor of likelihood best matches your estimation of this particular risk/event.

Descriptor	Description
Almost certain	I would not be at all surprised if this happened within the next twelve months; I would expect this to happen
Likely	It is probable that this will occur sometime in the coming year
Possible	I think this could maybe occur in the next year
Unlikely	I would be mildly surprised if this occurred in the next year; it is unlikely to happen
Rare	I would be very surprised to see this happen in the next twelve months; it is very unlikely to happen

Step Two - Find the most realistic outcome for the risk you have identified and move down the left hand column to establish its value. Most risks will have potential impacts under more than one column.

HAZARD **IMPACT**	**Personal Safety**	**Property loss or damage**	**Failure to provide Statutory Service or breach of legal requirements**	**Financial Loss or Increased cost of Working**	**Personal Privacy Infringement**	**Environmental**	**Community/ stakeholders / organis-ation**	**Reputation**
Insignifi-cant	Minor injury or discomfort to an individual	Negligible property damage	Reported to HSE, Stage 2 complaint	<£10k	Isolated personal detail revealed	Licensable activity occurring without authorisation but not causing pollution	Inconvenience to an individual or small group	Contained within Service Unit
Minor	Minor injury or discomfort to several people	Minor damage to one property	HSE investigation Complaint requiring investigation	£10k to £100k	Isolated sensitive data revealed	Death of invertebrates/ >10 fish, minor visible pollution, minor damage to commercial activity	Impact on an individual or small group	Contained within Service
Significant	Major injury to an individual/ range of moderate injuries to more than one person	Significant damage to small building or minor damage to several properties from one source	Litigation, claim or fine to £250k HSE Improvement Notice served Complaint referred to Ombudsman	£100k to £500k	Several persons details revealed	Environmental damage to > 1km^2 Death of 10-100 fish, long term localised harm/ widespread short-term harm to environment, Significant visible pollution/ damage to commercial activity	Impact on a local community. Impact on Council Service	Local public or press interested
Major	Major injury to several people or death of an individual	Major damage to critical building or serious damage to several properties from one source	Litigation, claim or fine £250k to £1m imposed HSE Prohibition Notice served Adverse report from External Advisor	£500k to £1m	Several persons' sensitive /personal details revealed	Death of animals, substantial harm to human health, wide-spread/ long-term harm, loss/ closure of shellfish/drinking// bathing water, extensive damage/ closure of agriculture/ commercial activities	Impact on several communities. Impact on whole organisation	National public or press interest,
Extreme	Death of several people	Total loss of critical building(s)	Multiple civil or criminal actions. Litigation, claim or fine above £1m or custodial sentence	>£1m	All personal details revealed for many	Permanent damage to a nationally significant population/ to site of special interest	Impact on the whole of Shetland	Senior officer(s) and /or members dismissed/ disqualified. Central takeover of authority

IA-09-15 – Appendix 4

Risk Training 15/16

Risk training is available on request and on a scheduled basis. For the year 15/16, the focus will be on:

- supporting Directorate Management Teams through the provision of scheduled training on risk and risk systems to PAs and administrative support staff;
- providing specialist risk training for all Executive Managers, supplemented by ad hoc/ on request risk system training
- providing training on request through various channels as resources allow.

By the end of 15/16,

- each Directorate will have a cohort of staff who can update and report on risks;
- all Executive Managers will have attended risk training and will thus have a good understanding of the role and importance of risk management and their responsibilities in relation to risk.

Any staff that would like training on the JCAD risk register system should contact Risk Management staff (Joanne.Jamieson@shetland.gov.uk or Catherine.Christie@shetland.gov.uk) in Audit, Risk and Improvement Service.

IA-09-15 – Appendix 5 – escalation flow chart

Level	Unit, Section, School or Service	Support
Operational Departmental	Identify risks to the business unit, record in RiskWEB. These risks are managed at source and documented. Any risks that cannot be managed at source, i.e. where implementing controls are outwith the authority of the manager, or which occur in several sections/ services/ parts of the Department, are escalated to the relevant managing business unit. Risk investigation/ analysis is agreed and allocated, control measures identified. Consider reporting to relevant forum and to the Directorate Management Team.	• Training, advice, assistance from Risk Management Section for individual staff, groups and for Management Teams • RiskWEB reporting • Professional advice and input from specialist staff across the organisation • Risk Board • Safety Forum/ Central Safety Consultative Committee • Cluster group sessions on demand in person or via GLOW (Schools) • Quarterly attendance at Directorate Management Team meetings
Corporate	Risk is a standing item at the Department/ Directorate Management Team meeting, risk investigation and analysis is agreed and allocated, control measures identified. Updates are reported to the Risk Board, Directorate Management Team, other relevant forum, Corporate Management Team, relevant committee and/or via PPMF as appropriate.	
Strategic	Any risks that cannot be managed at Directorate level are reported to the Corporate Management Team /Risk Board. Risks that cannot be managed at that level may be reported to an officer/member group and / or other forum or Committee / Council or the Shetland Partnership (subject to approval of the Shetland Partnership Board) as appropriate.	

	Leadership & Management	Strategy & Policy	People	Partnership, Shared Risk & Resources Processes	Processes	Risk Handling & Assurance	Outcomes & Delivery
Level 5: Driving	Senior management uses consideration of risk to drive excellence through the business, with strong support and reward for well-managed risk taking	Risk management capability in policy and strategy making helps to drive organisational excellence	All staff are empowered to be responsible for risk management The organisation has a good record of innovation and well managed risk taking Absence of a blame culture	Clear evidence of improved partnership delivery through risk management and that key risks to the community are being effectively managed	Management of risk and uncertainly is well integrated with all key business processes and shown to be a key driver in business success	Clear evidence that risks are being effectively managed throughout the organisation Considered risk taking part of the organisational culture	Risk management arrangements clearly acting as a driver for change and linked to plans and planning cycles
Level 4: Embedded & Working	Risk management is championed by the CEO The Board and senior managers challenge the risks to the organisation and understand their risk appetite Management leads risk management by example	Risk handling is an inherent feature of policy and strategy making processes Risk management system is benchmarked and best practices identified and shared access the organisation	People are encouraged and supported to take managed risks through innovation Regular training and clear communication of risk is in place	Sound governance arrangements are established Partners support one another's risk management capability and capacity	A framework of risk management processes in place and used to support service delivery Robust business continuity management system in place	Evidence that risk management is being effective and useful for the organisation and producing clear benefits Evidence of innovative risk taking	Very clear evidence of very significantly improved delivery of all relevant outcomes and showing positive and sustained improvement
Level 3: Working	Senior managers take the lead to apply risk management thoroughly across the organisation They own and manage a register of key strategic risks and set the risk appetite	Risk management principles are reflected in the organisation's strategies and policies Risk framework is reviewed, developed, refined and communicated	A core group of people have the skills and knowledge to manage risk effectively and implement the risk management framework Staff are aware of key risks and responsibilities	Risk with partners and suppliers is well managed across organisational boundaries Appropriate resources in place to manage risk	Risk management processes used to support key business processes Early warning indicators and lessons learned are reported Critical services supported through continuity plans	Clear evidence that risk management is being effective in all key areas Capability assessed within a formal assurance framework and against best practise standards	Clear evidence that risk management is supporting delivery of key outcomes in all relevant areas
Level 2: Happening	Board/ Councillors and senior managers take the lead to ensure that approaches for addressing risk are being developed and implemented	Risk management strategy and policies drawn up, communicated and being acted upon Roles and responsibilities established, key stakeholders engaged	Suitable guidance is available and a training programme has been implemented to develop risk capability	Approaches for addressing risk with partners are being developed and implemented Appropriate tools are developed and resources for risk identified	Risk management processes are being implemented and reported upon in key areas Service continuity arrangements are being developed in key service areas	Some evidence that risk management is being effective Performance monitoring and assurance reporting being developed	Limited evidence that risk management is being effective in, at least, the most relevant areas
Level 1: Engaging	Senior management are aware of the need to manage uncertainty and risk and have made resources available to improve	The need for a risk strategy and risk related policies has been identified and accepted The risk management system may be undocumented with few formal processes present	Key people are aware of the need to understand risk principles and increase capacity and competency in risk management techniques through appropriate training	Key people are aware of areas of potential risk in partnerships and the need to allocate resources to manage risk	Some stand alone risk processes have been identified and are being developed The need for service continuity arrangements has been identified	No clear evidence that risk management is being effective	No clear evidence of improved outcomes

Best Value Toolkit:
Risk Management

Contents

Introduction

The Audit of Best Value

"Achieving Best Value is about ensuring sound governance, good management, public reporting on performance and a focus on improvement"

The duty of Best Value applies to all public bodies in Scotland. It is a statutory duty in local government, and in the rest of the public sector it is a formal duty on Accountable Officers.

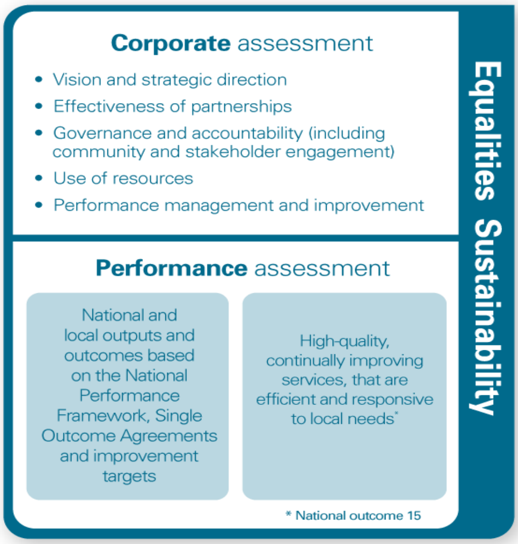
Best Value has already been a powerful force for improved performance and accountability in local government, and it will play an important role in supporting the Concordat and the development of Single Outcome Agreements between the Scottish Government, councils and their partners, and in streamlining and coordinating the scrutiny of public services. It also has the potential to underpin the National Performance Framework and the 'management scorecard' elements of Scotland Performs.

On behalf of the Auditor General and the Accounts Commission, Audit Scotland has identified a set of principles that form the basis for a consistent approach to the audit of Best Value across the public sector, although its application will differ to reflect factors such as the different accountability regimes and reporting arrangements in place in different sectors. This will enable us to apply a consistent set of expectations across all the bodies that we audit, and to reflect and support the reality of partnership working between organisations.

The Best Value toolkits are a key part of the practical application of the BV audit. They provide an evaluation framework that will help auditors to reach robust judgements on how public bodies are delivering Best Value. However, they cannot generate Best Value judgements on their own. They cover only part of the process. Judgements about Best Value also involve consideration of service standards and performance, outcomes and how effectively continuous improvement is being achieved. The framework through which the various elements of the Best Value audit are brought together to arrive at an overall conclusion on the extent to which an organisation is achieving Best Value is outlined below:

Exhibit 1

Framework for a BV audit of a public body



Source: Audit Scotland

As the diagram demonstrates, Audit Scotland's approach to the audit of Best Value entails both corporate assessment and performance assessment elements. The former focuses on how an organisation plans and conducts its business and manages its resources while the latter looks at the quality of those services and the outcomes for service users.

Audit Scotland is committed to ensuring that Best Value auditing across the public sector adds value to existing arrangements, is risk-based and builds on our existing knowledge of individual public bodies, and that of our scrutiny partners. Specifically we aim to:

- report on the delivery of outcomes for people who use services
- protect taxpayers' interests by examining use of resources
- put an increasing emphasis on self assessment by public bodies with audit support and validation
- work collaboratively with other scrutiny bodies to ensure our work is aligned and prevent duplication.

The Best Value toolkits

The Best Value toolkits are a series of audit diagnostics, which will help reviewers to establish the extent to which public bodies' arrangements are designed to achieve, and are actually delivering, Best Value. They have been developed to support the corporate assessment process around the five corporate assessment areas noted in Exhibit 1, and the two cross-cutting themes of equalities and sustainability. However, as each toolkit also incorporates a series of questions on the impact of the area under review, they will also provide some evidence to support the assessment of service performance and outcomes.

The Best Value toolkits have been developed as audit tools in consultation with specialist practitioners, and representatives of public bodies and professional groups.

The toolkits take the form of structured key questions, with a matrix of possible levels of performance, ranging from basic to advanced practice. The matrices cannot of course capture all of the ways in which a public body may address the requirements of Best Value, so there is clearly scope for auditors to exercise balanced judgement and for public bodies to respond flexibly in demonstrating how the key areas of challenge are addressed. Individual evaluations are made about the level a public body has attained in each question or area. However, these have not been weighted and it is not intended that these be used to determine an overall scoring for any toolkit. They are designed to contribute to sound professional judgements, not to replace them.

Using the toolkits

The toolkits are designed for application by Audit Scotland's auditors when carrying out Best Value audits of public bodies. In practice, the toolkits will be applied as part of an audit process, whereby the auditor makes enquiries, seeks supporting information and forms conclusions based on the evidence obtained.

Audit Scotland recognises that bodies may find the toolkits helpful in carrying out general organisational reviews or specific service reviews and are therefore available in the Audit Scotland website www.audit-scotland.gov.uk. It should be stressed however that public bodies using the toolkits do so at their own discretion. The toolkits are designed principally as audit tools that are part of

Audit Scotland's overall Best Value audit methodology and are not expressly produced for self-assessment purposes.

Any organisation using the toolkits to inform their own corporate or service-based self-evaluation processes will need to consider the local context when applying them, and also the indicative rather than conclusive nature of the findings when interpreting the results. The toolkits were designed to elicit contextual information and provide evidence for arriving at professional audit judgements. They are not intended to be, and cannot be, used in a "tick-box" fashion.

The Best Value toolkits are generic in nature, in that they are not specific to any one type of public body or to any one sector and are designed so that they can be applied to all public bodies. Auditors will require to be sensitive to the differences between organisations both in terms of different sectors and varying scales of operation.

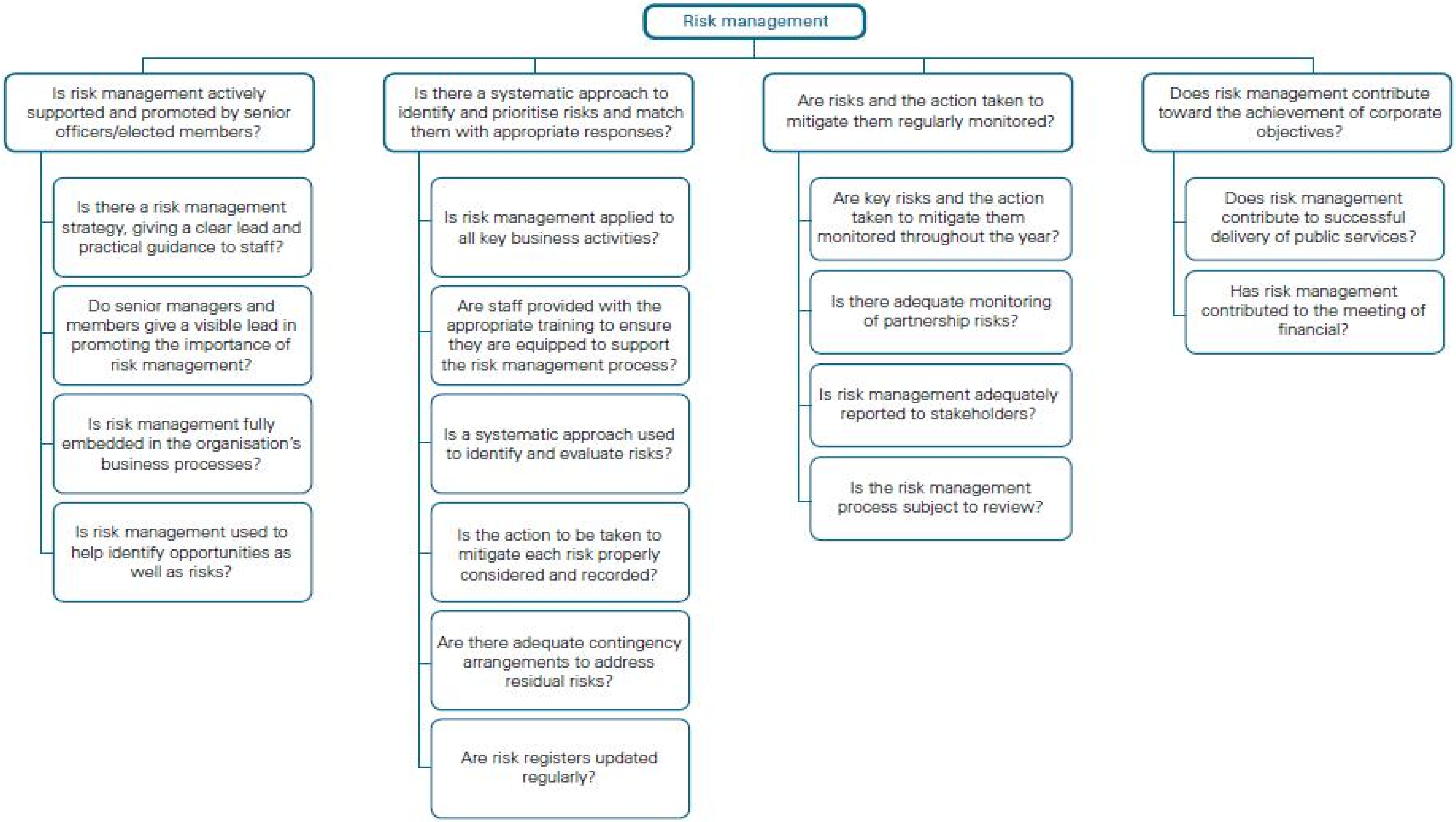
This toolkit forms part of a suite of audit products that will be applied, over time, to support a structured, evidenced based, judgment on an organisation's approach to the use of the resources with which it has been provided and its achievement of Best Value.

Auditors' evaluations

The toolkit takes the form of a series of questions based on identified good practice. It then offers four sets of descriptors, these being:

Does not meet basic requirements	An organisation may not yet demonstrate the basic practice level in any particular category.
Basic practices	Minimum acceptable standards, which would be sufficient to allow an organisation to demonstrate sound performance.
Better practices	As basic, with some elements of good or even best practice, but not on a consistent basis.
Advanced practices	Consistently demonstrating good or best practice and contributing to innovation.

Best Value Toolkit: Risk Management



	Basic Practice	**Better Practice**	**Advanced Practice**
1. Is risk management actively supported and promoted by senior officers/elected members?			
1.1 Is there a risk management strategy, giving a clear lead and practical guidance to staff?	The organisation has a risk management strategy, providing broad guidance on matters such as risk registers, and reporting arrangements.	The organisation has a risk management strategy which provides specific guidance on: • Scope of risk management, including partnership arrangements • Identification of risks • Scoring & prioritisation • Risk appetite • Delegated levels of risk appetite • Addressing risks.	The organisation's risk management strategy is reviewed annually to help ensure that it remains fit for purpose.
1.2 Do senior managers and members give a visible lead in promoting the importance of risk management?	The organisation's risk management strategy has been endorsed by senior managers and members. Risk management forms part of the remit of a committee.	Risk management features as a regular item in CMT meetings, with senior managers reviewing updated risk assessments and action being taken to mitigate them. Risk management features as a regular item in the agenda of a committee, with members reviewing updated risk assessments and action being taken to mitigate them.	In addition to forming part of a committee's remit, risk management regularly features in the agenda of board meetings involving all members.
1.3 Is risk management fully embedded in the organisation's business processes?	Risk management is carried out as part of business planning, with risks assessed for each key objective.	Risk management is not simply seen as an operational issue, but is also considered when developing policies and broad strategies. Risk management is an integral part of project and programme planning.	Risk management is a continuous activity, integrated with other procedures, and is viewed by staff as a standard element of good practice, rather than a one-off or annual activity.

	Basic Practice	Better Practice	Advanced Practice
1.4 Is risk management used to help identify opportunities as well as risks?	The risk strategy does not explicitly refer to opportunities (or ‘positive risks’), but senior officers and members understand these aspects and are prepared to take advantage of them when they arise.	The risk strategy explicitly refers to opportunities, as well as risks. Senior managers understand these aspects and have communicated the importance of identifying these ‘positive risks’ and seizing them to staff throughout the organisation. Well-managed risk taking is encouraged to help seize opportunities and support effective innovation.	The organisation’s risk strategy explicitly encourages well-managed risk taking. There is a history of the risk management process being used to identify opportunities and for them to have been seized by the organisation. For example, opportunities or ‘upside risks’ may be dealt with by identifying the risks to not achieving the benefit Successful innovations in managing new risks are communicated to others who may also encounter that risk. A ‘blame culture’ is avoided, with individual success recognised and supported when things go wrong despite risks being well managed.

	Basic Practice	Better Practice	Advanced Practice
2. Is there a systematic approach to help ensure that all key risks are identified, prioritised and matched with appropriate responses?			
2.1 Is risk management applied to all key business activities?	A corporate risk register is maintained, and risk registers are in place for all departments.	Risk management is a top-down process, driven by corporate and service objectives. In addition to internal activities, risk registers include risks relating to key contractors and to partner organisations.	Risk management is applied to all significant projects. Risk management is applied to all proposed partnership arrangements.
2.2 Are staff provided with the appropriate training to ensure they are equipped to support the risk management process?	Key officers have an understanding of the need to manage risks effectively and have a grasp of the key concepts involved.	There is an established core of staff with responsibility for risk management. Their skills and knowledge are supplemented by the provision of appropriate guidance and/or a training programme.	Communication of the need for risk awareness and the provision of risk management training is organisation wide and all staff are encouraged and supported to take responsibility for effective risk management within their service/department.
2.3 Is a systematic approach used to identify and evaluate risks?	A range of methodologies are used in different parts of the organisation, but all identify risks in a structured manner, taking into account both the likelihood of their arising and their potential impact.	There is a consistent set of criteria used to evaluate risks, taking into account factors such as: • Financial impact • Service quality • Public trust • Impact on the organisation's reputation. Risks are prioritised.	Links are identified between lower-level and higher-level risks. Senior managers and members consider the overall risk profile of the organisation.

	Basic Practice	Better Practice	Advanced Practice
2.4 Is the action to be taken to mitigate each risk properly considered and recorded?	The action being taken to mitigate each risk is recorded.	'Owners' are specifically identified for each risk.	The organisation has specified its 'risk appetite' and explicitly uses this to help determine the appropriate response: • Tolerate • Treat • Transfer • Terminate • Take the opportunity. Levels of risk delegated to different management grades are specified.
2.5 Are there adequate contingency arrangements to address residual risks?	The organisation has adequate general business continuity arrangements.	Plans are in place to address key risks that might be realised despite the controls that are in place (ie the residual risk).	Reliable contingency arrangements are in place to ensure that key services to the public will be maintained and the adverse impact on key outcomes will be minimised

	Basic Practice	Better Practice	Advanced Practice
2.6 Are risk registers updated regularly?	Risk registers are updated annually in order to ensure that they match corporate and service objectives.	In addition to risk registers being updated annually, there is also an established process to help ensure that significant changes, particularly escalating risks, are communicated quickly throughout the organisation and steps taken to mitigate them. Risk registers are updated to take into account 'near misses'.	In addition to regular updates of risk registers throughout the year, senior managers and members are proactive in identifying future medium and long-term risks and opportunities for the organisation. This includes potential changes in the organisation's wider environment, such as: • laws and regulations • government policies • the general economy • technology • key partners and contractors.

	Basic Practice	Better Practice	Advanced Practice
3. Are risks and the action taken to mitigate them regularly monitored?			
3.1 Are key risks and the action taken to mitigate them monitored throughout the year?	Monitoring reports, providing updates on the risks identified, and the action taken to mitigate them, are provided regularly to departmental and corporate managers. Further action is taken where existing controls are not effective or where new or escalating risks are identified. An annual statement on internal control is considered by members and subject to external audit.	Monitoring reports, providing updates on the key risks identified, and the action taken to mitigate them, are considered regularly by a committee of members.	Monitoring reports, providing updates on key risks, and the action taken to mitigate them, are considered regularly by all members at board level. As well as monitoring individual risks, senior managers and members monitor the organisation's overall risk profile.
3.2 Is there adequate monitoring of partnership risks?	There is limited awareness of the extent to which partners are successfully managing the partnership risks which they can influence. Risks are managed in isolation from other members of the partnership.	Partnership agreements have been established which clearly define each partner's responsibility and accountability for risk management. There is clarity over the provision of risk management monitoring information and established rights of access to obtain information.	Partnership arrangements have been established which allow for cross-partnership risk management. There is clear evidence that partners are committed to a consistent approach to risk management. I.e. shared risk assessments and joint risk register.
3.3 Is risk management adequately reported to stakeholders?	There is limited risk management reporting. Key officers are aware of developments however this information is not disseminated to the wider stakeholder audience.	Risk management reporting has been developed with regular reports going to relevant committees/boards. Further development is required to integrate risk management reporting into the overall governance framework of the organisation and ensure that risk management progress is communicated to all relevant stakeholders.	Risk management reporting is embedded into the overall governance framework of the organisation as well as the performance management framework. Regular risk management reports are provided to all relevant stakeholders.

	Basic Practice	Better Practice	Advanced Practice
3.4 Is the risk management process subject to review?	The risk management process is well-established, but changes are considered in response to known omissions or significant shifts in the organisation's environment.	The organisation has periodically reviewed its risk management processes and made improvements.	All aspects of the risk management process are reviewed at least annually, with improvements made to help ensure that it remains fit for purpose.

	Basic Practice	Better Practice	Advanced Practice
4. Does risk management contribute toward the achievement of corporate objectives?			
4.1 Does risk management contribute to successful delivery of public services?	There is only limited evidence that the risk management process has actively contributed to improving frontline services, or to 'back office' functions which support frontline services.	There is clear evidence that risk management has contributed to the delivery of corporate priorities, with improvements in services, internal controls, and compliance with regulations and standards.	Risk management is a key driver in service improvements and achieving corporate priorities. It has played a key role in the successful delivery of key projects/programmes which have had a significant impact on the provision of sustainable improvement in services.
4.2 Has risk management contributed to the meeting of financial targets?	There is limited/no evidence of the impact risk management has had on financial performance/position. A framework to evaluate the cost effectiveness of risk management has not been established.	There is some evidence that risk management has had a positive impact on the organisation's financial performance / position. i.e. evidence of a reduction in fraud or efficiency savings in service delivery due to improved project risk management.	There are clear links between risk management practices and the impact they have on the organisation's financial performance. Risk management activity is subject to a cost benefit consideration with action taken based on decisions on value for money.

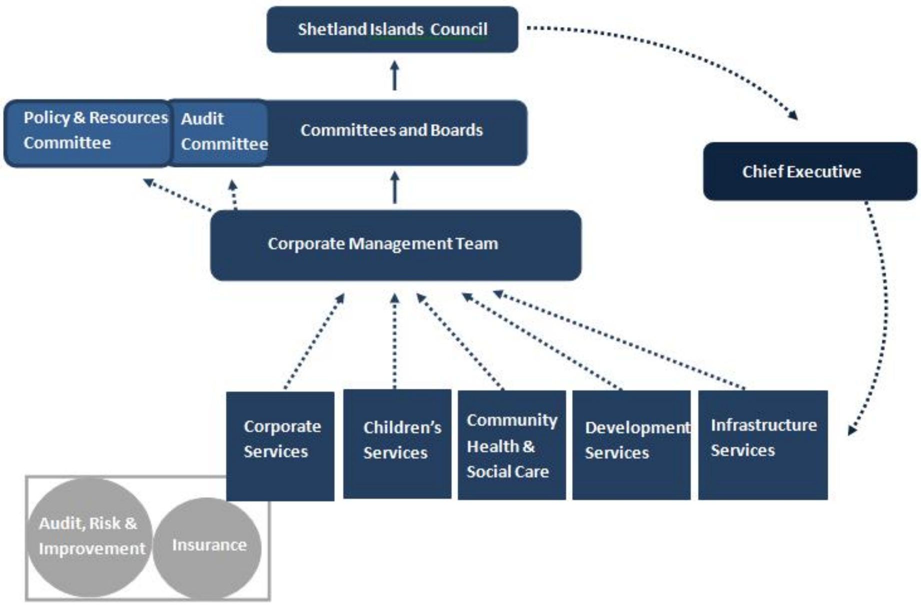
Corporate Management Team Risk Board Terms of Reference

1. Introduction

1.1 Effective risk management requires an agreed framework for the management of risk, within which governance, roles and responsibilities are clearly defined, policy, strategy, objectives and processes are set out and channels and timescales for reporting are agreed.

1.2 The following governance structure for the management of risk provides an infrastructure for delivering, developing, maintaining and governing risk management throughout the organisation. Roles and responsibilities are defined in 2.

1.3 Illustration of the governance structure for the management of risk.



1.4 The Risk Management Strategy sets out the objectives, direction, scope and priorities for the Shetland Islands Council in relation to the management of risk, and how it supports the organisation's plans as set out in the Single Outcome Agreement, Corporate Plan and Directorate plans.

1.5 The Risk Management Policy sets the Council's risk appetite and the risk management processes, system and methodologies.

1.6 The Council's Planning and Performance Management Framework (PPMF) sets out the timeframe for performance reporting which includes risks. Committee and Council PPMF meetings are held quarterly on dates agreed annually by the Council.

2. Roles and responsibilities

The following roles and responsibilities are integral to the Shetland Islands Council risk management governance arrangements.

2.1 Shetland Islands Council

2.1.1 Changes and periodic reviews of policy, strategy and governance arrangements are reported to Shetland Islands Council.

2.1.2 Responsible for setting, with the Corporate Management Team, the council's appetite for risk.

2.1.3 Considers risk as part of all decisions made, with guidance from senior officers.

2.1.4 Encourages a culture that supports appropriate risk taking and the open discussion of risk.

2.2 Policy and Resources Committee

2.2.1 Changes to policy, strategy and governance arrangements are reported to the Policy and Resources Committee.

2.3. Audit Committee

2.3.1 Governance arrangements for the management of risk, risk management performance, emerging or activity-specific risk and the Risk Management Policy are reported annually to the Audit Committee.

2.3.2 The Risk Management Strategy is reported biennially to the Audit Committee.

2.3.3 Insurance cover, changes to classes of business or levels of excess, claims performance, premiums and renewal information and review of providers are reported annually to Audit Committee.

2.3.4 Performance of the organisation using a risk industry standard is reported annually to the Audit Committee.

2.3.5 Assessments of the organisation's management of risk for assurance purposes, are reported to Audit Committee.

2.4 Functional Committees

2.4.1 Quarterly Directorate risk progress reports to Corporate Management Team (CMT) Risk Board are reported to the relevant Functional Committees as part of the Planning and Performance Management Framework (PPMF).

2.4.2 Considers risk as part of all decisions made, with guidance from senior officers.

2.5 Chief Executive

2.5.1 The Chief Executive chairs the Corporate Management Team Risk Board.

2.5.2 The Chief Executive is the conduit through which instructions from the Shetland Islands Council are relayed to Directorates, including in relation to risk.

2.6 Corporate Management Team

2.6.1 Corporate Management Team, undertaking the role of a risk management board, meets quarterly to focus on risk. This meeting is scheduled to co-ordinate with the Planning and Performance Management Framework (PPMF), and is referred to as the Risk Board.

2.6.2 CMT has responsibility for considering risk as part of the development of strategies, policies, in response to external trends, and to implement the various elements of the Risk Management Framework as agreed by the Risk Board.

2.6.3 CMT is supported in its role of Risk Board by staff in the Audit, Risk and Improvement Service.

2.6.4 CMT ensures that risk management activity within the organisation is carried out in an effective, consistent and cooperative manner.

2.7 CMT Risk Board

2.7.1 CMT Risk Board has responsibility for driving the management of risk across the organisation by ensuring the Risk Management Strategy and Policy are fully implemented and complied with.

2.7.2 CMT Risk Board meets on a quarterly basis to consider risk-focussed reports from each Directorate and from Audit, Risk and Improvement, and requests reports on specific risk areas and on risk-control activities from Directorates and Audit, Risk and Improvement..

2.7.3 As set out within the Planning and Performance Management Framework report of July 2011, CMT is required to review corporate risks as part of the Corporate Plan on a quarterly basis, and review and report on corporate risks as part of the annual refresh of that Corporate Plan; this responsibility now sits with the CMT Risk Board.

2.7.4 CMT has responsibility for monitoring and driving performance standards for risk across the organisation via the agreed mechanism as set out in the Risk Management Policy, for formally considering risk performance on an annual basis and for reporting that risk performance to Audit Committee.

2.8 Directors

2.8.1 Directorate responsibility for Audit, Risk and Improvement is in the remit of the Director of Corporate Services.

2.8.2 All Directors ensure the Risk Management Strategy, Policy and related processes and methodologies are fully implemented and complied with.

2.8.2 Directors ensure that significant risks and opportunities within their Directorate, Department (Service plan level) and at operational level are identified and analysed, recorded and updated on the risk register system, escalated where necessary and managed appropriately.

2.8.3 Each Director ensures that significant risks and opportunities including emerging risks, risks to or from partnerships and projects, and the success or otherwise of measures taken to mitigate risk or exploit opportunity, are considered, reviewed and updated quarterly as part of the PPMF, and reported to CMT Risk Board and to the relevant Committee.

2.9 Audit, Risk and Improvement

2.9.1 Audit, Risk and Improvement report to the quarterly CMT Risk Board on risk management targets and performance, risk control progress, emerging and significant risks including sector or industry-specific issues, risk management initiatives and other relevant business, with some reports going to the relevant Committee depending on content and significance.

2.9.2 Audit, Risk and Improvement report annually to the CMT Risk Board on reviews of strategy, policy, terms of reference, processes and methodologies, overview of Risk Check findings and annual risk performance, and these are then reported on to Audit or Policy and Resources Committee as appropriate.

2.9.3 Risk Management Officer attends Directorate Management Team meetings quarterly to provide support and advice in relation to the process of the management of risk, the quarterly review of Directorate Risks and specific risk issues. This Management Team meeting is where Directorate Risks are reviewed, significant or emerging risks are reported upon and considered, and any escalation or actions are agreed; these form part of the Director's quarterly report to CMT.

2.10. Insurance Section

2.10.1 Insurance cover, changes to classes of business or levels of excess, claims performance, premiums and renewal information and review of providers are reported annually to CMT Risk Board and to Audit Committee.

2.10 All staff/ project managers

2.10.1 All staff and project managers are required to take cognisance of the various elements of the Risk Management Framework.

Agenda Item
2

Shetland Islands Council

Shetland Islands Council **30 June 2015**

Scottish Local Authority Business Loan Fund	
Report No: DV-41-15-F	
Report Presented By: **Executive Manager – Economic Development**	**Economic Development** **Development Services Department**

1.0 Summary

1.1 The purpose of this report is to provide detail on a proposal for a Pan-Scotland local authority business loan fund (the 'Fund'). The Council has an opportunity to invest in the Fund and to secure match European Regional Development Fund (ERDF) grant and Bank finance for the benefit of Shetland businesses.

1.2 A company limited by guarantee (Business Loans Scotland Limited) has been established to operate the Fund whose members shall exclusively be Scottish Local Authorities.

2.0 Decision Required

2.1 That the Council RESOLVE to:

2.1.1 Agree to become a member of Business Loans Scotland Limited (BLS) and to enter the necessary legal agreements.

2.1.2 Approve a contribution of £45,000 to the Fund and payment of annual management fees as explained in section 4.7.

2.1.3 Delegate Authority to the Executive Manager – Economic Development, or his nominees, to represent the Council on the governing Board of BLS, Corporate Governance Working Group, Regional Management Group and/or Regional Officer Group.

2.1.4 Delegate authority to the Executive Manager – Economic Development, or his nominee, to approve BLS loan applications from Shetland businesses up to a maximum of £30,000.

2.1.5 Delegate authority to the Director of Development and Executive Manager – Finance to approve BLS loan applications from Shetland businesses above £30,000 and up to £50,000.

3.0 Detail

Background

3.1 The proposed ERDF Programme 2014-2020 is due to become operational in 2015. The Scottish Government is actively encouraging a collective application to form a new Pan-Scotland loan Fund. Previously individual local authorities, or small groups of local authorities, received ERDF grants to support their own individual loan funds.

3.2 The new pan-Scotland Fund will offer gap-funding to small and medium-sized enterprises (SMEs):

- loans up to £100,000;
- secured by Standard Security, Bond & Floating Charge and / or Personal Guarantee;
- some loans may be offered on an unsecured basis depending on circumstance; and
- Interest rate fixed (6% per annum) with no additional fees or charges.

3.3 All of Scotland's local authorities have been invited to join the Fund and at the time of writing this report, 27 of the 32 are anticipated to join.

3.4 The loan Fund, including its governance and management, is modelled on the current West of Scotland Loan Fund and the East of Scotland Investment Fund. These two funds represent the mechanism through which 22 of the 32 Local authorities currently provide loan services. As part of this proposal both funds will cease and transfer to the new pan-Scotland fund. Evidence from these existing loan funds shows that this type of supportive investment mechanism has a positive impact in terms of creating new employment, safeguarding existing jobs and increasing turnover.

Financing

3.5 The loan Fund is to be financed from local authority funds (30%), a commercial Bank loan (30%) and ERDF grant (40%). For the avoidance of doubt, each local authority's financial contribution to the Fund will be exclusively ring fenced for investing by that local authority solely in their area, i.e. only Shetland businesses will be able to draw down loan finance sourced from Shetland Islands Council's match contribution.

3.6 The value of the Fund will be in the region of £18m over 3 years. A Business Plan has been prepared and shows an indicative allocation for each local authority based on a pro rata share of the Scottish business base. For Shetland £150,000 is proposed (for use by Shetland businesses only). The source of funding for this level of lending is as follows:

Source	Amount
Shetland Islands Council	£45,000
Bank	£45,000
ERDF	£60,000
Total (Amount for lending to businesses)	£150,000 (over a three year period)

3.7 The Fund will be revolving in that the funds invested will be asset locked in perpetuity and recycled for the purpose of business loan finance. This 'evergreen' nature of the Fund is a requirement of ERDF match funding and would apply to the investment until at least 2026 (six years following the end of ERDF programme 2014-2020). The Articles of Association of the new company will however provide for the redistribution of assets in proportion to members' original investment, in the event of the dissolution of the company.

Operational Aspects

3.8 All of the participating local authorities will be members of BLS. As it will be impractical for each Member authority to be represented on the Board, it is proposed to have three regional (operational) groups across Scotland and for each regional group to nominate three Directors, thereby forming a Board of nine directors. The Highlands and Islands will be one of the regional groups.

3.9 Administration of the Fund will be undertaken centrally with the core team located in the west of Scotland (with an outreach officer based in the east of Scotland and one based in the Highlands (with Inverness a likely location due to its geographic/travel position).

3.10 Applications will be made online with eligibility checks etc. done centrally before the application is passed to the relevant local authority to appraise and determine the application. If the loan requested is under £50k, then the decision of the local authority is final. If the local authority recommends approval of a loan over £50k, then the loan application and assessment is passed to a regional panel for determination. This regional panel will be made up of representatives from those Highlands and Islands local authorities who are members of the Loan Fund. This is the approach adopted in the current East and West of Scotland loan funds and serves as a useful means to ensure there is a high quality and consistent assessment of loan applications across all local authority areas. Any business loan assessment made and decision taken will be done so on the basis of business need/opportunity and ability to repay the loan.

3.11 Delegated authority is sought from the Council to approve loans up to £50,000. Loans above £50,000, up to £100,000, will therefore require Development Committee approval followed by Regional Management Group approval.

3.12 Any bad debt will be managed by BLS with such assistance and co-operation from the relevant local authority as is reasonably requested by BLS. As with any loans there is a possibility that the Council could suffer a loss of capital should recovery action fail.

Demand (National)

3.13 The Scottish Government has recently undertaken work to establish demand and determine how such a loan fund (and use of ERDF) will at a national level add value and fill gaps in the current supply of loan finance, including commercial sources.

The report makes it clear that there are a number of market failures, affecting both the supply and demand of finance to SMEs, which can lead to potentially viable businesses being unable to access the finance they require, and this provides the rationale for government/ERDF intervention. In particular the report found:

- demand for finance by SMEs has been subdued during the recessionary period;
- Bank of England data shows that net lending to SME's has been negative throughout 2013 and 2014;
- rejection rates have remained an issue, particularly in relation to loans;
- Scottish SMEs had slightly more difficulty obtaining finance compared to UK SMEs;
- the main reasons were that Scottish SMEs did not meet the lender's criteria and Scottish SMEs faced more difficulties as a result of their credit history;
- there is clear market failure in the supply of debt finance to SMEs with growth and export potential; and
- the 2012 Royal Society of Edinburgh report on the Financing of Business Innovation in Scotland found that young firms with growth potential are constrained by a lack of access to finance.

3.14 The assessment makes a number of recommendations including:

- the Loan Fund should be Scotland-wide, providing loans in the range £20,000 to £100,000 and should be capitalised in the range £15m-£20m (with £6m-£8m ERDF);
- any Scottish wide loan fund should be geared to fill the mid-level gap in investment;
- a national scheme at this level should bring additional benefits including:
  - fund value sufficiently large to make a measureable impact on the debt market for target SMEs;
  - uniformity of coverage;
  - economies of scale in management costs;
  - improved governance procedures;
  - subsidiary in decision making to regional and local levels;
- any national debt scheme should be delivered on a fully commercial basis, with the decisions taken by market-oriented professionals who make lending decisions on a business basis.

Demand (Local)

3.15 No market research has been carried out by the working group proposing the Fund to determine the demand for BLS loans in Shetland. In theory there should be more demand locally than other local authority areas for loans between £10,000 and £25,000 as Shetland is not part of a separate government led loan fund for lending to start up businesses.

3.16 Publically funded loans have been available in Shetland for a number of years and this service is currently provided by the Council. Consultation in 2015 with local businesses has noted a positive opinion to public loans being available. Historically there has always been a demand for loans from £20,000 to much higher levels, although in recent years the demand has been for loans above £100,000 in value.

3.17 The Shetland economy has a large business base in fisheries and agriculture. As the Fund involves ERDF grant, these two industry sectors are excluded from applying. This will reduce the proportion of the Shetland business base which is eligible for loan. Fisheries and agricultural businesses can however apply directly to the Council for loan funding.

3.18 Despite there being limited evidence of demand for the Fund in Shetland it is noted that as few as two applications could commit all of the Shetland allocation and it is not unreasonable to expect at least two applications in a 3 year period.

Measures of success

3.19 The following indicative targets have been set for the Pan-Scotland Fund over an initial three year period (subject to the approval of the Scottish Government):

- Establish a fund of £18 million;
- Support circa 450 businesses (estimated average loan value of £40,000);
- Lend 40% by value to “new” businesses;
- Lend 60% by value to “growing” businesses;
- Create/safeguard 1,800 jobs;
- Increase recipient business’ turnover by an average £150,000; and
- Achieve leverage of 1:3 from the ERDF and private sector.

3.20 Based on the above targets, and a maximum Council lending facility of £150,000 over 3 years, the Council would be aiming to support 4 business equating to circa 15 jobs created or safeguarded and total increased turnover of over £500,000.

Observations

3.21 The pan-Scotland Loan Fund is viewed as an opportunity for local government to demonstrate that it can work collectively to deliver activity in an effective and efficient manner at a national scale, and be responsive to local needs/opportunities. It also adds value to other Council Economic Development services, for example, Business Gateway, and allows the Council to offer a wider and integrated package of support to growing businesses. There is however some concern that the Fund proposal has not been 'island proofed' and it will cost Shetland Island Council representatives more to attend Board/management meetings than other local authorities.

3.22 The Council currently provides a direct lending service to local industry and a Council led project is underway to review the funding limits, policies and procedures which apply to lending. At 1 April 2015 the Council had just under £5m loaned to local businesses and a further £4.4m committed but not yet released. In addition, the Council holds a number of other assets (equities, fishing licences and quota) and liabilities (guarantees) The Pan-Scotland Fund and the lending opportunities it brings are viewed as complimentary to other Council lending activity and represents excellent leverage of European grant. The lending levels are however quite limited in comparison with existing Council lending.

3.23 Shetland's share of the fund to lend is calculated on a proportion of business base and depending on loan application amounts, would mean approximately 3-8 applications could be approved over the 3 year period. There is potential to increase the allocation for Shetland in time if demand is lower than anticipated in other local authority areas. There is also an opportunity for the fund to submit a phase 2 ERDF application.

3.24 In order to resource and staff the new Fund appropriately an assumption has been made that running costs will be 3% of the Fund annually. Pro rata, based on each local authority's share of the £18m Fund, this would mean an estimated contribution from the Council of £4,500 (£13,500 for 3 years). The fund is designed to be self-sustaining with the operational costs covered by the interest gained on loans and deposits. It is however unlikely that sufficient interest will be earned to cover all costs. Also management fees are payable at the beginning of each year and for at least year 1, the Council will be required to meet these costs. All local authority partners share the aspiration to keep the management cost as low as possible and proportionate across members. Shetland's experience from previously operated loan schemes of this size is that loans between £10,000 and £25,000 have been time consuming to manage and therefore the 3% charge is not considered unreasonable.

3.25 There are a number of benefits from collaborating with other Councils in this area. The creation of the new fund creates economies of scale by attracting additional funding, and creating and sharing systems and procedures which are common to all, while at the same time retaining the important element of local control over investment decisions. There are also training and networking opportunities for Economic Development staff.

3.26 All members of BLS have the option to increase or decrease their contribution to the Fund. The Council could choose to invest less than £45,000 but there becomes a level at which staff time spent on the scheme becomes disproportionate to the benefits. The Council could also choose to invest more than £45,000 and increase the lending capability further. This would increase the economic benefit potential but would also increase the Council funds transferred and the management costs. In the absence of proven demand this cannot be justified.

3.27 If the Council wishes to join the Loan Fund, further due diligence will be required before any cash is transferred i.e. more detail is needed on the mechanism, ongoing management fees and other operational procedures. In addition, work with partner local authorities in the Highlands and Islands will be necessary to determine how best to establish and deliver the required Regional Management Group and associated officer support grouping.

4.0 Implications

Strategic

4.1 Delivery on Corporate Priorities – Becoming a member of Business Loans Scotland Ltd will help the Council achieve the Corporate Plan 2013-2017 priority of helping build a healthy economy and strong communities. In particular the following pledge is relevant:

"continue to work with communities to identify projects which would be successful, achieve the highest possible return from community assets, strengthen communities and create jobs in remote areas".

4.2 Community/Stakeholder Issues – Identifying the most effective and efficient method for the Council to invest in local businesses will ensure that the business community receives the best service.

4.3 Policy and/or Delegated Authority – This report has been prepared with regard to the pledges contained in the Council's Economic Development Policy Statement 2013-2017. The Policy Statement was approved by the Development Committee on 14 January 2015 [Min Ref: 01/15].

There is a particular fit with:

Section 2.1 "Encourage sustainable growth in the local economy through support for business development and social enterprises", and,

Section 4.5 "Support community and commercial projects through local delivery of regional, national and EU funding programmes ".

In accordance with Section 2.3.1 of the Council's Scheme of Administration and Delegations, the Development Committee has delegated authority to implement decisions within its remit. This report has however been presented to Council due to the timings of Development Committee meetings and the need for formal approval of the proposal prior to the ERDF application being submitted in July 2015.

4.4 Risk Management As with any loans there is a possibility that the Council could suffer a loss of capital should a business default and recovery action fail.

The loan fund operates in a market where loans are offered to local companies who may have been refused commercial bank funding. The loans are therefore inherently high risk.

Risk of loan default is minimised by prudent use of credit checks. Loans will be secured by Standard Security, Bond and Floating Charge, and/or Personal Guarantee to further reduce this risk.

There is a risk of low demand for funds locally which could result in the Council investment becoming a stranded asset.

4.5 Equalities, Health and Human Rights – None.

4.6 Environmental – The matters represented in this report were considered by the working group proposing the Fund in relation to the Environmental Assessment (Scotland) Act 2005 and it was assessed that it is exempt as it does not qualify as a plan, programme or strategy.

Resources

4.7 Financial - The Council is being asked to invest £45,000 in the loan Fund.

The Medium Term Financial Plan (MTFP) contains a provision to make available £3m per annum to finance approved economic development commercial lending proposals. This however assumes that the capital will be returned and that a rate of return at least equal to the return on market investments is achieved.

The Fund is ‘evergreen’ in that the £45,000 invested would be asset locked in perpetuity and recycled for the purpose of business loan finance. Whilst there is no automatic return of funds to the Council, the proposal can be justified based on the lending opportunities which can be achieved through leverage of EU grant/bank funding and the economic benefits anticipated (as outlined in section 3.20).

If approved, the sum involved will be sourced from Medium Term Financial Plan provision, and would mean that £45,000 less is available for direct Council lending.

The management cost payable annually to BLS is estimated at £4,500 (£13,500 for 3 years). In year 1 the cost is payable at the beginning of the year and so the Council will be billed for this charge. In subsequent years it is intended that operational costs be covered by the interest gained on loans and deposits. There is no guarantee that sufficient interest will be earned to cover all these costs and the Council may have to pay a proportion directly.

These management costs and cost relating to travel from Shetland to attend any Board or management group meetings would be met from existing Economic Development budgets.

Loan application assessments will be carried out by Economic Development and Finance staff currently involved with this activity and this will be funded from the existing approved budgets.

4.8 Legal – The Loan Fund will be a company limited by guarantee called Business Loans Scotland Limited. If the Council wishes to participate in the Fund it will become a member of the company and will have an opportunity to be a Director of the company. It is proposed that this role be undertaken by the Executive Manager – Economic Development although the Council has the choice to appoint an elected Member. As a member of the company the Council would be bound by its Articles of Association and Members Agreement.

4.9 Human Resources – None.

4.10 Assets and Property – Transfer of £45,000 to the new company.

5.0 Conclusions

5.1 The proposed Loan Fund offers a chance to access European and commercial bank funding, and to build on the loan finance available to Shetland businesses. With an investment of £45,000 over 3 years, loan finance to the value of £150,000 will be secured and available to Shetland businesses.

5.2 Membership of the Fund will directly deliver on two Council Economic Development Policies – to support business development and secure maximum benefit for Shetland from the EU funding programmes. It also allows the Council to demonstrate that it can, together with its local authority partners, work collectively to deliver activity in an effective and efficient manner at a national scale and be responsive to local business needs and opportunities.

5.3 At a national level the demand for such funding exists as it is proven that there are number of market failures, affecting both the supply and demand of finance to SMEs, which can lead to potentially viable businesses not being able to access the finance they require. Demand locally is more difficult to establish but it is anticipated that applications would be received to allow the fund to be utilised for the benefit of Shetland.

For further information please contact:
Wendy Grant, Business Development Project Manager
Phone: 01595 744966
E-mail: wendy.grant@shetland.gov.uk
19 June 2015

List of Appendices

None

Background documents:

Business Loans Scotland Ltd – Business Plan 2015-18

Agenda Item
3

Shetland Islands Council

Policy and Resources Committee **29 June 2015**
Shetland Islands Council **30 June 2015**

Annual Investment and Treasury Strategy for 2015/16	
F-014-F	
Report Presented by Executive Manager Finance	**Corporate Services**

1.0 Summary

1.1 The purpose of this report is to propose an Annual Investment and Treasury Strategy for the Council for the financial year 2015/16. This report also includes certain clauses, policy statements and practices to be adopted in line with the CIPFA Code of Practice for Treasury Management in the Public Services 2011.

1.2 In line with the Scottish Minister's consent under The Local Government Investments (Scotland) Regulations 2010 an Annual Investment Strategy must be reported to the Council.

2.0 Decision Required

2.1 That the Policy and Resources Committee RECOMMENDS that the Council RESOLVES to:

2.1.1 Approve the Annual Investment Strategy Statement to be followed for the financial year 2015/16, as set out in Appendix 1 section 2.

2.1.2 Approve the Treasury Management Strategy to be followed for the financial year 2015/16, as set out in Appendix 1 section 3.

2.1.3 Approve the Treasury Management Prudential Indicators for 2014/15 to 2017/18, as set out in Appendix 1 section 4.

2.1.4 Review the four clauses within the CIPFA Code of Practice as set out in Appendix 1 section 5.

2.1.5 Review the Treasury Management Policy Statement as set out in Appendix 1 section 6, and

2.1.6 Review the Statement of Treasury Management Practices as set out in Appendix 1 section 7.

3.0 Detail

3.1 This report will address the requirements of the Scottish Minister's consent and the CIPFA Code of Practice for Treasury Management in the Public Services 2011. There are various requirements attached to the Scottish Ministers' consent, with the production of an Annual Investment Strategy duly approved by the Council each year, being central to the consent.

3.2 Other requirements of the consent involve the CIPFA Code. A key principle of the CIPFA Code is that "Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities."

3.3 In line with this principle, the CIPFA Code recommends the adoption of the CIPFA Code itself, adopted by the Council on 21 March 2012 (Min Ref 25/12), along with an annual review of the four clauses within the CIPFA Code, a Treasury Management Policy Statement and a Treasury Management Practices Statement. The schedules complying with the clauses and the statements are covered in Appendix 1 to this report.

3.4 One of the reporting requirements of the consent is to produce an Annual Investment Strategy Statement. The annual investment strategy is designed to give an integrated local authority strategy within which both its borrowing and investments are considered. As such the Scottish Ministers recommended that there be a single strategy covering capital, treasury management, the setting of prudential indicators and the requirements of the investment regulations and consent. This strategy is in Appendix 1 at sections 2, 3 and 4.

3.5 The Council has formally adopted all previous CIPFA Codes of Practice for Treasury Management, with the recent revised 2011 Code adopted on 21st March 2012 (Min Ref 25/12).

3.6 The CIPFA Code is intended to provide guidance on the best practice for treasury management, and has the support of a wide range of organisations including the Scottish Government. It defines treasury management as "The management of the organisation's 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.”

3.7 Within the CIPFA Code there are four specific clauses that are seen as essential for the effective management and control of treasury management activities. These clauses were adopted by the Council on 21st March 2012 (Min Ref: 25/12) and require to be reviewed annually. These clauses cover:

- Two documents to be created; a treasury management policy statement and a treasury management practices document
- Reporting requirements
- Delegation of responsibility
- Organisation’s responsibilities

In line with the CIPFA Code these four clauses are set out in Appendix 1 section 5, for review in line with the CIPFA Code.

3.8 The Treasury Management Policy Statement was adopted by the Council on 21st March 2012 (Min Ref: 25/12) as required by the CIPFA Code. The Treasury Management Policy Statement defines the policies and objectives of the treasury management function. The proposed Treasury Management Policy Statement for 2015/16 is in Appendix 1 at section 6. This policy statement uses a form of words as recommended by CIPFA in its Code and is subject to annual review.

3.9 The Treasury Management Practices Statement was adopted by the Council on 21st March 2012 (Min Ref: 25/12) as required by the CIPFA Code. The Practices Statement covers twelve specific areas that are relevant to the scope and powers of treasury management activities. They define and set out the general approach to be followed in treasury management. The specific details of the systems and routines to be employed and the records to be maintained, are described in more detail in a Treasury Management Procedural document, which is kept in the Treasury Section of the Finance Service.

3.10 The proposed Treasury Management Practices are subject to annual review and are in Appendix 1 at section 7. They follow a general wording in the Code of Practice amended where necessary to reflect the particular circumstances of the Council’s Treasury function.

4.0 Implications

Strategic

4.1 Delivery On Corporate Priorities – The Council’s overall investment strategy is important to the Council’s Reserves, which play a key role in helping the Council deliver its corporate objectives, as described in the Community Plan, the Corporate Plan and other strategic documents.

4.2 Community /Stakeholder Issues – None

4.3 Policy And/Or Delegated Authority – In accordance with Section 2.2.1(7) of the Council's Scheme of Administration and Delegations, the Policy and Resources Committee has delegated authority to secure the co-ordination, control and proper management of the financial affairs of the Council.

The Annual Investment Strategy is a specific plan contained within the Council’s Policy Framework set out in the Councils constitution (Part A – 3(2)) to be prepared and performance managed by the Policy and Resources Committee. Approving, adapting or amending any plan within the policy framework is reserved to full Council (Part A – 3(1)), taking advice from the Policy and Resources Committee, in accordance with Section 2.2.1 of the Council's Scheme of Administration and Delegations.

4.4 Risk Management – The annual investment strategy employed by the Council will impact on the long-term projected investment returns of the Council’s reserves, and have consequences for the daily operating cash capabilities of the Council.

As the Council reserves are used for both capital projects and ongoing revenue purposes, the returns from the external investments will have a direct impact on the Council’s future operations.

4.5 Equalities, Health And Human Rights – None

4.6 Environmental – None

Resources

4.7 Financial – Any change to an investment strategy will impact on the potential return from the investments. This has a direct impact on the Council’s budgets that include investment returns as part of the budgeted income.

4.8 Legal – As required by the consent issued by the Scottish Ministers under the Local Government Investments (Scotland) Regulations 2010 the investment strategy should be approved by the local authority (i.e. full Council or Board).

4.9 Human Resources – None

4.10 Assets and Property – None

5.0 Conclusions

5.1 This report includes at Appendix 1 the Annual Investment and Treasury Strategy for the Shetland Islands Council to be followed for the financial year 2015/16.

5.2 This investment strategy meets the requirements of the minister's consent and complies with CIPFA's Code of Practice for Treasury Management in the Public Services 2011.

5.3 The CIPFA Code also suggests that the Council should review its approved clauses, its Treasury Management Policy Statement and its Treasury Management Practices Statement which are included in Appendix 1.

For further information please contact:
Steve Whyte, Executive Manager Finance
Telephone 01595 744607
E-mail steve.whyte@shetland.gov.uk

List of Appendices

Appendix 1 – Annual Investment & Treasury Strategy 2015/16

END

Shetland Islands Council

Annual Investment & Treasury Strategy

2015-16

Securing the best for Shetland

Contents

Introduction

Regulatory requirements

1.01 This report addresses the requirements of the Scottish Minister's consent and the CIPFA Code of Practice for Treasury Management. There are various requirements attached to the Scottish Ministers' consent, with the production of an Annual Investment Strategy which requires approval by the Council each year, being central to the consent.

1.02 Other requirements of the consent involve the CIPFA Treasury Management Code of Practice. A key principle of the CIPFA Code is that "Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities."

1.03 In line with this principle the CIPFA Code recommends the adoption of the code itself, which was adopted by the Council on 21 March 2012 (Min Ref 25/12), along with an annual review of the four clauses within the code, a Treasury Management Policy Statement and a Treasury Management Practices Statement. All of these requirements are covered by this report.

Investment and Treasury Management Strategies

1.04 The Council adopted a strategic 5-year Investment Strategy for the Council's reserves in June 2013. This annual report compliments that overarching strategy and sets out the Council's approach during 2015-16 that will contribute towards the overall 5 year strategy.

1.05 In addition, this report sets out the wider Treasury Management Strategy for 2015-16 which also includes the management of cash and borrowing. The parameters around the Council's borrowing activity are set out in the Prudential Indicators section of this report.

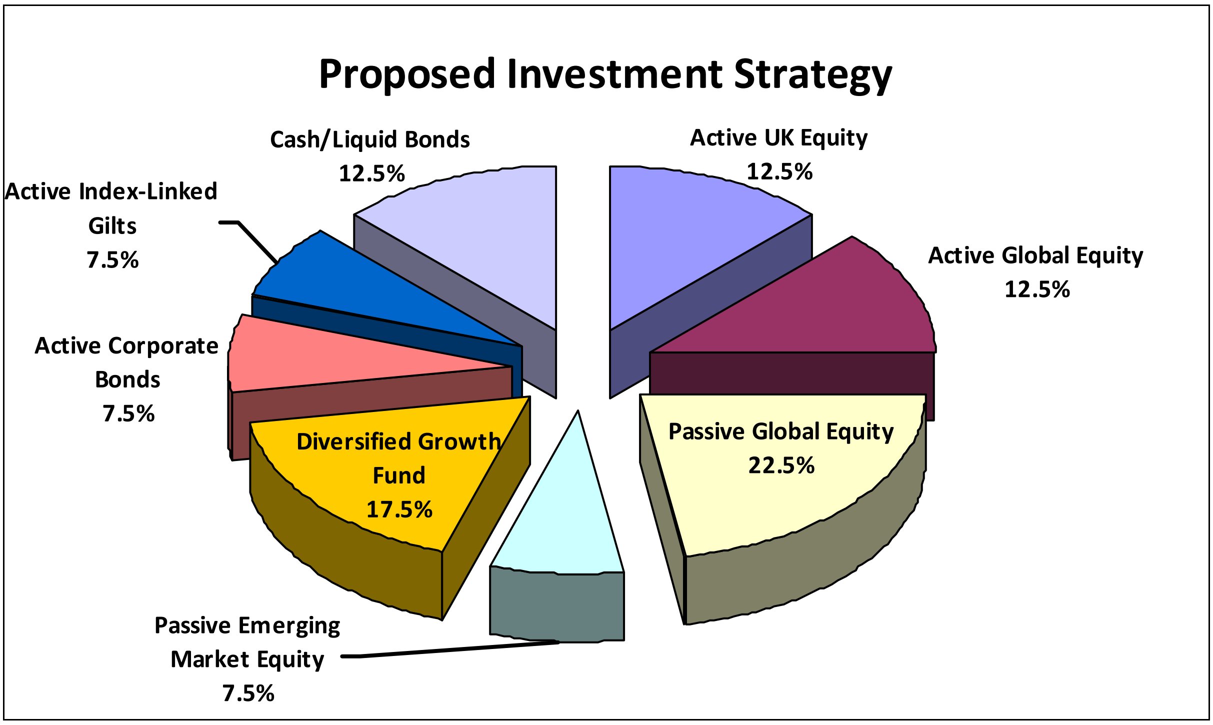
Annual Investment Strategy Statement 2015-16

Long-Term Investments

2.01 Following the adoption of the Medium Term Financial Plan (MTFP) in 2012 the Council undertook a review of its Investment Strategy during 2013/14 in order to ensure that it was aligned to the objectives of the MTFP.

2.02 As a result a new Strategic Investment Strategy 2013-2018 was adopted by the Council in June 2013, which resulted in changes in the way the Council invested its reserves with fund managers.

2.03 The proposed Investment Strategy for 2015/16 continues to follow the asset allocation agreed in June 2013, with the following asset allocation:



2.04 The percentages above are the initial benchmark percentages agreed after the reorganisation in October 2013. Throughout 2014/15 these percentages varied depending on withdrawals, market movements and investment returns. These fluctuations are expected over the short term.

2.05 There is no intention to rebase back to the initial percentages, as this would incur additional transaction costs. Any large variations from the benchmark can be controlled when making withdrawals and injections of funds. The fund managers will continue to invest during 2015/16 as per their investment percentage position and these are constantly monitored by the Council's Treasury function.

2.06 In addition, it should be noted that the cash/liquid bond allocation was designed as the asset class that would be targeted for withdrawals when cash is needed to meet current council expenditure. This is because it is guaranteed not to lose its capital value, thus eradicating the risk of incurring losses when selling investments to meet current expenditure needs. It should therefore be expected that this asset allocation will shrink as an overall percentage of the portfolio during 2015-16.

2.07 The current percentage of funds under management for each fund manager at 31 March 2015 was:

General Fund	**%**
Active UK Equities – Baillie Gifford	14.2
Active Global Equities – Baillie Gifford	14.6
Passive Emerging Market Equities – BlackRock	8.6
Passive Global Equities - BlackRock	25.4
Diversified Growth Fund – Baillie Gifford	19.1
Active Corporate Bonds – Insight	8.1
Active Index-linked Gilts – Insight	4.6
Cash/Liquid Bonds – Insight	5.4
TOTAL	100

2.08 All long-term investments that are managed externally by fund managers are held for the purpose of achieving an investment return. To this end all investments are managed in a way that minimizes the risk to the capital sum and optimises the return on the investment consistent with those risks. This involves setting benchmarks for each fund and for each unitised product within the funds. These benchmarks (market indexes) are used to evaluate the performance of each investment against their investment market, with large deviations both above and below these markets questioned similarly.

2.09 All of the long-term investments with “active” mandates require the fund manager to have an investment return target above the benchmark return. The target is a level of out performance above the benchmark that is seen as achievable with a low level of measured risk on a given mandate. The Manager will actively seek to produce investment returns in order to achieve the stated target. Performance at or above target is desirable but any returns above the benchmark will add value to the fund above the market return.

2.10 In addition to these long term investments, the Council also has a portfolio of local investments. These investments predominantly take on the form of loans to local businesses. The Medium Term Financial Plan sets out the criteria for awarding these loans which states that the Director of Development Services and Executive Manager – Finance must agree that –

- The loan will generate the Council a rate of return at least equal to the markets in which the Council currently invests; and
- Due diligence work has been undertaken to ensure that any loan granted is at an acceptable risk level to the Council.

2.11 The proposed investment strategy for 2015-16 proposes to continue to adhere to the principles of the Medium Term Financial Plan, with a minimum interest rate set at 5.1% for the forthcoming financial year, which is equal to average fund manager returns (net of fees).

2.12 In addition the Economic Development Department will ensure compliance with the State Aid Regulations.

Short-Term Investments

2.13 Short–term investments are held in cash, either with the Council's bank or on short-term deposits. These are managed by the Council's Treasury function on a daily basis to ensure the efficient operation of Council activities.

Permitted Investments

2.14 Every mandate the Council awards to a fund manager is finalised by both the Council and the fund manager entering into an Investment Management Agreement. This agreement covers all aspects of the mandate, including the type of investments to be held and the minimum and maximum investment levels allowed. Any breach of these set levels must be reported immediately by the fund manager and rectified as soon as practical. No rebasing of the asset class allocation split shall take place during 2015/16 unless with the approval of the Council.

2.15 On an annual basis each fund manager makes available their internal controls report. These reports are produced by their respective external auditors, and review all aspects of the fund manager's operating controls, with any concerns and weaknesses reported. The reports are reviewed by Treasury within Finance annually, with any concerns or issues identified that may impact on the Council reported accordingly.

2.16 The Council does not impose ethical views on fund managers within the Investment Management Agreement. The Council does not place constraints on a fund manager in relation to actual investment decisions, as it would affect the long-term projected investment returns, and the budget set by the Council. The fund manager, within the criteria stated in the Investment Management Agreement, makes investment decisions.

2.17 The Council's current investment strategy set general investment asset class levels, though these are flexible due to money movements and investment income.

Responsible Investment

2.18 Whilst the fund managers have delegated powers for the acquisition and realisation of investments, fund managers will be expected as part of their investment process to consider all factors, including the social, environmental and ethical policies of companies in which they may invest, to the extent that these may materially affect the long term prospects of such companies. The fund managers will also be expected to enter into dialogue with companies in which they invest, in relation to the pursuance of socially responsible business practices, and report on these activities.

2.19 Corporate Governance is a key responsibility for institutional shareholders and as a matter of principle the Council will seek to exercise all of its voting rights in respect of its shareholdings. It is recognised however that in practical terms this may not always be possible for overseas holdings. However for UK stocks all voting rights will be exercised in a positive fashion, i.e. no abstentions.

2.20 The fund managers, who will act in accordance with this policy, will exercise voting.

2.21 Baillie Gifford, BlackRock and Insight have signed up to the United Nations Principles on Responsible Investment. The principles reflect the view that environmental, social and corporate governance (ESG) issues can affect the performance of investment portfolios, and therefore must be given appropriate consideration by investors, if they are to fulfil their fiduciary (or equivalent) duty. The Principles provide a voluntary framework by which all investors can incorporate ESG issues into their decision-making and ownership practices, and so better align their objectives with those of society at large.

Risk Management

2.22 The authority's investments and financial activities expose it to a variety of financial risks:

- Credit risk – the possibility that other parties might fail to pay amounts due to the authority
- Liquidity risk – the possibility that the authority might not have funds available to meet its commitments to make payments
- Market risk – the possibility that financial loss might arise for the authority as a result of changes in such measures as interest rates and stock market movements

2.23 The authority's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by the Treasury Service, under policies approved by the Council in the Investment Strategy Statement.

Credit Risk

2.24 Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the authority's customers. Deposits are not made with banks or financial institutions unless they meet one of the following categories:

- A Bank or Building Society with at least a A- long term Fitch rating
- Bank of Scotland – Council's own bank
- Any bank which is a wholly owned subsidiary of the above
- Any Local Authority

2.25 The A- long term rating is defined by Fitch as "High credit quality with a low expectation of default risk. The capacity for payment of financial commitments is considered strong." An approved lending list of the financial institutions that meets this criteria will be maintained and displayed in Treasury.

2.26 In addition the following guidelines will apply:

- No more than £3 million to be lent to any single organisation from one account, apart from the Council's own bank.

- No more than £6 million to be lent to any one organisation in total from all accounts, apart from the Council's own bank.

2.27 At the 31 March 2015 the Council had deposits and short-term loans with the Council's own bank, amounting to £4.1 million. The Council's exposure to credit risk on these current deposits is very low based on the last five financial year's experience, where no default or loss has occurred.

Liquidity Risk

2.28 The authority has external investments with fund managers amounting to £278 million at the 31 March 2015. The authority has ready access to these funds, so there is no significant risk that it will be unable to meet its daily operating commitments.

Market Risk

2.29 The authority is exposed to significant risk in terms of its exposure to cash interest rates, the bond market and the equity markets. Movements in interest rates, bond values and share prices have a complex impact on the authority's investments. To limit the effect of these movements the investment portfolio is diversified to reduce exposure to any one market. The investment portfolio at the 31 March 2015 is diversified between the following main markets:

UK Equities

Overseas Equities

Index Linked Gilts

Corporate Bonds

Cash

The Diversified Growth Fund with Baillie Gifford was invested in 15 different asset classes at 31st March 2015.

2.30 The largest investment is in the Equity markets, about 63% of the Council's Reserves.

Foreign Exchange Risk

2.31 The authority has overseas equities and bonds that are denominated in foreign currencies. The exposure to risk of loss in adverse movements in exchange rates can be reduced by the fund managers, through the use of currency hedging strategies to specifically negate any currency movement impact.

Treasury Management Strategy 2015-16

Treasury Management

3.01 Treasury Management is defined as the management of an organisation's investments, cash flows, 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.

3.02 The Treasury Management Strategy details the activities and guidelines to be followed by the Treasury Section for all areas of cash management in the forthcoming financial year 2015/16. Its production and submission to the Shetland Islands Council is a requirement of the CIPFA Code of Practice for Treasury Management in the Public services.

Cash and Bank

3.03 Cash Management for the Shetland Islands Council is carried out within the Treasury Section of Finance Services, and consists of the daily management of various bank accounts and any associated short-term lending.

3.04 The Treasury Section of Finance Services seeks to retain a daily cash balance no lower than £2m in order to ensure that there is sufficient cash available to meet all liabilities as they fall due. The balances on the Council's current account earn an annual return of 0.5%, and as such it is important to ensure that no excess balances are held in the Council's current account as the returns are far lower than those that can be earned with fund managers.

3.05 There is an agreed overdraft facility with the bank of £800,000 that can be used to cover the accounts managed by Treasury, for any short-term situations if required. However, the Treasury Section seeks to avoid such situations as bank charges will be applied should the current account balance become overdrawn.

Debt Management

3.06 Debt Management is also carried out within the Treasury Section, and this will be undertaken in line with the Borrowing Policy and Strategy as agreed by Council in December 2013, and the Prudential Indictors as set out in Section 4 of this report.

3.07 This report also seeks Council approval to provide the Executive Manager – Finance delegated authority to undertake short term borrowing of no longer than 364 days in order to provide greater flexibility to the Treasury Section for managing cash-flow efficiently for payments as they fall due.

3.08 The limits requested for short term borrowing of up to 364 days are included in the Prudential Indicators (Indicator 4 *Authorised Limit for External Debt* and Indicator 5 *Operational Boundary for External Debt*).

3.09 At present it is possible to obtain short term borrowing from other local authorities at an annual interest rate of less than 1%. There may be times during the year that it is more cost effective for the Council to borrow in order to meet a cash shortfall, such as the payment of salaries, rather than automatically recall the money from the externally invested reserves. The Executive Manager – Finance will determine if an when this is the most appropriate course of action.

Treasury Management Prudential Indicators 2014-15 to 2017-18

Prudential Framework

4.01 The Local Government in Scotland Act 2003 repealed Section 94 of the Local Government (Scotland) Act 1973. Sections 35 to 37 of the 2003 Act introduced a responsibility for local authorities to locally determine the level of capital investment. Regulations introduced under the Act required that local authorities should adhere to The CIPFA Prudential Code for Capital Finance in Local Authorities.

4.02 The Prudential Code was introduced in April 2004, effectively replacing the Capital Expenditure controls within section 94 where ministerial consent was required before any capital expenditure could be incurred. In addition, there was a restriction on the commitment to capital expenditure for future years and a control over the actual financing of the capital expenditure. The 'prudential framework' (or prudential regime) is the collective term for legislation, regulation and the Code under which local authorities will operate.

4.03 The introduction of the Prudential Code brought much greater flexibility for Councils to develop capital programmes to support their local communities. The key watchwords within the Prudential Code are:-

- Affordability
- Prudence
- Sustainability.

4.04 The Prudential Code provides a framework for the internal control and self-management of capital finance, and in turn the key items of expenditure that will normally govern the bulk of an authority's potential need to borrow. It does also refer to the fact that forward estimates of external debt, defined in part as actual external borrowing, will follow on from an authority's capital plans and revenue forecasts, under their treasury management strategy. The Prudential Code also requires that the underlying commitment to finance leases and similar contracts is recognised when setting the indicators.

4.05 It is understandable that the Prudential Code seeks to concentrate primarily upon a need for an authority to ensure that its capital spending plans are affordable, as it is these plans that will, in general, be the main driver of an authority's need to undertake or increase the amount of external borrowing. The opening paragraph of the Executive Summary makes clear its overriding objective, namely "The Prudential Code plays a key role in capital finance in local authorities", whilst paragraph 7 of its Objectives states that it focuses on capital finance and effective capital planning. The Prudential Code perhaps sums up the overall situation regarding the consideration of affordability in paragraph E12, wherein it states – "affordability is ultimately determined by a judgement about acceptable council tax levels".

4.06 The Council's capital expenditure plans are the key driver of treasury management activity. The outputs from the capital expenditure plans are reflected in Prudential Indicators, which are designed to assist Members overview and confirm capital expenditure plans.

4.07 In setting their prudential limits, Members must have regard to:

- Affordability e.g. implications of capital plans for council tax and council housing rents.
- Prudence and sustainability, e.g. implications of external borrowing and an assessment of borrowing costs and interest rate forecasts/expectations.
- Value for money, e.g. options appraisal.
- Stewardship of assets, e.g. asset management planning.
- Service objectives, e.g. strategic planning for the authority.
- Practicality, e.g. achievability of the forward plan.

Prudential Indicators

4.08 It is proposed that the Prudential Indicators for Shetland Islands Council for 2014-15 to 2017-18 should be as follows:

1. Ratio of Financing Costs to Net Revenue Stream

Definition

General Fund – The proportion of the General Fund income from the Council's General Revenue Grant (including NNDR) and Council Tax income to fund the debt financing costs (interest and Principal Repayments) of the planned capital programme.

Housing Revenue Account – The proportion of income to the HRA (substantially Housing Rents) to fund the debt financing costs (interest and Principal Repayments) of the planned capital programme.

Ratio of Financing Costs to Net Revenue Stream				
	2014/15 Actual	**2015/16 Estimate**	**2016/17 Estimate**	**2017/18 Estimate**
General Fund	0.7%	1.6%	1.8%	1.9%
HRA	26.7%	23.8%	23.1%	22.1%
Harbour Account	7.3%	6.7%	4.5%	3.2%

2. Capital Expenditure

Definition
Estimated capital expenditure for the next 3 years' capital programme, as set out in the Council's Asset Investment Plan.

Capital Expenditure				
	2014/15 £'000 Actual	**2015/16 £'000 Estimate**	**2016/17 £'000 Estimate**	**2017/18 £'000 Estimate**
General Fund	10,114	30,391	42,218	6,927
HRA	2,286	1,728	1,200	1,200
Harbour Account	61	267	,140	140

3. Gross Borrowing and the Capital Financing Requirement

Definition
The CFR represents the underlying need to borrow for a capital purpose. As the Council should only borrow for a capital purpose, net external borrowing should not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

Capital Financing Requirement				
	2014/15 £'000 Actual	**2015/16 £'000 Estimate**	**2016/17 £'000 Estimate**	**2017/18 £'000 Estimate**
General Fund	8,787	27,071	30,231	30,014
HRA	15,028	13,828	12,742	11,656
Harbour Account	11,318	10,556	9,794	9,032
Total	**35,133**	**51,455**	**52,767**	**50,702**

4. Authorised Limit for External Debt

Definition
Limit for total external debt that should not be breached. This excludes investments and is based on future capital plans and variations in cash flow.

Authorised Limit for External Debt				
	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000
Operational Boundary	21,563	37,061	38,372	36,307
10% Margin	2,156	3,706	3,837	3,631
Total	**23,719**	**40,767**	**42,209**	**39,938**

5. Operational Boundary for External Debt

Definition

A boundary for total external debt based on the estimate of total projected external debt to be monitored against during the year. It may be breached temporarily for variations in cash flow but a sustained or regular breach would require investigation.

Operational Boundary for External Debt				
	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000
Borrowing	15,559	31,147	32,554	30,590
Other Long Term Liabilities	6,004	5,914	5,818	5,718
Total	**21,563**	**37,061**	**38,372**	**36,307**

6. Actual External Debt at 31 March 2015

Definition

The actual external debt taken from the unaudited Balance Sheet as at 31st March 2015.

Actual External Debt	
	2014/15 £'000
Borrowing	31,000
Other Long Term Liabilities	6,004
Total	**37,004**

7. Upper limit on Interest Rate Exposures

Definition

Ranges within which the Council will manage its exposures to fixed and variable rates of interest. Whilst the Council could obtain more favourable interest rates with a variable rate, it increases the longer term risk of rates rising beyond a fixed rate.

It is calculated as a percentage of total net outstanding principal sums of debt.

	2014/15 Estimate £'000	2015/16 Indicative £'000	2016/17 Indicative £'000	2017/18 Indicative £'000
Fixed interest rate exposures	100%	100%	100%	100%
Variable interest rate exposures	40%	40%	40%	40%

8. Maturity Structure of Borrowing

Definition

Upper and lower limits to assist the Council to avoid large concentrations of fixed rate debt that has the same maturity structure and would therefore need to be replaced at the same time. This is the fixed rate debt maturing in each period as a percentage of total projected borrowing that is fixed rate.

	Lower Limit	Upper Limit
Under 12 months	0%	25%
12 months and within 24 months	0%	30%
24 month and 5 years	0%	50%
5 year and within 10 years	0%	70%
10 years and above	0%	100%

CIPFA Code of Practice

5.01 The CIPFA Code of Practice for Treasury Management in the Public Services 2011 states as a key principle, "Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities."

5.02 The following four clauses as recommended by the CIPFA Code were adopted by the Council on 21st March 2012 (Min Ref: 25/12). These clauses reinforce the Code's key principle for effective management and control. As per the CIPFA Code it is recommended that these clauses are reviewed annually.

Clauses

1. This organisation will create and maintain, as the cornerstones for effective treasury management:
   - a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
   - suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities

   The content of the policy statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of this organisation. Such amendments will not result in the organisation materially deviating from the Code's key principles.

2. Shetland Islands Council will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

3. Shetland Islands Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Policy and Resources Committee, and for the execution and administration of treasury management decisions to the Executive Manager – Finance, who will act in accordance with the organisation's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

4. This organisation nominates the Policy and Resources Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

Treasury Management Policy Statement

6.01 As part of the adoption of the CIPFA Code of Treasury Management in the Public Services the Council is required to produce and approve a Treasury Management Policy Statement, stating the policies and objectives of its treasury management activities. This policy statement follows a form of words as recommended by CIPFA in its Code of Practice for Treasury Management in the Public Services, and is subject to annual review.

6.02 The Shetland Islands Council defines its treasury activities as:

> "The management of the authority's 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".

6.03 The Shetland Islands Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

6.04 The Shetland Islands Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

6.05 The Prudential Code 2009 removed limits on Council's on borrowing to finance capital expenditure, though this is balanced by additional responsibility to act prudently, and to take account of affordability when making decisions on borrowing. The Shetland Islands Council in compliance with the Prudential Code has set borrowing indicators at section 4.08.

6.06 All investments are held for the purpose of achieving an investment return. To this end all investments are managed in a way that minimises the risk to the capital sum, and optimises the return on the investments consistent with those risks.

Statement of Treasury Management Practices

7.01 The Council Adopted the CIPFA Code of Treasury Management in the Public Services on the 21 March 2012 (Min Ref: 25/12), along with this code were four clauses, which were also formally adopted. Within these clauses the following was stated that this organisation will create and maintain, as the corner stones for effective treasury management, suitable treasury management practices (TMP's), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities."

7.02 The following TMP's are recommended by CIPFA as relevant to an organisations treasury management powers and the scope of its treasury management activities.

TMP1 Treasury Risk Management

The Executive Manager – Finance will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the Council's objectives in this respect, all in accordance with the procedures set out in *TMP6 Reporting Requirements and Management Information Arrangements*.

In respect of each of the following risks the arrangements which seek to ensure compliance with these objectives are set out in the schedule to this document.

1. <u>Credit and Counterparty Risk Management</u>

The risk of failure by a counterparty to meet its contractual obligations to the Council under an investment, borrowing, capital project or partnership financing, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the Council's capital or current (revenue) resources.

This Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 Approved Instruments Methods And Techniques and listed in the schedule to this document.

2. <u>Liquidity Risk Management</u>

The risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the Council's business/service objectives will be thereby compromised.

This Council will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives.

3. Interest Rate Risk Management

The risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the Council's finances, against which the Council has failed to protect itself adequately.

This Council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with TMP6 reporting requirements and management information arrangements.

It will achieve this by the prudent use of its approved instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be subject to the consideration and, if required, approval of any policy or budgetary implications.

4. Exchange Rate Risk Management

The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.

This Council will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

5. Legal and Regulatory Risk Management

The risk that the Council 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 Council suffers losses accordingly.

This Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities.

This Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the Council.

6. Fraud, Error and Corruption and Contingency Management

The risk that a Council fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk commonly referred to as operational risk.

This Council will ensure that it has identified the circumstances that may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

7. Market Risk Management

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.

This Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect the Council from the effects of such fluctuations.

TMP2 Performance Measurement

This Council is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its Treasury Management Policy Statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the Council's stated service objectives. There will be regular review of the scope for potential improvements.

TMP3 Decision-Making and Analysis

This Council will maintain full records of its major treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed in the schedule to this document.

TMP4 Approved Instruments, Methods and Techniques

This Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the schedule to this document, and within the limits and parameters defined in TMP1 Treasury Risk Management.

TMP5 Organisation, Clarity and Segregation of Responsibilities and Dealing Arrangements

This Council considers it essential, for the purposes of effective control and monitoring of its treasury management activities, for the reduction of risk of fraud and error and for the pursuit of optimum performance that these activities are structured and managed in a fully integrated manner and that there is at all times clarity of treasury management responsibilities.

The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with the implementing and controlling of these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions and the audit and review of the treasury management function.

If the Council intends as a result of lack of resources or other circumstances to depart from these principles, the Executive Manager – Finance will ensure that the reasons are properly reported in accordance with TMP6 Reporting Requirements and Management Information Arrangements, and the implications properly considered and evaluated.

The Executive Manager – Finance will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management and the arrangements for absence cover. They will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out. The present arrangements are detailed in the schedule to this document.

The Executive Manager – Finance will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the schedule to this document.

TMP6 Reporting Requirements and Management Information Arrangements

This Council will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and the transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum the Executive Committee will receive:

- An annual report on the strategy and plan to be pursued in the coming year.
- A mid-year review.
- An annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the Council's Treasury Management Policy Statement and Treasury Management Practices.

TMP7 Budgeting, Accounting and Audit Arrangements

The Executive Manager – Finance will prepare, and this Council will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at a minimum be those required by statute and regulation, together with such information as will demonstrate compliance with TMP1 Treasury Risk Management, TMP2 Performance Measurement, and TMP4 Approved Instruments, Methods and Techniques.

The Executive Manager – Finance will exercise effective controls over this budget and will report upon and recommend any changes required in accordance with TMP6 Reporting Requirements and Management Information Arrangements.

This Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force.

This Council will ensure that its auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as necessary for the proper fulfilment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices.

TMP8 Cash and Cash Flow Management

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under the control of the Executive Manager – Finance, and will be aggregated for cash flow and investment management purposes. Cash Flow projections will be prepared on a regular and timely basis to ensure that these are adequate for the purposes of monitoring compliance with TMP1 (1.2) Liquidity Risk Management. The present arrangements for preparing cash flow projections, and their form, are set out in the schedule to this document.

TMP9 Money Laundering

This Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed in the schedule to this document.

TMP10 Staff Training and Qualifications

The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

Training may also be provided on the job and it will be the responsibility of the Executive Manager – Finance to ensure that all staff under their authority receives the level of training appropriate to their duties. This will also apply to those staff who, from time to time cover for absences from the treasury management team. The Executive Manager – Finance will recommend and implement the necessary arrangements.

TMP11 Use of External Service Providers

This Council recognises that responsibilities for treasury management decisions remain with the organisation at all times. It recognises that there may be potential value in employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such services providers, it will ensure it does so for reasons which will have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed and properly agreed, documented, and subjected to regular review. It will ensure, where feasible and necessary, that a spread of service providers is used, to avoid over reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the Executive Manager – Finance, and details of the current arrangements are set out in the schedule to this document.

TMP12 Corporate Governance

This Council is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

This Council has adopted and has implemented the key principles of the CIPFA Code. This, together with the other arrangements detailed in the schedule to this document, are considered vital to the achievement of proper corporate governance in treasury management, and the Executive Manager – Finance will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

The Executive Manager – Finance will maintain, separate from this document, schedules specifying the systems and routines to be employed and the records to be maintained to ensure adherence to these principles.

Agenda Item

4

Shetland Islands Council

Shetland Islands Council **30 June 2015**

Chair's Report – Development Committee – 15 June 2015
Report No. SIC–0630-DV36

Onshore Wind Energy Supplementary Guidance

1.0 Summary

1.1 The purpose of this report is to consider the recommendation from the Chair of the Development Committee in relation to a report requiring a Council decision.

1.2 The Committee considered a report which presented the supplementary guidance (SG) on Onshore Wind Energy developments. The document, if adopted by the Council, will provide policy context and guidance to developers proposing Onshore Wind Energy Developments. The document will form part of the Local Development Plan (LDP) and the wider planning application decision making process and therefore should be read in conjunction with the LDP and other relevant Supplementary Guidance documents

2.0 Decision Required

2.1 That the Council RESOLVES to adopt the SG Onshore Wind Energy.

3.0 Report

3.1 Supplementary Guidance expands upon existing policies and proposals and is used to support the content of the LDP. This provides more detail and guidance to the Council and others when considering the impacts of development on the environment and to the public and developers when they are formulating proposals for development.

3.2 In accordance with Policy RE1 in the Shetland Local Development Plan (LDP) and Scottish Planning Policy (SPP) SG has been produced for Onshore Wind Energy Development.

3.3 On 6 October 2014, the Development Committee approved the Draft Onshore Wind Energy SG subject to a period of public consultation (Min ref: 38/14). A range of consultation responses were received from a total of 20 representees.

3.4 The redrafted SG (Appendix 2 to the original report) has been prepared in line with the latest statement of SPP and as such contains the Spatial Framework for Onshore Wind Energy developments over 20MW in Shetland and a number of detailed policies relating to onshore wind energy development in accordance with paragraph 169 of SPP. These Policies will form the basis for development management decisions in relation to onshore wind energy proposals alongside the policies contained within the LDP and other relevant Supplementary Guidance documents. The document also contains a section directing developers to useful guidance and best practice.

3.5 This SG was the subject of a 10 week consultation period with the public and stakeholders. A summary table of replies received during this consultation together with officer responses and recommended actions, were included at Appendix 1 to the original report. All comments and suggestions have been considered and any necessary changes have been made during the final drafting of the document.

3.6 The Chair will present any further information to the Committee as to the debate or the issues that the Committee considered.

4.0 Implications

4.1 Detailed information concerning the proposals was contained within the report already circulated to Members, including the strategic and resources implications for the Council.

4.2 There are no additional implications to be considered by the Council, other than those set out in the report.

For further information please contact:

Mr A Cooper, Chair of Development Committee
15 June 2015

List of Appendices
None

Background documents:
Development Committee – 15 June 2015

http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=4742
END

Appendix

5

Shetland Islands Council

Shetland Islands Council **30 June 2015**

Joint Chair's Report: Shetland College Board – 28 May 2015
& Policy and Resources Committee – 22 June 2015
Shetland College Fees 2015/16
Report No. SIC–0630-SCB082

1.0 Summary

1.1 The purpose of this report is to consider recommendations from the Shetland College Board and Policy and Resources Committee in relation to a report requiring a Council decision.

1.2 The Board and Committee considered a report which presented a proposal to approve the course fees for the academic session 2015/16.

2.0 Decision Required

2.1 That Shetland Islands Council RESOLVE to approve the course fees for the academic session 2015/16.

3.0 Report

3.1 The report outlined that whilst some of the College's course fees are set by the main awarding bodies - the Scottish Qualifications Authority (SQA) and by UHI centrally - the College is required to review and set the remaining course fees annually.

3.2 In line with national benchmarks, course fees have been increased by approximately 5% for academic session 2015/16. Historically course fee increases have been levied below the rate of inflation at Shetland College, so this increase in course fees represents an appropriate catch-up.

3.3 The only exceptions to the proposed fees increase (highlighted on Appendix 1) are Maths National 4 and Maths National 5, where it is proposed to reduce course fees for these to try to attract more students as the current pricing system appears to have deterred students from taking up this subject, and in line with Scottish Government's requirement to try to increase student numbers in relation to Science, Technology and Mathematics (STEM) subjects

A reduction in the following evening class rates is also proposed, for consistency with those proposed by Adult Learning:

Care National 5
Care Higher
Childcare Development Higher
Psychology Higher
Sociology Higher

A reduction in Care National 5 and Highers is also proposed in an attempt to increase day release and evening class student numbers on these courses.

3.4 Copies of the report have been previously circulated or can be accessed via the Council's website at the link shown below, or by contacting Committee Services.

3.5 The Chairs will present any further information to the Council as to the debate or issues that the Board and the Committee considered.

4.0 Implications

4.1 Detailed information concerning the proposals was contained within the report already circulated to the Board and Committee, including the strategic and resources implications for the Council.

4.2 There are no additional implications to be considered by the Council.

For further information please contact:

Mr P Campbell, Chair of the Shetland College Board
Mr G Robinson, Chair of Policy and Resources Committee
22 June 2015

List of Appendices
Appendix 1 – Shetland College Fees 2015/16

Background documents:
Shetland College Board – 28 May 2015
http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=17883

Policy and Resources Committee – 22 June 2015
http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=4751

END

University of the Highlands and Islands
Shetland College

Term Dates 2015/16 ***(all term dates in line with Shetland school term dates except for Tues 5 Jan start in line with UHI date)***

	Term 1	**Term 2**	**Term 3**	**Term 4**
Students	Monday 31 August 2015 - Friday 09 October 2015 (FE courses induction and start/HE induction)	Monday 26 October 2015 - Monday 21 December 2015	Tuesday 05 January 2016 - Friday 25 March 2016 ***(Tues 5 Jan start in line with UHI date)***	Monday 11 April 2016 - Friday 01 July 2016
Lecturers	Monday 17 August 2015 - Friday 9 October 2015	Monday 26 October 2015 - Monday 21 December 2015	Tuesday 05 January 2016 - Friday 25 March 2016	Monday 11 April 2016 - Friday 01 July 2016
	40days	*41 days*	*59 days*	*60 days*

Shetland Schools	Monday 17 August 2015 - Friday 9 October 2015	Monday 26 October 2015 - Tuesday 22 December 2015	Wednesday 06 January 2015 - Friday 25 March 2015	Monday 11 April 2016 - Friday 01 July 2016

UHI Semester Dates	Semester 1 - HN Provision	Semester 2 - HN Provision
	Monday 07 September 2015 - Friday 22 January 2016	Monday 25 January 2016 - Friday 03 June 2016
	Semester 1 - all UG/PGT Degree Provision	Semester 2 - all UG/PGT Degree Provision
	Monday 07 September 2015 - Friday 11 December 2015	Monday 25 January 2016 - Friday 13 May 2016
	October Reading Week - 12-16 October 2015	

In-service dates - 17 - 21 August 2015

Up Helly Aa holiday Wednesday 27 January 2016 - if lecturing staff take this as a holiday, they must make up these hours at another time throughout the session

Agenda Item

6

Shetland Islands Council

Shetland Islands Council **30 June 2015**

Joint Chair's Report – Environment and Transport Committee – 15 June 2015 and Policy and Resources Committee – 22 June 2015
Report No. SIC–0630-TP-10

Inter Islands Ferry Fares Review

1.0 Summary

1.1 The purpose of this report is to consider recommendations from the Chairs of the Environment and Transport Committee and Policy and Resources Committee in relation to report requiring a Council decision.

1.2 The Committees considered a report on the Inter Islands Ferry Fares Review that set out the objectives to be addressed in the review.

1.3 The Committees RESOLVED to:

- Note that it is not possible to introduce widespread fare reductions for commuters or island residents, without negatively impacting income generation;

- Note that as a means of ensuring that ferry fares can be maintained at current levels an immediate priority is to address revenue security and revenue management to ensure that all income due to the Council is collected;

- Note that steps have already been taken to modify ticket collection methods on ferries to improve revenue recovery;

- Note that a pilot project is being developed to establish processes and systems to enable smart and integrated ticketing capabilities on buses and ferries. This will significantly improve revenue security and management as well as providing opportunities for different fare structures to be developed and introduced in the future;

2.0 Decision Required

2.1 That the Council **RESOLVE** that:

2.1.1 the fare for a standard vehicle journey to Fair Isle or Foula is reduced from £25.30 each way to £6.80 each way, in line with prices in Skerries and Papa Stour;

2.1.2 the fare for a commercial vehicle journey to Fair Isle or Foula is reduced from £100 each way to £13.80 each way, in line with prices in Skerries and Papa Stour; and

2.1.3 a multi-journey motorcycle ticket is introduced at £67.80 for 10 return journeys.

3.0 Report

3.1 The Inter Island Ferries Fares Review has concluded that it is not possible to introduce any meaningful fare reductions for commuters or island residents.

3.2 Improvements in ticket infrastructure and processes are necessary to significantly improve revenue security, which will provide a sufficiently secure and capable platform on which to develop, implement and manage alternative fare structures.

3.3 With improvements to ticketing procedures and the development of improved ticketing infrastructure (which will be supported by Transport Scotland) it will be possible to at least maintain fare levels through improved revenue collection.

3.4 Fare levels will be considered as part of the ongoing work with Scottish Government and Transport Scotland and Members will have the opportunity to further consider this matter towards the end of the current financial year.

4.0 Implications

4.1 Detailed information concerning the proposals are contained within the report already circulated to Members, including the strategic and resources implications for the Council.

4.2 There are no additional implications to be considered by the Council.

For further information please contact:

Mr M Stout, Chair of Environment and Transport Committee
Mr G Robinson, Chair of Policy and Resources Committee

22 June 2015
List of Appendices
None

Background documents:
Environment and Transport Committee – 15 June 2015
http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=4732

Policy and Resources Committee – 22 June 2015
http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=4751
END