Shetland Islands Council

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Date: 27 February 2019

Dear Sir/Madam

You are invited to the following meeting:

Shetland Islands Council
Council Chamber, Town Hall, Lerwick
Wednesday 6 March 2019 at 2 p.m.

Apologies for absence should be notified to Leisel Malcolmson at the above number.

Yours faithfully

Executive Manager – Governance and Law

Convener: M Bell
Depute Convener: B Wishart

AGENDA

(a) Hold circular calling the meeting as read.

(b) Apologies for absence, if any.

(c) Declarations of Interest - Members are asked to consider whether they have an interest to declare in relation to any item on the agenda for this meeting. Any Member making a declaration of interest should indicate whether it is a financial or non-financial interest and include some information on the nature of the interest. Advice may be sought from Officers prior to the meeting taking place.

1 Management Accounts for Community Health and Social Care 2018/19 – Projected Outturn at Quarter 3
F-019

2 SIC Overall Management Accounts 2018/19 - Projected Outturn at Quarter 3
F-005

3 Asset Investment Plan – Progress Report
CPS-02-19

4 Annual Investment Strategy for 2019-20
F-028

5 Corporate Risk Register
CRP-03

The following item contains EXEMPT information

6 Confidential Corporate Risk Register
CRP-04

Shetland Islands Council

Agenda Item

1

Meeting(s):	Policy and Resources Committee Shetland Islands Council	Date: 6 March 2019
Report Title:	Management Accounts for Community Health and Social Care Directorate 2018/19 – Projected Outturn at Quarter 3	
Reference Number:	F-019	
Author / Job Title:	Jamie Manson, Executive Manager - Finance	

1.0 Decisions / Action required:

1.1 The Policy and Resources Committee RESOLVES to review the Management Accounts for the Community Health and Social Care Directorate showing the projected outturn position at Quarter 3.

1.2 The Policy and Resources Committee RECOMMEND to the Council that it approves an increase in the payment for 2018/19 to the Community Health and Social Care Partnership Integration Joint Board of £120k, recognising the transfer of Cost Pressure and Contingency budget held by the Council and other budget changes, as detailed at 4.3 below. This will increase the payment for 2018/19 to £21.075m.

1.3 That the Policy and Resources Committee agree the actions set out by the Director of Community Health and Social Care in paragraph 4.6 to mitigate the projected overspend.

2.0 High Level Summary:

2.1 The purpose of this report is to enable the Policy and Resources Committee to monitor the financial performance of services within the Community Health and Social Care (CH&SC) Directorate to ensure that Members are aware of the forecast income and expenditure and the impact that this will have with regard to delivering the approved budget. This report shows the projected financial consequences of the service performance detailed in the CH&SC Directorate performance reports, and allows the Committee the opportunity to provide instruction to officers to address any forecast overspends in order that the budget is delivered by year-end.

2.2 On 14 February 2018 (SIC Min Ref: 5/18) the Council approved the 2018/19 revenue and capital budgets for the Council (including the General Fund, Harbour Account, Housing Revenue Account and Spend to Save) requiring a draw from reserves of £11.734m. It is vital to the economic wellbeing of the Council that the financial resources are managed effectively and expenditure and income is delivered in line with the budget, as any overspends will result in a further draw on reserves and would be evidence that the Council is living beyond its means.

2.3 This report forms part of the financial governance and stewardship framework which ensures that the financial position of the Council is acknowledged, understood and quantified on a regular basis. It provides assurance to the Corporate Management Team and the Committee that resources are being managed effectively and allows corrective action to be taken where necessary.

2.4 Since the approval of the 2018/19 budget, revisions to the budget have been incorporated for the Council's budget carry-forward scheme. Therefore this report refers to the revised budget that is now in place for each of the services.

2.5 The Council delegated the functions of the CH&SC Directorate to the Integration Joint Board (IJB). The Council and NHS Shetland approve a contribution to the IJB, and then receive a distribution of those resources from the IJB to carry out services as directed by it. Management accounts showing the financial position for all delegated functions of the IJB are prepared and presented by the Chief Financial Officer (CFO) to the IJB on a quarterly basis to ensure adequate financial monitoring can be performed by the IJB.

3.0 Corporate Priorities and Joint Working:

3.1 There is a specific objective in the Corporate Plan that the Council will have excellent financial management arrangements to ensure that it continues to keep a balanced and sustainable budget, and is living within its means; and that the Council continues to pursue a range of measures which will enable effective and successful management of its finances over the medium to long term. This involves correct alignment of the Council's resources with its priorities and expected outcomes, and maintaining a strong and resilient balance sheet.

3.2 The IJB's vision, aims and strategic objectives are set out in the Integration Scheme and the Strategic Plan 2017-20. The IJB is provided with quarterly financial monitoring reports to enable the IJB to manage in year financial performance of the integrated budget and to monitor performance against its Strategic Commissioning Plan.

4.0 Key Issues:

4.1 This report presents the projected outturn position for 2018/19 as at the end of the third quarter for revenue and capital. The forecasts have been determined by Finance Services after consultation with the relevant budget responsible officers. The capital budgets are not delegated to the IJB.

4.2 The Council approved a contribution to the IJB of £20.807m in February 2018, forecasting that it would receive £22.070m in order to deliver the range of services, as defined by the IJB's Strategic Plan. Increases to the contribution of £18k and £130k, respectively were approved to recognise carry-forward funding allocated as per the Council's budget carry-forward scheme (SIC Minute Ref: 63/18) and transfer of Cost Pressure and Contingency budget (SIC Minute Ref: 90/18). Increasing the contribution to the IJB to £20.955m.

4.3 It is proposed that a further increase of £120k is made to the Council contribution to the IJB, recognising;

- The transfer of Cost Pressure and Contingency Budget in recognition of a proportion of the unbudgeted anticipated pay uplift in 2018/19, £55k;

- Budget transfers from Children's Services, £25k and Corporate Services, £15k to support the cost of Project Search; and
- Allocation of additional funding for Whole System Approach, supporting Youth Justice work with 16 to 25 year-olds, £25k.

This would increase the Council contribution to the IJB to £21,075m.

4.4 The projected revenue outturn position against revised budgets delegated to the IJB is an overspend of £212k, which means the services in the CH&SC Directorate are collectively projected to spend more than their approved revenue budget.

4.5 Included within the budget is the following service redesign proposal:

Redesign – Mental Health (£200k) – The findings and directions from the Mental Health Service Review were reported to the IJB on 23rd January 2019. Savings of £79k have been identified by the project team and will be recognised from 1 April 2019.

4.6 The Director of CH&SC Directorate has instructed a review be undertaken of the current operational decision to provide 50% back-fill of senior social care workers' time allocated in residential care rotas, for which there is no budget in 2018/19. In order to mitigate the later arrival of savings through Mental Health Redesign and projected cost pressures, there are short-term measures also being instigated. These include delays to recruitment where this is manageable, and more forensic examination of vacancies that are not front line delivery. Whilst redesign around these vacancies is considered, non-recurrent savings will be generated by having them unfilled. Every effort will be made to limit non pay expenditure and ensure all income is secured.

4.7 The projected capital outturn position for the CH&SC Directorate is an underspend of £289k in 2018/19, which means the services in the Directorate are collectively projected to spend less than their Council approved capital budget.

4.8 See appendices 1 and 2 (attached) for detailed information on the revenue and capital outturn positions.

4.9 Provision was made in the Council's 2018/19 Budget for cost pressures and contingencies. It is held centrally by the Executive Manager - Finance.

4.10 Cost pressures are recurring in nature and increase the base cost of the service being delivered, e.g. apprenticeship levy, whereas contingency items are deemed non-recurring and likely to vary year on year e.g. ferry breakdowns.

4.11 This approach assists the Council to mitigate any spending risks. However, it is expected that services will endeavour, in the first instance, to meet any additional costs from within existing resources.

4.12 Contingency budget of £55k has been applied to Community Health and Social Care Directorate's budgets in Quarter 3. Based on the current pay offer to local authority staff, it has been calculated that a further £122k would be required in CH&SC Directorate budgets to meet this cost. Insufficient Corporate Cost

Pressures and Contingency budget remains to fund the full anticipated addition cost, so only a proportion has been applied.

4.13 The strategic planning and distribution of funding for the services of the CH&SC Directorate for 2018/19 has been delegated to the IJB. The focus of this report is to allow Members to understand the Council's performance in managing the financial aspects of service delivery. This is different from the overall financial position of the IJB. The overall position of the IJB is relevant however in terms of the impact that the financial position might have on the Council. An example of this is where overspending has occurred by one, or both the partners, then with reference to the Integration Scheme there is a process that required to be followed. This is of relevance to the Council, as a partner and a funder.

4.14 The projected outturn position for Q3 for the IJB overall is attached at Appendix 3 for reference.

4.15 Members will note there is a projected overspend in the NHS Shetland (NHSS) arm of the IJB budget (£2.207m) and an overspend of (£212k) in the Council arm of the IJB budgets, as detailed above.

4.16 The Integration Scheme sets out how over/under spends affecting the budgets allocated for the delegated functions will be addressed.

4.17 The IJB has a Recovery Plan in place (see Appendix 4) to address the efficiency savings required in both the NHSS and Council arms of the budget in 2018/19. Savings of £2.277m are required by the Plan and savings of £230k have been identified against this target for the year-to-date.

4.18 Any overspend in the NHSS arm of the operational budget will be funded from NHSS underspends in other directorates and/or its central contingency budget as a one-off additional payment to the IJB. If NHSS cannot achieve overall financial balance it may need to seek Brokerage from the Scottish Government.

4.19 Any overspend in the Council arm of the operational budget will be initially sought from non-recurrent savings within CH&SC Directorate budgets and if that is unsuccessful will be met from the Council's central contingency budget as a one-off additional payment to the IJB.

5.0 Exempt and/or confidential information:

5.1 None.

6.0 Implications :	
6.1 Service Users, Patients and Communities:	None
6.2 Human Resources and Organisational Development:	None
6.3	None

Equality, Diversity and Human Rights:	
6.4 **Legal:**	There are legal implications with regard to the delegation of statutory functions of the Council and NHSS to the IJB by each Party in order to deliver the delegated functions for that Party. These are set out in the Public Bodies (Joint Working) (Scotland) Act 2014, the associated Regulations and Guidance. The Council, NHSS and the IJB must adhere to the terms of the Integration Scheme approved by the Scottish Government under the terms of the Public Bodies Act. This includes a section on Finance with details regarding the treatment of under/overspends.
6.5 **Finance:**	The 2018/19 Council Budget does not require a draw on reserves in excess of the returns that the fund managers can make on average in a year, and therefore demonstrates that the Council is living within its means. For every £1m of reserves spent in excess of a sustainable level will mean that the Council will have to make additional savings of £73k each year in the future as a result of not being able to invest that £1m with fund managers to make a return. It is therefore vital that the Council delivers its 2018/19 budget. This report demonstrates that the services within the Community Health and Social Care Directorate are collectively projecting to spend more than their Council approved budget.
6.6 **Assets and Property:**	None
6.7 **ICT and new technologies:**	None
6.8 **Environmental:**	None
6.9 **Risk Management:**	There are numerous risks involved in the delivery of services and the awareness of these risks is critical to successful financial management. From a financial perspective, risks are an integral part of planning for the future, as assumptions are required to be made. These assumptions can be affected by many internal and external factors, such as supply and demand, which may have a detrimental financial impact. The most significant financial risk for services within the Community Health and Social Care Directorate relate to

	unexpected demand for services, which may be costly depending on the circumstances. There are other risks, which arise as a result of the integrated approach that is now required, particularly where it may impact on the Council financially. The Recovery Plan in place due to the projected overspends of both parties, poses a risk to the Council. If CH&SC Directorate are unable to find the required savings within their delegated budgets, the Council will be required to make a one-off payment to balance its arm of the budget. The overspends inherent in NHSS delegated budgets also pose a risk to the Council as a partner, because the level of savings required has not been achieved in successive years, with reliance on non-recurring savings each year in order for NHSS to breakeven. The risk was mitigated in previous years as NHSS agreed to make additional contributions to cover this overspends, however NHSS have indicated that they may not be able to do so in future years. This report is part of the framework that provides assurance, or recognition of any deviation from the budget that may place the Council in a financially challenging position and requires remedial action. The Council makes provision within its budget for cost pressures and contingencies that may arise. This approach provides additional confidence for the Council to be able to mitigate any adverse financial circumstances. A strong balance sheet and the availability of usable reserves ensure that the Council is prepared for significant unforeseen events. Any draw on reserves beyond the Council's sustainable level would have an adverse impact on the level of returns from the Council's long-term investments. This situation would require to be addressed quickly to ensure no long term erosion of the investments. The Community Health and Social Care Directorate maintains its own Risk Register. The Integration Scheme includes a dispute resolution mechanism which should be followed where either of the Parties fails to agree with the other on any issue related to the Integration Scheme, including financial issues.
6.10 **Policy and Delegated Authority:**	Section 2.1.2(3) of the Council's Scheme of Administration and Delegations states that the Committee may exercise and perform all powers and duties of the Council in relation to any function, matter, service or undertaking delegated to it by the Council. The Council approved both revenue and capital

	budgets for the 2018/19 financial year. This report provides information to enable the Committee to ensure that the services within its remit are operating within the approved budgets. The Council's Financial Regulations state that the Executive Manager - Finance has a responsibility to ensure that detailed monitoring by Directors and Executive Managers is carried out and that the Council will determine the reporting content, timescale, frequency and receiving committee(s) required for monitoring statements and the Executive Manager - Finance will be responsible for ensuring compliance with this.	
6.11 Previously considered by:	*n/a*	*n/a*

Contact Details:
Sheila Duncan, Management Accountant, sheila.duncan@shetland.gov.uk, 12 February 2019

Appendices:
Appendix 1 – Community Health and Social Care Directorate Projected Revenue Outturn Position 2018/19
Appendix 2 – Community Health and Social Care Directorate Projected Capital Outturn Position 2018/19
Appendix 3 – Overall Projected Outturn Position for the Integration Joint Board for 2018/19
Appendix 4 – Projected Outturn Position for the IJB Recovery Plan.

Background Documents:
SIC Budget Book 2018/19, SIC 14 February 2018
http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=22032

F-019 - Appendix 1

Community Health and Social Care

1. Projected Revenue Outturn Position 2018/19

2018/19 Approved Delegated Budget £000	Cost Pressure & Contingency Applied Qtr 3 £000	Other Budget changes Qtr 3 £000	IJB Service Heading	2018/19 Revised Delegated Budget £000	2018/19 Projected Outturn Qtr 3 £000	Budget v Projected Outturn Variance Qtr 3 £000
619	2	-	Mental Health	621	573	48
185	-	-	Substance Misuse	185	147	38
682	-	(141)	Directorate	541	560	(19)
78	-	-	Pensioners	78	78	-
5,308	11	78	Adult Services	5,397	5,245	152
2,525	6	(3)	Adult Social Work	2,528	2,623	(95)
11,093	30	104	Community Care Resources	11,227	11,423	(196)
28	2	26	Criminal Justice	56	43	13
1,474	4	1	Occupational Therapy	1,479	1,432	47
426	-	-	Government Additionality	426	426	-
(200)	-	-	Redesign - Mental Health	(200)	-	(200)
22,218	**55**	**65**	**Total Controllable Costs**	**22,338**	**22,550**	**(212)**

The above table shows the projected outturn variance as at Quarter 3.

Contingency budget has been applied in Q3 to reflect a proportion of the anticipated unbudgeted element of pay uplift for 2018/19 for the Directorate, £55k. Further budget changes have been made to reflect the transfer of budget from Children's Services and Corporate Services (£25k and £15k, respectively) as agreed to fund to Project Search costs and recognise additional Whole System Approach funding for Criminal Justice, £25k.

The Council delegated a budget of £22.218m to the IJB in December 2018 but as above proposes an increase to the budgets at Q3 of £120k bringing the total delegated budget to £22.338m.

An explanation of the significant projected outturn variances by service at Quarter 3 are set out below:

1.1 Adult Services – projected underspend of £152k (3%)

The projected underspend is due to vacant posts at Eric Gray Resource Centre & Supported Living and Outreach.

1.2 Adult Social work – projected overspend of (95k) (4%)

The projected overspend is mainly related to:

- An estimated increase in grants payments to individuals for Self Directed Support, based on the current level of agreed packages (£129k). This is however difficult to predict as packages can vary greatly in value, so the addition of further packages or changes to existing packages can have a significant financial impact;

- An advised uplift in one of the Off-Island Placements this year (£54k);

- Some of this overspend is offset by underspend in employee costs due to various vacancies throughout the year £83k.

1.3 Community Care Resources – projected outturn overspend of (£196k) (2%)

The projected overspend is mainly due to:

- Increased costs of Off-Island Placements following the addition of 2 new packages of care this year (115k);

- The cost of employing agency staff to provide cover for long term sickness and recruitment and retention difficulties in areas of the service, (£488k);

- Overall projected underspend in employee costs for the year, £117k. This is related to underspending at various locations, significantly £120k at Care at Home Central due to vacant posts, which it has been possible to manage as a result of current reduced demand for services. Annsbrae has an underspend of £50k, where 2 staff are seconded out but relief cover is only being provided where required. North Haven and Overtonlea are also underspending by £81k due to difficulties in recruitment and retention, leading to agency staff requirement, and Islehavn have projected underspend of £71k as a result of care home capacity being reduced to 6 beds (budgeted 10 beds) due to inability to staff the unit to the correct level. Wastview and Montfield are projected to overspend for the year by (£130k) and (£75k), respectively, due to increasing the rota at the start of the year for specific packages of care. The overall projected underspend in

employee costs includes the unbudgeted costs of seniors working off the floor for part of their time (£183k), which is currently under review.
- Board and Accommodation charging income is projected to overachieve against budget by £340k. Charging income can fluctuate significantly during the year, dependent on the individual financial circumstances of those receiving care.
- There is a projected underspend in mileage costs across the service of £55k, due to efficiently planning routes, the use of Council fleet vehicle in Yell, instead of employees own vehicles and the impact of the change to HRMC mileage rates from 1 April 2018.

1.4 Scottish Government Additionality Funding – projected breakeven

The IJB was allocated £1.474m 'Additionality Funding' from the Scottish Government (SG) for 2018/19, which has been added to NHS Shetland's baseline funding. As per SG guidance, £852k of the overall funding will be used to help meet a range of continuing cost pressures faced by local authorities in the delivery of effective and high quality health and social care services. This allocation represents a reduction to the proposed payment to the IJB from the SIC for 2018/19. The remaining £592k will support additional spend on expanding social care to support the objectives of integration.   In 2018/19, £426k of the remaining funding has been allocated to the Council.

It was agreed that £348k of this funding would be used to support the increased demand for Self-Directed Support packages. It is currently estimated that Self-Directed Support packages in 2018/19 will exceed budget, so this funding is expected to be spent in full.

A further £78k allocation of this funding has been allocated to cover the cost of one full-time social worker and one full-time administration worker who specifically focus on expediting timely hospital discharges. It is anticipated that this funding will be fully spent.

1.5 Redesign – Mental Health – projected overspend of (£200k) (100%)

IJB Members considered the findings and directions resulting from the Mental Health Service Review on 23 January 2019. Savings of £79k have been identified from the Review and will be recognised from 1 April 2019.

Community Health and Social Care

2. Projected Capital Outturn Position 2018/19

Service	2018/19 Revised Budget Qtr 3 £000	2018/19 Projected Outturn Qtr 3 £000	2018/19 Projected Variance Qtr 3 £000	Slippage Required in 2019/20 £000	Overall Projected Outturn Variance Qtr 3 £000
Adult Services	1,724	1,402	322	0	322
Community Care Resources	0	33	(33)	0	(33)
Total Controllable Costs	**1,724**	**1,435**	**289**	**0**	**289**

An explanation for the main projected outturn variances by service are set out below.

2.1 Adult Services - projected outturn underspend of £322k (19%)

The Eric Gray Replacement build project is on schedule with the overall project on track to be delivered on budget. The projected outturn variance recognises that there was an overspend of 322k in 2017/18 due to the project running ahead of schedule, which is not reflected in the 2018/19 approved budget.

2.2 Community Care Resources – projected outturn overspend of (£33k) (100%)

The projected overspend relates to the Edward Thomason and Taing House Final Account being higher than anticipated and Capital Programme time allocated to the project for snagging and preparation of the final account. The overspend is to be funded as part of the spend to save project.

Community Health and Social Care

3. Projected Overall Outturn Position for the Integration Joint Board

Service Headings	2018/19 Approved Delegated Annual Budget £000	2018/19 Revised Delegated Annual Budget £000	Projected Outturn at Quarter 3 £000	Budget v Proj. Outturn Variance (Adv)/ Pos £000
Mental Health	1,993	2,102	2,548	(446)
Substance Misuse	582	587	549	38
Oral Health	3,177	3,084	3,084	-
Pharmacy & Prescibing	6,229	6,665	6,492	173
Primary Care	4,405	5,681	5,396	285
Community Nursing	2,591	2,859	2,964	(105)
Directorate	1,027	865	884	(19)
Pensioners	78	78	78	-
Sexual Health	40	45	45	-
Adult Services	5,209	5,430	5,278	152
Adult Social Work	2,489	2,528	2,622	(94)
Community Care Resources	10,989	11,227	11,423	(196)
Criminal Justice	26	56	43	13
Speech & Language Therapy	85	81	81	-
Dietetics	118	116	116	-
Podiatry	234	236	236	-
Orthotics	135	138	138	-
Physiotherapy	599	569	569	-
Occupational Therapy	1,601	1,652	1,606	46
Health Improvement	212	268	268	-
Unscheduled Care	2,800	2,944	3,736	(792)
Renal	194	201	201	-
Intermediate Care Team	43	86	86	-
Scottish Government Additionality Funding	592	592	514	78
Integrated Care Funding	410	410	410	-
Reserve	541	495	-	495
Recovery Plan	(2,277)	(2,277)	(230)	(2,047)
Total Controllable Costs	**44,122**	**46,718**	**49,137**	**(2,419)**

3.1 Projected outturn overspend at 31st December 2018 (£2.419m) (5%)

The current projected outturn at the end of December 2018 for the IJB is an overall adverse variance of £2.419m which represents a projected overspend of (£212k) in the Council arm of the budget, and a projected overspend in NHS Shetland arm of (£2.207m).

Community Health and Social Care

4. Draft Outturn Position for the IJB Recovery Plan for 2018/19

	Directly Managed Services £000	Set-Aside Services £000	TOTAL £000
Full savings required by Recovery Plan	2,136	141	2,277
Savings achieved	(230)	-	(230)
Unachieved savings	**1,906**	**141**	**2,047**

4.1 The IJB has a Recovery Plan in place to address the efficiency savings required in both the NHSS and Council arms of the budget in 2018/19.

4.2 NHSS need to identify £2.077m savings in 2018/19. To date £20k recurrent savings and £210k non-recurrent savings have been identified. NHSS began a Scenario Planning exercise in January 2018 to look at alternative models for the delivery of health and social care services in Shetland. The exercise recognises that identifying and implementing savings and efficiency targets is increasingly challenging and aims to take a whole system approach to establish a best value, safe and sustainable model which can inform the development of the IJB Strategic Plan for 2019-2022 and beyond.

4.3 The draft IJB Strategic Plan 2018-21 was approved for consultation on 21st September.

4.4 Any overspend in the NHSS arm of the operational budget will be funded from NHSS under spends in other directorates and/or its central contingency budget as a one-off additional payment to the IJB. If NHSS cannot achieve overall financial balance it may need to seek Brokerage from the Scottish Government, which will involve borrowing further funding, which then will have to be repaid in future years.

4.5 The Council incorporated several service redesign projects in their 2018/19 budgets, including a projected £200k savings from the redesign of mental health services. The findings and directions from the review were presented to the IJB on 23 January 2019. Recurring savings of £79k were identified and will be recognised from 1 April 2019. It is hoped as the service works through the improvement actions identified in the review that there may be opportunities to release savings and efficiencies from building costs and/ or acute care costs.

4.6 Any overspend in the Council arm of the operational budget will need to be repaid to the IJB, so should budgets overspend in 2018/19 a one-off additional payment will be required to be made to the IJB.

Shetland Islands Council

Agenda Item

2

Meeting(s):	Policy & Resources Committee Shetland Islands Council	6 March 2019 6 March 2019
Report Title:	SIC Overall Management Accounts 2018/19 Projected Outturn at Quarter 3	
Reference Number:	F-005-F	
Author / Job Title:	Jamie Manson Executive Manager - Finance	

1.0 Decisions / Action required:

1.1 The Policy & Resources Committee RECOMMENDS that the Council RESOLVE:

1.1.1 To review the Management Accounts showing the overall projected outturn position at Quarter 3.

1.1.2 To note that each Director will continue to monitor spend and take actions to mitigate any projected overspends as set out in the service committee reports.

1.1.3 To approve an increase in the contribution to ZetTrans of up to £0.484m to fund the additional cost of running the public bus and air services; and consultancy costs to carry out the public transport network re-design.

2.0 High Level Summary:

2.1 The report sets out the overall Council projected financial position as at quarter 3.

2.2 On 14 February 2018 (SIC Min Ref: 5/18) the Council approved the 2018/19 revenue and capital budgets for the Council (including the General Fund, Harbour Account, Housing Revenue Account and Spend to Save) requiring a draw from reserves of £11.734m. It is vital to the economic wellbeing of the Council that the financial resources are managed effectively and expenditure and income is delivered in line with the budget, as any overspends will result in a further draw on reserves and would be evidence that the Council is living beyond its means.

2.3 This report forms part of the financial governance and stewardship framework which ensures that the financial position of the Council is acknowledged, understood and quantified on a regular basis. It provides assurance to the Corporate Management Team and the Committee that resources are being managed effectively and allows corrective action to be taken where necessary.

2.4 Since the approval of the 2018/19 budget, revisions to the budget have been incorporated for the Council's budget carry-forward scheme and spend to save, and changes to the Asset Investment Plan this in total amounts to £9.779m, resulting in an additional budgeted draw on reserves of £8.355m for both revenue and capital. This report refers to the revised budget that is now in place for each of the services.

3.0 Corporate Priorities and Joint Working:

3.1 There is a specific objective in the Corporate Plan that the Council will have excellent financial management arrangements to ensure that it continues to keep a balanced and sustainable budget, and is living within its means; and that the Council continues to pursue a range of measures which will enable effective and successful management of its finances over the medium to long term. This involves correct alignment of the Council's resources with its priorities and expected outcomes, and maintaining a strong and resilient balance sheet.

3.2 The Medium Term Financial Plan also includes a stated objective to achieve financial sustainability over the lifetime of the Council.

4.0 Key Issues:

4.1 At quarter 3 the combined revenue and capital outturn projections by fund (details are set out in Appendices 1,2 and 3) results in a projected underspend after slippage of £5.545m as follows:

Fund	Revised Budget £000	Projected Outturn £000	Variance under/ (over) £000	Slippage Required in 2019/20 £000	Variance under/ (over) £000
General Fund incl. Spend to Save	130,355	123,465	6,890	1,925	4,965
Harbour Account	(9,126)	(11,124)	1,998	1,309	689
Housing Revenue Account	1,290	1,275	15	124	(109)
TOTAL	**122,519**	**113,616**	**8,903**	**3,358**	**5,545**

4.2 The following table shows the projected variance of each of the funds by revenue and capital expenditure.

Fund	Revenue Projected Variance under/ (over) £000	Capital Projected Variance under/ (over) £000	Sub-total Projected Variance under/ (over) £000	Slippage Required in 2019/20 £000	Total Projected Variance under/ (over) £000
General Fund incl. Spend to Save	(1,197)	8,087	6,890	1,925	4,965
Harbour Account	459	1,539	1,998	1,309	689
Housing Revenue Account	(132)	147	15	124	(109)
TOTAL	**(870)**	**9,773**	**8,903**	**3,358**	**5,545**

4.3 It can be seen from the table above the majority of underspend relates to capital budgets, which require slippage or will be re-profiled in the 2019-24 Asset Investment Plan. Revenue expenditure is projected to overspend by £0.870m.

4.4 Included within the revenue projected overspend is the projected additional grant contribution to ZetTrans to meet the additional cost of running the public bus and inter-island air service; and re-design of the public transport network. This shortfall has arisen from additional consultancy fees and an underachievement of fare income on the public bus service. A decision of the Council is required to increase the payment to ZetTrans. This is to be funded by the budgets held in the Development Directorate.

4.5 Also, included in the revenue budget is £1.89m of service redesign savings, of which £570k will not be achieved in 2018/19. Progress on the individual service redesigns are as follows:

Description	Budget £000	Saving £000	Variance £000	Notes
Insurance Redesign	(500)	(537)	37	Achieved.
Promote Shetland Redesign	(40)	(33)	(7)	Achieved.
Accommodation Rationalisation	(750)	(750)	0	To be achieved in Feb 2018/19
Mental Health Redesign	(200)	0	(200)	Will not be achieved in 2018/19
Tertiary Sector Redesign	(250)	0	(250)	Will not be achieved in 2018/19
Waste Recycling Redesign	(150)	0	(150)	Will not be achieved in 2018/19
TOTAL	**(1,890)**	**(1,320)**	**(570)**	

4.6 The 2018/19 projected total draw from reserves on both revenue and capital expenditure (including slippage) is £17.847m, which is under the revised budgeted draw of £20.089m by £2.242m (see Appendix 4). This is the combined position for the General Fund (including Spend to Save), Harbour Account and Housing Revenue Account.

4.7 Appendices 1-4 set out this information in detail. Analysis of the variances have been included in Service Committee performance reports.

4.8 However, circumstances may change between now and the year-end which could adversely or favourably alter the outturn position. The risks are set out in Section 6.9 below.

5.0 Exempt and/or confidential information:

5.1 None.

6.0 Implications :

6.1 Service Users, Patients and Communities:	There are no implications arising from this report.
6.2	There are no implications arising from this report.

Human Resources and Organisational Development:	
6.3 **Equality, Diversity and Human Rights:**	There are no implications arising from this report.
6.4 **Legal:**	In accordance with Section 3 of the Transport (Scotland) Act 2005 the net expenses of ZetTrans, for each financial year, shall be paid by the Council. However, the main financial objective for ZetTrans shall be to ensure that the financial outturn achieved in 2018/19 is within the approved resource budget, and in line with that allocated by Scottish Ministers.
6.5 **Finance:**	Overall, the Council is projected to be under the 2018/19 revised budget by £5.545m however, slippage of £3.358m is required for capital projects. The main area of overspending is General Fund revenue expenditure which is projecting an overspend of £1.197m. The overall draw on reserves at quarter 3 is projected to be £17.847m, which is £2.242m less than the revised draw of £20.089m. Included within these projections is the additional cost of ZetTrans of £0.484m. The projected draw equates to a daily draw on reserves of £49k. Directors are continuing to monitor their budget positions and to take action to mitigate their projected overspends.
6.6 **Assets and Property:**	There are no implications arising from this report.
6.7 **ICT and new technologies:**	There are no implications arising from this report.
6.8 **Environmental:**	There are no implications arising from this report.
6.9 **Risk Management:**	There are numerous risks involved in the delivery of services and the awareness of these risks is critical to successful financial management. From a financial perspective, risks are an integral part of planning for the future, as assumptions are required to be made. These assumptions can be affected by many internal and external factors, such as supply and demand, which may have a detrimental financial impact.

	The main variable assumptions are around anticipated income levels, returns on investments and cost pressures and demands. This report is part of the framework that provides assurance, or recognition of any deviation from the budget that may place the Council in a financially challenging position and requires remedial action. The Council makes provision within its budget for cost pressures that may arise. This approach provides additional confidence for the Council to be able to mitigate any adverse financial circumstances.
6.10 **Policy and Delegated Authority:**	Section 2.1.2(3) of the Council's Scheme of Administration and Delegations states that the Committee may exercise and perform all powers and duties of the Council in relation to any function, matter, service or undertaking delegated to it by the Council. The Council approved both revenue and capital budgets for the 2018/19 financial year. The Policy & Resources Committee has delegated authority for securing the co-ordination, control and proper management of the financial affairs of the Council, and has referred authority to make recommendations to the Council as to the level of any expenditure not provided for in the annual budgets. The Council's Financial Regulations state that the Executive Manager - Finance has a responsibility to ensure that detailed monitoring by Directors and Executive Managers is carried out and that the Council will determine the reporting content, timescale, frequency and receiving committee(s) required for monitoring statements and the Executive Manager - Finance will be responsible for ensuring compliance with this.
6.11 **Previously considered by:**	n/a

Contact Details:
Hazel Tait, Team Leader Accountancy, Hazel.Tait@Shetland.gov,uk, 11 February 2019

Appendices:
Appendix 1 - General Fund Projected Revenue and Capital Outturn Position for 2018/19
Appendix 2 - Harbour Account Projected Revenue and Capital Outturn Position for 2018/19
Appendix 3 - Housing Revenue Account Projected Revenue and Capital Outturn Position for 2018/19
Appendix 4 - Use of Reserves 2018/19

Background Documents:
SIC Budget Book 2018/19, SIC 14 February 2018
http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=22032

General Fund Revenue - Projected Outturn Position for 2018/19

2018/19 Projected Variance Qtr 2 £000	General/Support	2018/19 Revised Budget Qtr 3 £000	2018/19 Projected Outturn Qtr 3 £000	2018/19 Projected Variance Qtr 3 £000
36	Chief Executive	1,798	1,732	66
(863)	Children's Services	42,436	43,222	(785)
(436)	Community Care	19,858	20,072	(214)
(4)	Corporate Services	9,940	9,934	6
(272)	Development	14,269	14,703	(434)
(387)	Infrastructure	14,584	14,898	(314)
55	Fund Managers Fees	895	840	55
(51)	Energy	3,004	3,037	(33)
0	Water	371	396	(25)
1	Building Maintenance	2,492	2,490	2
0	Grass Cutting	171	171	0
17	Fleet Management Unit	728	667	61
(46)	Training	580	556	24
483	Contingencies & Cost Pressures	855	855	0
175	Financing Costs	1,597	1,422	175
0	Economic Development Investment Income	(1,035)	(1,351)	316
0	Interest on Revenue Balances	(14)	(14)	0
0	Spend to Save (Unallocated)	149	149	0
5	Net Recharges to Other Fund	(2,495)	(2,400)	(95)
4,007	Other Investment Income*	.000	(13,117)	13,117
(4,007)	Other Investment Income transfer to Reserves*	.000	13,117	(13,117)
(1,287)	**Total Net Expenditure/(Income)**	**110,180**	**111,377**	**(1,197)**
	Funded by:			
0	Government Grants	(80,476)	(80,557)	81
0	Council Tax	(9,363)	(9,363)	0
0	Spend to Save	(674)	(674)	0
1,287	Contribution from General Fund Reserve	(19,667)	(20,783)	1,116
0	**Total Funding/Contribution**	**(110,180)**	**(111,377)**	**1,197**
0	**Balanced Budget**	**0**	**0**	**0**

* This income is transferred to Reserves and is used as part of the contribution from General Fund Reserve which funds the Revenue Budget.

General Fund Capital - Projected Outturn Position for 2018/19

Overall Projected Outturn Variance Qtr 2 £000	General Fund	2018/19 Revised Budget Qtr 3 £000	2018/19 Projected Outturn Qtr 3 £000	2018/19 Projected Variance Qtr 3 £000	Slippage Required in 2019/20 £000	Overall Projected Outturn Variance Qtr 3 £000
0	Children's Services	3,192	1,333	1,859	1,191	669
289	Community Care	1,724	1,436	288		288
0	Corporate Services	2,351	763	1,588		1,588
29	Infrastructure	12,908	8,556	4,352	104	4,247
318	**Total Costs**	**20,175**	**12,088**	**8,087**	**1,295**	**6,792**
	Funded by:					
0	General Capital Grant	(6,612)	(6,612)	0		0
0	Capital Grants Unapplied	(48)	(10)	(38)		(38)
(2,975)	External Grants	(3,890)	(324)	(3,566)		(3,566)
(23)	External Borrowing	(1,494)	(1,146)	(348)		(348)
0	Spend to Save Reserve	(797)	(471)	(326)		(326)
2,681	Capital Fund Reserve	(6,722)	(2,914)	(3,809)	(1,295)	(2,514)
0	Capital Receipts	(596)	(596)	0		0
0	General Fund CFCR	(17)	(17)	0		0
(318)	**Total Funding & Financing**	**(20,175)**	**(12,088)**	**(8,087)**	**(1,295)**	**(6,792)**
0	**Balanced Budget**	**0**	**0**	**0**	**0**	**0**

Shetland Islands Council F-005 Appendix 2

Harbour Account
Revenue and Capital- Projected Outturn Position for 2018/19

2018/19 Overall Projected Variance Qtr 2 £000	Harbour Account	2018/19 Revised Budget Qtr 3 £000	2018/19 Projected Outturn Qtr 3 £000	2018/19 Projected Variance Qtr 3 £000	Slippage Required in 2019/20 £000	2018/19 Overall Projected Variance Qtr 3 £000
	REVENUE:					
(9)	Sullom Voe	(9,446)	(9,382)	(63)		(63)
(6)	Scalloway	64	236	(172)		(172)
(179)	Other Piers	(2)	146	(147)		(147)
0	Jettties & Spur Booms	0	0	0		0
193	Terminals	(1,427)	(1,993)	566		566
(1)	**Ports & Harbours Net Expenditure/(Income)**	**(10,811)**	**(10,994)**	**183**		**182**
276	Shetland Gas Plant	(1,024)	(1,300)	276		276
276	**Other Income**	**(1,024)**	**(1,300)**	**276**		**276**
275	**Total Net Revenue Expenditure/(Income)**	**(11,835)**	**(12,294)**	**459**	**0**	**458**
	CAPITAL:					
(74)	Capital Expenditure	13,654	10,169	3,485	3,567	(82)
0	Capital Receipts	(21)	(332)	312		312
69	External Borrowing	(10,924)	(8,666)	(2,258)	(2,258)	0
(5)	**Total Net Capital Expenditure/(Income)**	**2,709**	**1,170**	**1,539**	**1,309**	**230**
(270)	Contribution to/(from) Reserve Fund	9,126	11,124	(1,998)	(1,309)	(689)
0	**Balanced Budget**	**0**	**0**	**0**	**0**	**0**

Housing Revenue Account
Revenue and Capital- Projected Outturn Position for 2018/19

2018/19 Overall Projected Variance Qtr 2 £000	Housing Revenue Account	2018/19 Revised Budget Qtr 3 £000	2018/19 Projected Outturn Qtr 3 £000	2018/19 Projected Variance Qtr 3 £000	Slippage Required in 2019/20 £000	2018/19 Overall Projected Variance Qtr 3 £000
	REVENUE:					
35	Supervision & Management	854	796	58		58
4	Repair & Maintenance	2,164	2,367	(203)		(203)
(20)	Void Rents & Charges	167	227	(60)		(60)
0	Garages	31	36	(5)		(5)
62	Capital Charges - Dwellings	1,330	1,268	62		62
80	**Total: Expenditure**	**4,545**	**4,693**	**(148)**		(148)
0	Interest on Revenue Balances	(1)	(1)	0		0
0	Rents - Dwellings	(6,730)	(6,730)	0		0
6	Rents - Other ie garages/sites etc	(229)	(245)	16		16
6	**Total: Income**	**(6,960)**	**(6,976)**	**16**		16
87	**Total Net Revenue Expenditure/(Income)**	**(2,415)**	**(2,282)**	**(132)**	**0**	**(132)**
	CAPITAL:					
0	Capital Expenditure	3,735	3,611	124	124	0
0	Capital Receipts	(31)	(54)	23		23
	Total Net Capital Expenditure/(Income)	**3,704**	**3,558**	**147**	**124**	**23**
(87)	Contribution to(from) HRA Reserve	(1,290)	(1,275)	(15)	(124)	109
0	**Balanced Budget**	**0**	**0**	**0**	**0**	**0**

Use of Reserves in 2018/19
(included General Fund/Harbour Account/Housing Revenue Account/Spend to Save reserves)

2018/19 Projected Variance Qtr 2 £000	Draw on Reserves	2018/19 Original Budgeted £000	2018/19 C/Forwards & Revisions Revisions £000	2018/19 Revised Budgeted Qtr 3 £000	2018/19 Projected Outturn Qtr 3 £000	2018/19 Projected Slippage Qtr 3 £0	2018/19 Projected Variance Qtr 3 £000
3,642	Revenue & Capital Draw on Reserves	11,734	8,355	20,089	15,119	2,728	2,242
3,642	**Total Budgeted Draw on Reserves**	**11,734**	**8,355**	**20,089**	**15,119**	**2,728**	**2,242**

	Agenda Item
Shetland Islands Council	**3**

Meeting(s):	**Policy and Resources Committee** **Shetland Islands Council**	**06 March 2019** **06 March 2019**
Report Title:	**Asset Investment Plan – Progress Report**	
Reference Number:	**CPS-02-19-F**	
Author / Job Title:	**Robert Sinclair, Executive Manager – Capital Programme**	

1.0 Decisions / Action required:

1.1 That the Policy and Resources Committee RECOMMENDS that the Council notes the progress of the projects within the Asset Investment Plan

2.0 High Level Summary:

2.1 This report advises the Council on the progress of the projects contained within its Asset Investment Plan which are currently underway in 2018/19.

2.2 It includes a summary of the financial status for the full life of each project.

3.0 Corporate Priorities and Joint Working:

3.1 This report forms part of the annual performance reporting arrangements on financial matters in support of the Financial Strategy, Reserves Policy and Budget Strategy. ‘Our Plan 2016 to 2020’ states that “Excellent financial-management arrangements will make sure we are continuing to keep to a balanced and sustainable budget, and are living within our means” and that “We will have prioritised spending on building and maintaining assets and be clear on the whole-of-life costs of those activities, to make sure funding is being targeted in the best way to help achieve the outcomes set out in this plan and the community plan”.

4.0 Key Issues:

4.1 This report provides an overview of the full life of those projects within the Council’s Asset Investment Plan that are currently underway in 2018/19, based on the agreed budget.

4.2 Where projects take place over a number of financial years, this report summarises the position from the beginning to completion of the project. Capital maintenance is not included in this report.

4.3 Quarterly monitoring information on capital expenditure is provided by the Executive Manager - Finance for inclusion in each Directorate Performance Report, detailing the progress of all capital projects within the current financial year; that information also covers expenditure on capital maintenance.

4.4 The detailed project information is attached as Appendix A.

5.0 Exempt and/or confidential information:

5.1 None.

6.0 Implications :

6.1 Service Users, Patients and Communities:	Upon completion, the projects described in the appendix to this report will either enhance the quality and / or condition of the assets available to the people of Shetland, or add to them.
6.2 Human Resources and Organisational Development:	No implications arising directly from this report.
6.3 Equality, Diversity and Human Rights:	No implications arising directly from this report.
6.4 Legal:	No implications arising directly from this report.
6.5 Finance:	The Asset Investment Plan projects, which are currently underway in 2018/19, are detailed in Appendix A and are projected to be £859k under budget, resulting in a projected outturn cost of £126m. Of the total cost, £60.2m will be funded externally, with £65.8m to be funded by the Council.
6.6 Assets and Property:	Upon completion, the projects described in the appendix to this report will either enhance the quality and / or condition of the Council's existing asset base, or add to it.
6.7 ICT and new technologies:	No implications arising directly from this report.
6.8 Environmental:	All maintenance and new-build projects seek to address climate change and carbon management for example by embedding energy saving measures and environmentally friendly materials in their design. Where possible, assets are repaired and maintained where this reduces the carbon footprint associated with new-build. Environmental Impact Assessments are carried out where the nature or scale of the project dictates; the only such project(s) detailed in the programme are the new AHS and associated Halls of Residence.
6.9 Risk Management:	The main areas of risk are financial in terms of over or under-spend. Regular progress reports to Committee and the Council enable Members to monitor the investment plan.
6.10 Policy and Delegated Authority:	Approval of the financial strategy and budget framework is a matter reserved for the Council having taken advice from the Policy and Resources Committee.
6.11	N/A

Previously considered by:		

Contact Details:
Robert Sinclair, Executive Manager – Capital Programme
robert.sinclair@shetland.gov.uk

Cleared - 20 February 2019

Appendices:
Appendix A - Asset Investment Plan – Progress Report

Background Documents: None

END

		Budget			Funding	
Directorate	**Service Area**	**Approved Budget £**	**Predicted Project Outturn £**	**Under (Over) Budget £**	**External Funding £**	**Cost to SIC £**
Children's Services	Schools	24,439,727	24,183,353	256,374	4,520,500	19,662,853
	Childrens Resources	670,000	870,000	(200,000)	0	870,000
		25,109,727	**25,053,353**	**56,374**	**4,520,500**	**20,532,853**
Corporate Service	Capital Programme Service	3,753,204	3,825,107	(71,903)	310,696	3,514,411
		3,753,204	**3,825,107**	**(71,903)**	**310,696**	**3,514,411**
Community Care Services	Adult Service	9,555,312	8,480,382	1,074,930	0	8,480,382
		9,555,312	**8,480,382**	**1,074,930**	**0**	**8,480,382**
Development Services	Economic Development	0	0	0	0	0
	Housing	160,000	260,804	(100,804)	0	260,804
		160,000	**260,804**	**(100,804)**	**0**	**260,804**
Infrastructure Services	Environmental Services	1,763,966	1,787,442	(23,476)	0	1,787,442
	Estate Operations	950,000	1,181,999	(231,999)	0	1,181,999
	Ferry & Air Operations	59,452,065	59,452,065	0	54,250,000	5,202,065
	Roads	4,161,172	4,036,771	124,401	86,807	3,949,964
	Ports & Harbours	21,932,699	21,900,885	31,814	1,000,000	20,900,885
		88,259,902	**88,359,162**	**(99,260)**	**55,336,807**	**33,022,355**
	Total All Funds	**126,838,145**	**125,978,808**	**859,337**	**60,168,003**	**65,810,805**

	Budget			Funding		
Project Name	**Approved Budget £**	**Predicted Project Outturn £**	**Under (Over) Budget £**	**External Funding £**	**Cost to SIC £**	**Update**
Early Learning (General)	223,000	223,000	0	223,000	0	Funding for general Early Learning costs held here.
Aith Early Learning Provision	330,000	330,000	0	330,000	0	Works programmed for 2019/20
Baltasound Early Learning Provision	140,000	140,000	0	140,000	0	Works programmed for 2019/20
Bells Brae Early Learning Extension	140,000	140,000	0	140,000	0	Works programmed for 2019/20
Brae Early Learning Extension	214,000	214,000	0	214,000	0	Phase 1 complete. Phase 3 programmed for 2020/21
Cunningsburgh Early Learning Provision	270,000	270,000	0	270,000	0	Works programmed for 2019/20
Dunrossness Early Learning Extension	94,000	94,000	0	94,000	0	Phase 1 complete, phase 2 progressing .
Happyhansel Early Learning Extension	260,000	260,000	0	260,000	0	Phase 1 complete. Phase 2 extension tender awarded and works on site.
Lunnasting Early Learning Provision	140,000	140,000	0	140,000	0	Works programmed for 2020/201
Mid Yell Early Learning Provision	140,000	140,000	0	140,000	0	Works programmed for 2020/201
Mossbank Early Learning Provision	200,000	200,000	0	200,000	0	Works programmed for 2020/21
Sandwick Early Learning Provision	250,000	250,000	0	250,000	0	Works programmed for 2020/21
Sound Early Learning Provision	270,000	270,000	0	270,000	0	Works programmed for 2020/21
Symbister Early Learning Provision	270,000	270,000	0	270,000	0	Works programmed for 2019/20
Whiteness Early Learning Extension	52,000	52,000	0	52,000	0	Phase 1 complete, phase 2 progressing .

ASSET INVESTMENT PLAN - CHILDREN'S SERVICES **CPS-02-19 Appendix A**

	Budget			Funding		
Project Name	**Approved Budget £**	**Predicted Project Outturn £**	**Under (Over) Budget £**	**External Funding £**	**Cost to SIC £**	**Update**
Little Tikes Early Learning Provision	270,000	270,000	0	270,000	0	Works programmed for 2020/201
Skeld Early Learning Provision	45,000	45,000	0	45,000	0	Phase 1 programmed for 2018/19, phase 2 2020/21
Urafirth Early Learning Provision	30,000	30,000	0	30,000	0	Works programmed for 2018/19.
Isleshaven / Lerwick Pre School Early Learning Provision	150,000	150,000	0	150,000	0	Works programmed for 2019/20
Anderson High School Replacement	3,594,803	3,594,803	0	25,000	3,569,803	Works complete and school in operation. Officer time will not be processed until year end. Further works on a storage building are programmed for summer 2019.
Anderson High Clickimin Path Upgrade	1,015,000	758,626	256,374	507,500	251,126	SIC / Sustrans funded project. Rugby pitch completed in August, retention will be released next year.
Anderson High - Halls of Residence	13,238,138	13,238,138	0	0	13,238,138	Works now complete and hostel in operation, final A/C still to be processed. Officer time will not be processed until year end.
Clickimin Works	3,103,786	3,103,786	0	500,000	2,603,786	Alteration work to Clickimin entrance ongoing, SIC funding complete. Clickimin internal works and covered training facility completed last year.
Childrens Supported Accommodation	670,000	870,000	(200,000)	0	870,000	Detailed business case presented to Education & Families Committee. Preferred option, to build in conjunction with Hjaltland Housing Association for 870K, agreed and to be ratified by full Council. Expenditure to be incurred 2019/10 and 2020/21, the Asset Investment Plan will be updated to reflect this.
Total	**25,109,727**	**25,053,353**	**56,374**	**4,520,500**	**20,532,853**	

	Budget			Funding		
Project Name	Approved Budget £	Predicted Project Outturn £	Under (Over) Budget £	External Funding £	Cost to SIC £	Update
Market Street Store Redevelopment	323,204	395,107	(71,903)	0	395,107	Project complete and final account processed. CPS officer time on final account will not be processed until year end.
Lerwick Library Refurbishment	900,000	900,000	0	0	900,000	Original tender package ready for issue but anticipated final costs had increased since budget was set. Project on hold awaiting further report linked to service requirements and Asset Strategy.
Town Hall Conservation Project	1,680,000	1,680,000	0	310,696	1,369,304	All building and restoration works complete, final account will be processed when defects liability period complete. Interpretation works complete. Final funding claim and outstanding fees still to be processed by external consultants.
Knab Site Demolition	850,000	850,000	0	0	850,000	Business case to be presented to Councl in June 2019.
Total	**3,753,204**	**3,825,107**	**(71,903)**	**310,696**	**3,514,411**	

	Budget			Funding		
Project Name	Approved Budget £	Predicted Project Outturn £	Under (Over) Budget £	External Funding £	Cost to SIC £	Update
Eric Gray Replacement	6,055,312	6,055,312	0	0	6,055,312	Building handed over with practical completion issued 14/11/18. Building Standards completion certificate issued on 16/11/18. Contract payment due, with retention being held for a year. Additional moveable equipment being ordered.
ET & Taing House Extension (Spend to Save)	3,500,000	2,425,070	1,074,930	0	2,425,070	Phases 1 & 2 complete and final account processed. Officer time on final account will not be processed until year end.
Total	**9,555,312**	**8,480,382**	**1,074,930**	**0**	**8,480,382**	

	Budget			Funding		
Project Name	Approved Budget £	Predicted Project Outturn £	Under (Over) Budget £	External Funding £	Cost to SIC £	Update
Landfill Capping	747,466	747,466	0	0	747,466	Landfill Capping Phase 2 complete. 2018/19 works involve design and tender completion for capping works to start in 2019/20; further phases programmed in future years.
Recycling Shed	1,016,500	1,039,976	(23,476)	0	1,039,976	Enabling ground works completed but cost more than anticipated. Construction works started on site.
Bells Brae PS Refurbishment	950,000	1,181,999	(231,999)	0	1,181,999	Bells Brae works completed October 2017, final A/C still to be processed. Overspend relates to additional mechanical works required when hidden services were uncovered.
Clickimin Roundabout Works	1,063,110	1,043,871	19,239	17,745	1,026,126	All works complete. Payment due for surface course lay only.
Cycling/Walking Safer Streets	31,000	31,000	0	31,000	0	2018/19 programme will be based on responses from community councils.
Flood Damage Works	38,062	38,062	0	38,062	0	This scheme was carried over from last year - programme still to be decided.
Muckle Roe Bridge Painting	228,000	122,838	105,162	0	122,838	Works completed in January, 2018, with only small retention to be paid this year.
Streetlighting LED Upgrade	2,801,000	2,801,000	0	0	2,801,000	Contract awarded and works have commenced.
Ferry Replacement Programme	54,250,000	54,250,000	0	54,250,000	0	The Scottish Government Fair Funding (for ferries) process is already one year behind the original programme and it seems likely that it could take a further year to get to a point of establishing a programme. 2018/19 budget of £250k, for Fair Isle design fees, will slip into next year.
Ferry Life Extension Works Contract	5,202,065	5,202,065	0	0	5,202,065	Revised outline business case (OBC) being progressed covering all vessels. Business case being carried out in consideration of / conjunction with Transport Planning activities, Scottish Government funding and other OBCs.
Ferry Terminal Life Extension Works	1,990,683	1,990,683	0	0	1,990,683	Contract entered with Mott MacDonald for project management activates. Invitation to tender anticipated by end Feb, with contract award anticipated May 2019. Work on site anticipated to commence August 2019.
Ferry Terminal Paint Works Contract	350,000	350,000	0	0	350,000	Hamarsness Terminal was planned to be painted this financial year, but due to other projects and lack of consultancy staff this will slip into next financial year.

	Budget			Funding		
Project Name	Approved Budget £	Predicted Project Outturn £	Under (Over) Budget £	External Funding £	Cost to SIC £	Update
VTS Radar Replacement	1,276,000	1,276,000	0	0	1,276,000	Additional spend on equipment agreed by CMT still to be reported. Original contract will not complete this financial year, anticipate balance will need to be carried into 2019/20.
Scalloway Fishmarket Rebuild	5,672,000	5,672,000	0	0	5,672,000	Tender awarded with works on site, estimate completion for spring 2020.
Piers - Cathodic Protection	1,216,016	1,216,016	0	0	1,216,016	West Burrafirth contract let, but will not complete this financial year.
Tug Jetty - Cathodic Protection	1,000,000	1,000,000	0	0	1,000,000	Project delayed whilst detailed surveys and feasibility options investigated. Budget to slip into 2019/2020 financial year in anticipation of decision in Q2 2019.
Tug Vessel Replacement	7,900,000	7,932,186	(32,186)	0	7,932,186	Second tug purchase complete.
Hamarsness/Ulsta Wind Turbine	128,000	64,000	64,000	0	64,000	Hamarsness turbine has planning permission. Ulsta not going ahead, so Spend to Save and planning application for turbine at Baltasound Junior High submitted instead.
Toft Pier (New)	2,400,000	2,400,000	0	1,000,000	1,400,000	EMFF grant of £1m offered for this project. Possible further funding of £0.5m under review. Project awaiting approval of Final Business Case by Asset Investment Group before presentation to Council. Current tender exercise on hold pending approval of Full Business Case.
Total	**88,259,902**	**88,359,162**	**(99,260)**	**55,336,807**	**33,022,355**	

	Budget			Funding		
Project Name	Approved Budget £	Predicted Project Outturn £	Under (Over) Budget £	External Funding £	Cost to SIC £	Update
Leaside Conversion	160,000	260,804	(100,804)	0	260,804	Project complete - completion certificate issued and retention paid. Additional costs relate to enhanced soundproofing requirement. Keys handed over from contractor on 10/11/17.
Total	**160,000**	**260,804**	**(100,804)**	**0**	**260,804**	

Shetland Islands Council

Agenda Item

4

Meeting(s):	**Policy and Resources Committee** **Shetland Islands Council**	**6 March 2019** **6 March 2019**
Report Title:	**Annual Investment and Treasury Strategy for 2019/20**	
Reference Number:	**F-028-F**	
Author / Job Title:	**Report Presented by Executive Manager - Finance**	

1.0 Decisions / Action required:

1.1 That the Policy and Resources Committee RESOLVE to:

a) Review the Borrowing Policy to be followed for the financial year 2019/20, as set out in Appendix 1, section 5.
b) Review the four clauses within the CIPFA Code of Practice as set out in Appendix 1, section 7.
c) Review the Treasury Management Policy Statement as set out in Appendix 1 section 8, and
d) Review the Statement of Treasury Management Practices as set out in Appendix 1 section 9.

1.2 That the Policy and Resources RECOMMEND that the Council RESOLVES to:

a) Approve the Annual Investment Strategy Statement to be followed for the financial year 2019/20, as set out in Appendix 1, section 2.
b) Approve the Treasury Management Strategy to be followed for the financial year 2019/20, as set out in Appendix 1, section 3.
c) Approve the Treasury Management Prudential Indicators for 2018/19 to 2021/22, as set out in Appendix 1, section 6.

2.0 High Level Summary:

2.1 The purpose of this report is to propose an Annual Investment and Treasury Strategy for the Council for the financial year 2019/20.

2.2 This report will address the requirements of the Scottish Minister’s consent, the CIPFA Code of Practice for Treasury Management in the Public Services 2017 and the CIPFA Prudential Code for Capital Finance in Local Authorities 2017. 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.

2.3 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, 5 and 6.

2.4 The CIPFA Prudential Code 2017 covers all the required prudential indicators but also states that local authorities should have in place a capital strategy. As this is closely linked to the Prudential indicators a capital strategy is included in Appendix 1 at section 4.

2.5 Other requirements of the consent involve the CIPFA Code. The CIPFA Code is intended to provide guidance on the best practice for treasury management. It defines treasury management as "The management of the organisation's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

2.6 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."

2.7 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, that are seen as essential for the effective management and control of treasury management activities

- a Treasury Management Policy Statement, which defines the policies and objectives of the treasury management function, and

- a Treasury Management Practices Statement, which 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.

2.8 The schedules complying with the clauses and the statements are covered in Appendix 1 to this report at sections 7, 8 and 9.

3.0 Corporate Priorities and Joint Working:

3.1 The Council's overall investment strategy is important to the Council's Investments, 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.

4.0 Key Issues:

4.1 This report includes at Appendix 1 the Annual Investment and Treasury Strategy for the Shetland Islands Council to be followed for the financial year 2019/20.

4.2 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 2017.

4.3 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.

4.4 There are no changes to the Borrowing Policy at section 5 in Appendix 1, but the Prudential Indicators at section 6 in Appendix 1 have been updated to reflect the revised Prudential Code (2017). A new capital strategy report has been added at section 4 in Appendix 1 as required by the revised Prudential Code (2017) covering the 2019-2024 Council asset investment plan. This provides the framework for the internal control and self-management of capital finance in line with the Prudential Code, and in turn the key items of expenditure that will normally govern the bulk of the authority's potential need to borrow. Also reviewing and revising the prudential indicators to take account of additional borrowing requirements allows the Council to be assured that the decisions they have made or are about to take are affordable.

5.0 Exempt and/or confidential information:

5.1 *None*

6.0 Implications :	
6.1 **Service Users, Patients and Communities:**	*None*
6.2 **Human Resources and Organisational Development:**	*None*
6.3 **Equality, Diversity and Human Rights:**	*None*
6.4 **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).
6.5 **Finance:**	It is recognised that the actual investment performance each year will be different to what is expected or required however over the long term this will be monitored and reviewed to ensure that the Council is working towards meeting its long term objectives. It is not likely that the Council can expect a positive investment return from its investments every year but having robust

	governance and monitoring in place, alongside a diversified investment strategy, mitigates the financial risks and enables the Council to take action at appropriate times to address poor performance by the fund managers. This report is part of that governance and monitoring framework, and compliments the reporting requirements of the CIPFA Code of Treasury Management that requires a Mid Year Review report and an Annual Year End Performance Review Report. The updating of the Prudential Indicators itself does not have an immediate financial impact on the Council however it provides the framework for complying with proper practices in managing capital expenditure and treasury management. The Executive Manager - Finance is able to respond to the financial circumstances that the Council faces and can take decisions based on this.
6.6 **Assets and Property:**	Long term investments are assets of the Council and represent money given to fund managers to manage on its behalf for sustainable long term benefit. The Council relies upon each fund manager's fiduciary duty and to buy and sell appropriate assets in accordance with the mandate awarded to them and to report regularly on the value and performance of the fund in which Council money is invested. The value of long term investments under these mandates can go down as well as up.
6.7 **ICT and new technologies:**	*None*
6.8 **Environmental:**	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. 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. The fund managers, who will act in accordance with this policy, will exercise voting.

	All of the Council Fund Managers 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.	
6.9 **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. All investments carry risk. Risks, such as market risk are mitigated and actively managed through diversification of fund managers, asset classes, markets, size of holdings and through performance monitoring against benchmarks.	
6.10 **Policy and 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 coordination, 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 Council's 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 the 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.	
6.11 **Previously considered by:**	*None*	

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Appendices:
Appendix 1 - Annual Investment and Treasury Strategy for 2019/20

Background Documents:
None

Shetland Islands Council

Annual Investment & Treasury Strategy

2019-20

Securing the best for Shetland

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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 new strategic Investment Strategy for the Council's reserves in August 2018. This annual report compliments that overarching strategy and sets out the Council's approach during 2019-20 that will contribute towards the overall strategy.

1.05 In addition, this report sets out the wider Treasury Management Strategy for 2019-20 which also includes the management of cash. The Council's capital strategy relating to capital investment has been added, the parameters around the Council's borrowing activity are set out in the Borrowing Policy and the Prudential Indicators sections of this report.

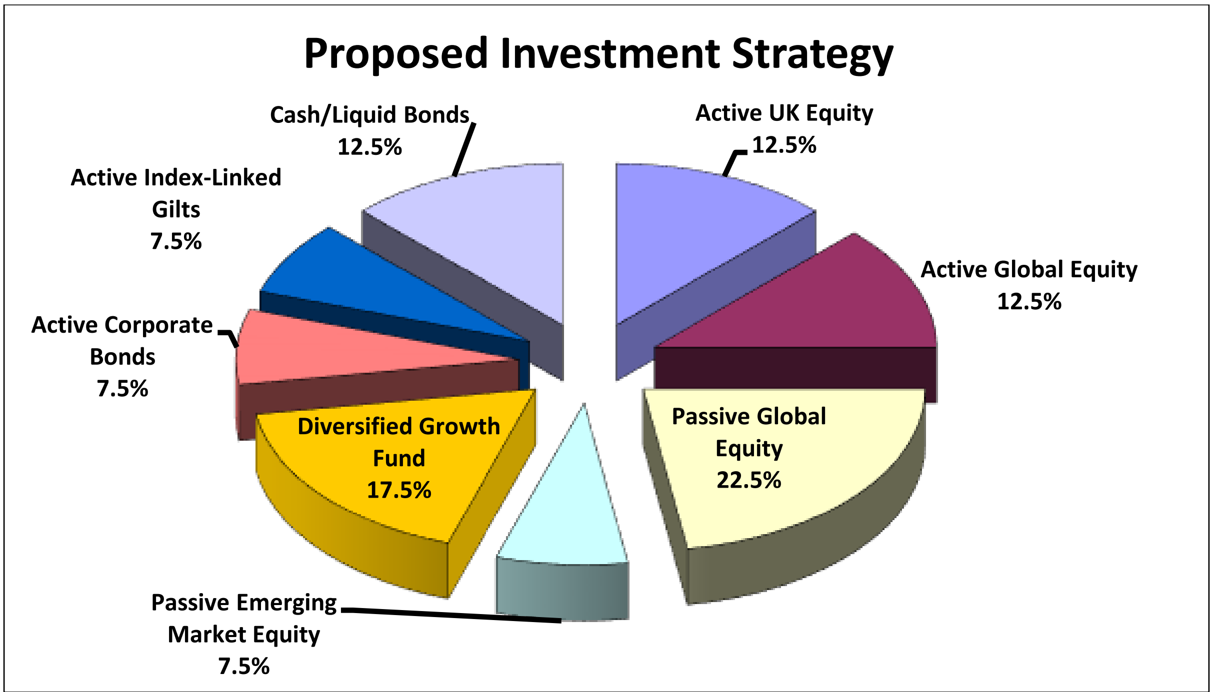
Annual Investment Strategy Statement 2019-20

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 Investment Strategy 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 2018/19 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 invest 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 was 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. This cash/liquid bond allocation was used for withdrawals and came to an end during 2016/17.

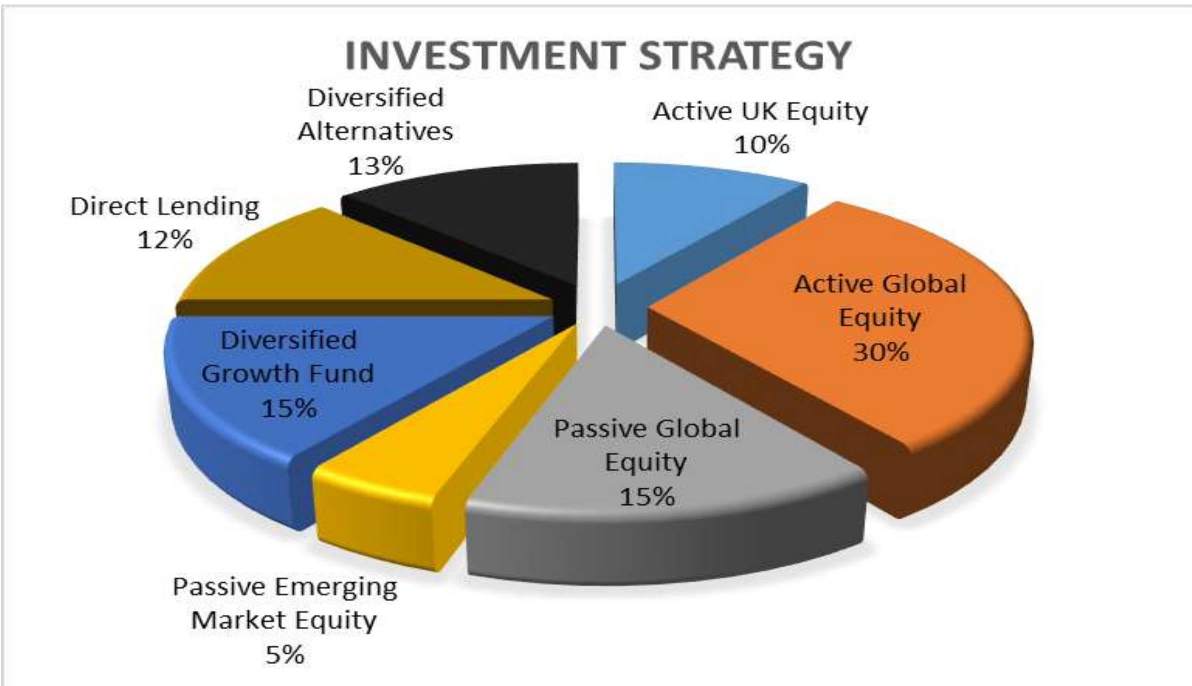
New Investment Strategy

2.07 Investment consultants KPMG conducted an investment strategy review during 2017 and 2018 which resulted in a new investment strategy being approved by the Council in August 2018 (Min Ref: 45/18). The new investment strategy complements the Council's Medium Term Financial Plan 2018/19 - 2023/24.

2.08 The new investment strategy aims to achieve gross investment returns of 7.3% per annum over the long term, through a mix of growth seeking and long term income returning assets. The strategy will offer more protection against any negative impact of market change due to the diversity of investments and its steady income returning investments.

2.09 As a result of the new investment strategy two new mandates were required. These new mandates were in Direct Lending and Diversified Alternatives, both are long term investments for up to 10 year periods which produce a steady income. Two tender process were carried out by KPMG that resulted with the Council awarding two new mandates to fund managers in January 2019 (Min Ref: 01/19).

2.10 The new investment strategy will require the reorganisation of assets from the current asset allocation to the new investment strategy. This reorganisation will take place during the first half of 2019/20. The new investment strategy will have the following asset allocation:



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2.11 The main changes that will be required to move from the current investment strategy to the new investment strategy are:

- Cease Index Linked Gilts and Active corporate bond investments
- Reduce Passive global and passive emerging market equity allocations
- Reduce diversified growth allocation
- Increase active equity allocation
- Add direct lending and diversified alternatives investments

These changes involve the movement of large sums of money between fund managers. These movements are coordinated by the Council's treasury service with the involvement of fund managers and the Council's custodian.

Current Investment Position

2.12 The current percentage of funds under management for each fund manager at 31 December 2018 was:

General Fund	**%**
Active UK Equities – Baillie Gifford	15.4
Active Global Equities – Baillie Gifford	16.2
Passive Emerging Market Equities – BlackRock	8.3
Passive Global Equities – BlackRock	24.7
Diversified Growth Fund – Baillie Gifford	22.9
Active Bonds – Insight	12.5
TOTAL	100

2.13 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, cash plus percentage return) are used to evaluate the performance of each investment against their investment market or set return, with large deviations both above and below these benchmarks questioned similarly.

2.14 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 outperformance 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.

2.15 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 20 year average fund manager investment returns (net of fees and inflation) 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.

2.16 The proposed investment strategy for 2019-20 proposes to continue to adhere to the principles of the Medium Term Financial Plan, with a minimum interest rate set at 5.2% for the forthcoming financial year, which is calculated from the 20 year average fund manager returns (net of fees and inflation).

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

Short-Term Investments

2.18 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 and reviewed monthly to ensure the efficient operation of Council activities.

Permitted Investments

2.19 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 2019/20 unless with the approval of the Council.

2.20 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.

2.21 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.

2.22 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

2.23 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.

2.24 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.

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

2.26 All of the Council fund managers 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

2.27 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

2.28 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

2.29 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

2.30 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 the criteria will be maintained in Treasury.

2.31 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.

2.32 At the 31 December 2018 the Council had deposits and short-term loans with the Council's own bank, amounting to £4.0 million. The Council's exposure to credit risk on these current deposits is very low based on the last five financial years' experience, where no default or loss has occurred.

Liquidity Risk

2.33 The authority has external investments with fund managers amounting to £323 million at the 31 December 2018. 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

2.34 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 December 2018 was 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 14 different asset classes at 31 December 2018.

2.35 The largest investment is in the Equity markets, about 65% of the Council's Reserves.

Foreign Exchange Risk

2.36 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 2019-20

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 2019/20. 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 2017.

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 working cash balance 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 currently 0.7%, 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 as set out in section 5, and the Prudential Indictors as set out in Section 6 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 and when this is the most appropriate course of action.

Shetland Islands Council Capital Strategy 2019/20

Introduction

4.01 This capital strategy is an overarching document which provides an overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services along with an overview of how associated risk is managed and the implications for future financial sustainability.

4.02 The Prudential Code for Capital Finance in Local Authorities at section 6 sets out the need for Councils to have a capital strategy in order to demonstrate that they take capital expenditure and investment decisions in line with the service objectives.

Purpose and Aims

4.03 The aim of the Prudential Code is to support local strategic planning, local asset management planning and proper option appraisal. The objectives of the code are to ensure within a clear framework, that the capital expenditure plans of local authorities are affordable, prudent and sustainable; and that treasury management decisions are taken in accordance with good professional practice and in full understanding of the risks involved, and will form a part of the Council's integrated revenue, capital and asset management.

4.04 The Prudential Code requires authorities to look at capital expenditure and investment plans in the light of overall organisational strategy and resources and ensure that decisions are made with sufficient regard to the long term financing implications and potential risks to the Council. The code stipulates that the capital strategy should set out the long term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.

4.05 The Capital Strategy aligns with the priorities set out the Council's Plan 2016 – 2020' and supports a number of its ambitions. Such as:

- High standards of governance, will mean that the council is operating effectively and decisions are based on evidence and supported by effective assessments of options and potential effects.
- Excellent financial-management arrangements will ensure a balanced and sustainable budget.
- The Council will have a better understanding of the number of assets it can afford with the resources available, and will reduce the number of buildings with staff in.
- The Council will prioritise spending on building and maintaining assets and be clear on the whole-of-life costs of those activities, to make sure funding is being targeted in the best way to help achieve the outcomes set out in this plan and the Community Plan.

Capital Expenditure

4.06 The Council incurs annual revenue expenditure and longer term capital expenditure. The Capital Strategy concentrates on the longer term capital projects and corresponding expenditure. To effectively manage these large capital projects the following governance arrangements and processes are in place. Details of these arrangements can be found in the Council's Financial Regulations, where the Capital Planning section states the requirements for an Asset Investment Plan (AIP).

4.07 The Council sets an annual five-year AIP which details at a high level the individual projects that are to be undertaken and in which year. The AIP is reviewed and re-prioritised on an annual basis by the Policy and Resources Committee, who then recommend it to the Council for approval. Ensuring that the AIP is prepared each year is the responsibility of the Executive Manager – Capital Programme and the Executive Manager – Finance.

4.08 Council approval of the Asset Investment Plan gives Managers the authority to incur the appropriate expenditure, so long as the Gateway Process for the Management of Capital Projects has been followed.

4.09 The following table provides an overview of the Council's Capital Programme, included within the Council's AIP and how it is to be funded from 2019 up to 2024:

	Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**
	2019/20	**2020/21**	**2021/22**	**2022/23**	**2023/24**
Projects	**£**	**£**	**£**	**£**	**£**
Maintenance of Existing Assets	9,673,329	6,864,504	5,766,800	4,534,800	5,142,450
New Developments	8,013,606	2,258,000	0	0	0
Housing Revenue Account Projects	3,546,000	5,992,000	5,968,000	6,034,000	6,064,750
Potential Projects	2,701,008	2,700,000	0	0	0
Fair Funding for Ferries Projects	2,700,000	12,650,000	22,000,000	9,200,000	7,700,000
Total	**26,633,943**	**30,464,504**	**33,734,800**	**19,768,800**	**18,907,200**
Funded By					
External Grants	(12,226,000)	(19,575,000)	(27,525,000)	(14,725,000)	(13,225,000)
Reserves	(8,818,134)	(9,909,504)	(6,209,800)	(5,043,800)	(5,725,334)
Borrowing	(5,589,809)	(980,000)	0	0	0
Total	**(26,633,943)**	**(30,464,504)**	**(33,734,800)**	**(19,768,800)**	**(18,907,200)**

4.10 The Council set up an Asset Investment Group (AIG) with the responsibility for the overview of the Council's Asset Investment Plan. It is chaired by the Executive Manger – Capital Programme and consists of the members of the Corporate Management Team (CMT).

The purpose of the AIG is to:

- Receive and assess proposals for new projects from individual services.
- Assess requests from Services to vary the scope or nature of projects.
- Make recommendations to Policy and Resources Committee on existing projects. This includes recommendations on project prioritisation when the number of projects being brought forward exceeds existing budgets.
- Review and report on the progress of the Asset Investment Plan and Asset Strategy

4.11 Reports are prepared on a quarterly basis and presented to the Policy and Resources Committee by the Executive Manager – Capital Programme and the Executive Manager – Finance to provide Members with a progress report on the AIP and monitoring reports on capital expenditure for each capital project within the current financial year.

4.12 A document which supports the AIP is the Council's Asset Strategy. The Council's Asset Strategy is the document which sets out how the Council plans to manage its estate moving forward. It describes how it is aligned with other strategic documents and the Council's current policies, priorities and outcomes. It establishes how the Council intends to deal with non-operational assets and its commercial portfolio.

The Gateway Process

4.13 To ensure that all capital projects put before the AIG for consideration are supported by key stakeholders and that it contributes to the overall strategy of the Service and Council, the Council has established a Gateway Process to follow for all Capital Projects.

4.14 Appropriate use of assets can make the difference between good and poor service delivery. The Gateway Process provides a mechanism to effectively coordinate asset management and capital investment.

4.15 Responsibility for proposing to the AIG that a project be included in the AIP is given to a project sponsor. This is a senior officer from within the Service where the project originated. For capital projects to be include in the AIP they all require to be assessed through the Gateway Process.

4.16 The Gateway Process examines projects at key decision points in their lifecycle and looks ahead to provide assurance that they can progress successfully to the next stage. The overall objectives of the Gateway Process are to ensure that projects are delivered on time; to the right quality and to the right cost thus ensuring that they deliver value for money, and that the outcomes expected from the project are realised.

4.17 The Gateway Process requires that the project sponsor demonstrates how the project fits into their current Service and Directorate Plans, as well as how the project supports the aims and aspirations for the Council's Plan and the Shetland Partnership Plan. This helps to ensure that capital investment decisions of the Council are closely aligned to its wider objectives.

4.18 The Council's Gateway Process has been developed around the 'Five-Case Model' and requires that five aspects of a project are evaluated or re-evaluated at a number of stages through the development of the project. The five cases that need to be evaluated are:

- Strategic
- Economic
- Commercial
- Financial, and
- Management

4.19 Relevant Senior Officers and members of the AIG are responsible for ensuring the Gateway Process is followed properly.

4.20 An important element of the Gateway Process is ensuring that proposed projects comply with the Council's Capital Expenditure Policy, which is part of the Council's Medium Term Financial Plan (MTFP).

4.21 The determination if Council expenditure is deemed to be capital expenditure will be at the sole discretion of the Executive Manager – Finance.

4.22 If expenditure does not qualify as capital it will fall outside the scope of the framework and be charged to revenue in the period that the expenditure is incurred. If expenditure meets the definition of capital, there may be opportunities to finance the outlay from capital receipts, Government Support Grants or by spreading the cost over future year's revenues. Examples of eligible and ineligible costs can be found in the Council's Accounting Policy for Capital Assets (Non-Current Assets).

4.23 The Capital Expenditure Policy establishes that only projects where a robust estimate of costs have been undertaken are allowed to be included in the AIP. Once a project is approved by the AIG the Executive Manager – Finance will determine how it is to be funded in accordance with the Prudential Code.

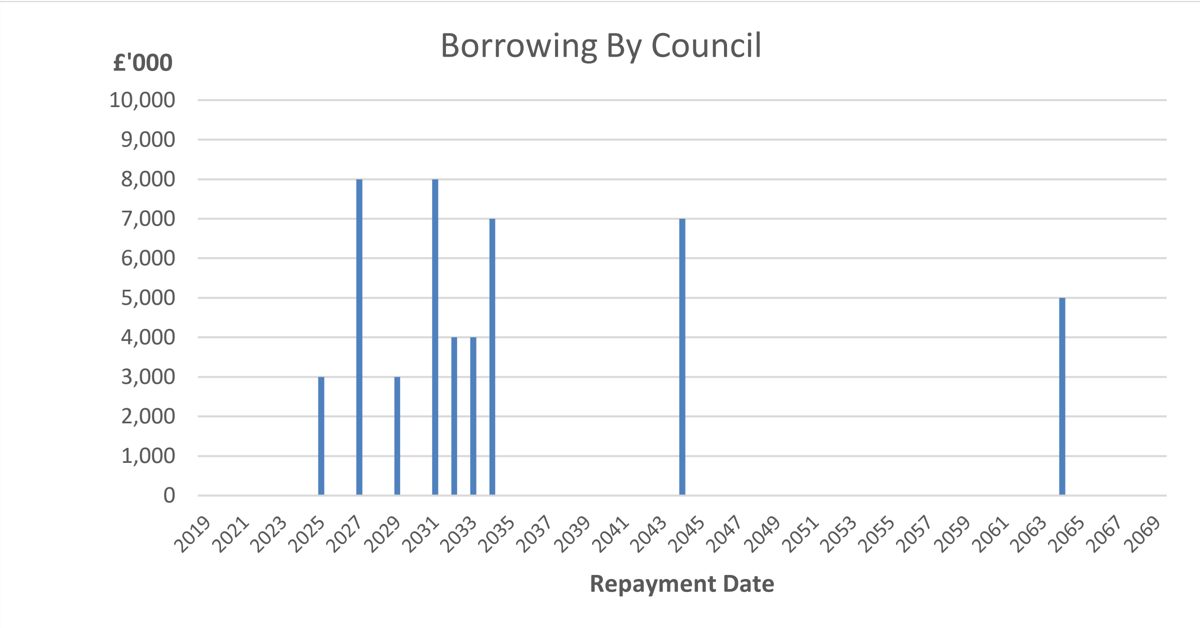
4.24 The funding sources available to the Executive Manager – Finance for capital projects is set out in the Council's Funding Policy in the MTFP. As per this policy various funding options are available such as Scottish Government Capital Grants, capital receipts, capital funded from current revenue but if these options are not available then capital expenditure can be financed by borrowing.

4.25 There are certain requirements before borrowing can be used, where interest rates on borrowing must be lower than the return on long term investments, and the service benefitting from the capital asset will be required to make sufficient revenue savings to free up budget to pay for the cost of capital (interest charges plus capital).

4.26 The Council has an approved a borrowing policy and a set of prudential indicators which set the financial parameters for borrowing. The Executive Manager – Finance as Section 95 Officer is the only Officer of the Council who may recommend a decision to borrow to the Council.

4.27 When a decision to proceed to borrow has been taken by Council, the Executive Manager – Finance will determine the institution, the type, the timing, and the length of the loan after seeking advice from external Treasury Management specialists as to the most economically advantageous transaction.

4.28 All external borrowing to date has been from the Public Works Loan Board (PWLB) on a Maturity basis, where the money borrowed is repaid back at the end of the loan period. As at the 31st December 2018 the Council has borrowed a total of £49 million from the PWLB. The graph below shows the Council's current borrowing from the PWLB, the value of each loan and the year when the loan will mature and be repaid.



4.29 Within the Prudential Indicators there are various annual borrowing limits for the Council. For example the following borrowing limits for 2019/20 have been set at:

- £110 million of external debt for the Council
- An operational boundary for external debt for the Council of £88 million

These figures and other authorised limits can be found in the Prudential Indicator section of this document.

Treasury Management

4.30 The Council's Treasury Section under guidance of the Executive Manager – Finance manages all investments, cash and Council borrowing as covered by the Annual Investment Strategy.

4.31 The Council has adopted the Revised CIPFA Code of Practice for Treasury Management in Public Services 2011 (The Code). This sets out three key principles:

- The need to put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of treasury management functions.
- That these documents make it clear that the effective management and control of risk are prime objectives of treasury management activities and clearly set out where responsibility lies within the organisation.
- That there is a pursuit of value for money in treasury management and the use of suitable performance measures to support business/service objectives.

4.32 To meet the Code there are various documents in place to support investment and treasury management, such as the Investment Strategy, Borrowing Policy and the Annual Investment and Treasury Strategy.

Risk within Capital Projects

4.33 The prime policy objectives of local authority investment activities are the security and liquidity of funds, and authorities should avoid exposing public funds to unnecessary or unquantified risks. However, all treasury management activity is subject to risk. Included in the Council's Financial Regulations are governance arrangements for Capital Projects, which help to manage and reduce risks to the capital strategy.

4.34 Within the Council's governance arrangements, there is a requirement that capital monitoring reports are presented to the Council's Policy and Resources Committee on a quarterly basis. These reports also review risk data and narrative which enables the Council to effectively monitor and manage the overall risks of the capital programme. Risk registers are maintained and managed by relevant senior officers and are considered within the Council's risk management arrangements.

4.35 Risk management is carried out by the Treasury Service, under policies approved by the Council in the Investment Strategy Statement. Section 1 of the Statement of Treasury

Management Practices details the following risks and the arrangements the Council has in place to mitigate them:

- Credit and Counterparty Risk Management
- Liquidity Risk Management
- Interest Rate Risk Management
- Exchange Rate Risk Management
- Legal and Regulatory Risk Management
- Fraud, Error and Corruption and Contingency Management
- Market Risk Management

Commercial Activity

4.36 The Council has a portfolio of local investments, predominantly in the form of loans to local businesses. These however only account for a small percentage of the overall investments of the Council.

4.37 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 20 year average fund manager investment returns (net of fees and inflation) 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.

4.38 The Council has a history of lending to businesses in order to deliver on its Economic Development objectives. This was further extended by the transfer of the Shetland Development Trust (SDT) assets to the Council in the months leading up to the formal winding up of the Trust in February 2015.

4.39 In addition to lending to businesses the SDT assets included fishing quota which is managed on behalf of the Council by the Shetland Fish Producers Organisation (SFPO).

4.40 The Council has approved a sum of £15 million to be set aside to support the Commercial Lending Service. Lending is based on a set of criteria and a detailed process and procedure is followed in approving new lending. Basic criteria include:

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

Knowledge and Skills

4.41 The Council has access to a wide range of knowledge and skills, both in house, and from external consultants. The Council use external consultants that specialise in cash and debt management to assist and advise on the funding of the capital strategy.

4.42 It is the responsibility of the Executive Manager – Finance to ensure that all staff under their authority receives the level of training appropriate to their duties. Training is provided by external advisors as well as on the job training. Further details are provided within the Statement of Treasury Management Practices section of this document.

Shetland Islands Council Borrowing Policy

Treasury Management

5.01 The definition of Treasury Management at 3.01 is intended to apply to all public service organisations in their use of capital project financings, borrowings and investments.

5.02 The Council's Borrowing Policy was produced so that the Council could in future use borrowing as a tool within its overall Treasury Management arrangements.

Internal Borrowing versus External Borrowing

5.03 The economic case for borrowing externally or using the Council's own reserves to finance capital expenditure is essentially down to whether interest rates are higher or lower than the long term average return on the Council's external investments (with fund managers).

5.04 If interest rates are higher than the long term rolling average return on the Council's investments (currently 5.2%) then it means the cost of borrowing is higher than the lost income forgone by using reserves, so it would make financial sense to use reserves for capital expenditure.

5.05 For example, if interest rates were 10% for a £1m loan -
Annual interest payable on £1m at 10% = £100,000
Investment income of 5.2% generated on £1m = £52,000

In this example to borrow would cost £100,000 a year, and to use reserves would present an opportunity cost of £52,000 in lost investment income. In this example, using reserves would present a saving of £48,000 per year over using borrowing.

5.06 However, the reverse is true if interest rates are lower than the long term average return on the Council's investments (currently 5.2%). For example if interest rates were 2% for a £1m loan -

Annual interest payable on £1m at 2% = £20,000
Investment income of 5.2% generated on £1m = £52,000

In this example, to borrow would cost £20,000 a year and to use reserves would present an opportunity cost of £52,000 in lost investment income. In this example borrowing would save the Council £32,000 per year.

5.07 Therefore when interest rates are lower than long term investment returns, the default position of the Council should be to borrow in order to achieve a Best Value outcome.

The Cost of Borrowing

5.08 Shetland Islands Council has been in the unique position of having significant reserves which in the past it has used to fund its capital expenditure. This has in effect meant that from a service perspective point of view, new assets have essentially been a “free good”. When borrowing is used to finance capital expenditure the service is required to make provision for debt charges (principal debt repayment and interest costs), which is a significant difference to the previous practice for General Fund capital expenditure where no service paid for its assets financing costs. This should be borne in mind when a decision to borrow is taken.

5.09 In order to secure Best Value in the financing of capital expenditure, the Council should use its statutory powers to consider borrowing as an option to do this. In order to regulate and monitor Council borrowing, the Council has a borrowing policy and a set of prudential indicators to set the financial parameters for borrowing.

Shetland Islands Council Borrowing Policy

The Council's borrowing policy will be as follows:

- Borrowing should only be considered as a financing option when the interest rate obtainable is lower than the 20-year average return on the Council's external investments (i.e. Fund Manager returns);

- Borrowing will only be undertaken for capital projects, with a presumption against funding of short life assets (i.e. assets with less than a 5 year useful economic life);

- Borrowing should only be considered for priority capital projects that are supported by a full business case;

- Members must be fully advised of the ongoing revenue implications arising from each recommendation to borrow before a decision is taken by Council;

- If Members decide to borrow, they must also agree how the relevant Council directorate will be able to fund the borrowing costs (i.e. interest and principal repayments) within its existing Target Operating Budget as set out in the Medium Term Financial Plan;

- Borrowing can only be undertaken within the parameters of the Prudential Framework and the Prudential Indicators which will be agreed annually by Council;

- Borrowing may be undertaken up to 2 years in advance of its deployment to finance agreed capital expenditure if expectations on future versus current interest rates make it financially advantageous for the Council to do so;

- The Council will never borrow for the purposes of investing to make a profit;

- The Executive Manager – Finance as Section 95 Officer is the only officer of the Council who may recommend a decision to borrow to Council;

- When a decision to proceed to borrow has been taken by Council, the details of the loan(s) will be delegated to the Executive Manager – Finance who will determine the institution, the type, the timing, and the length of the loan after seeking advice from external Treasury Management specialists as to the most economically advantageous transaction;

Treasury Management Prudential Indicators 2018/19 to 2021/22

Prudential Framework

6.01 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.

6.02 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.

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

- Affordability
- Prudence
- Sustainability

6.04 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.

6.05 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 E18, wherein it states – "In considering affordability, the authority is required to consider all of the resources currently available to it and those estimated to be available in the future, together with the totality of its capital plans and income and expenditure forecasts".

6.06 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.

6.07 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. risk, implications for external debt and whole life costing.
- Value for money, e.g. option 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

6.08 It is proposed that the Prudential Indicators for Shetland Islands Council for 2018-19 to 2021-22 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), Council Tax income and sustainable contribution from Reserves and Harbour Account to fund the debt financing costs (interest and principal repayments) of the planned capital expenditure 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 expenditure programme. Harbour Account - The proportion of Harbour Account income (mainly fees & charges) reduced by the planned sustainable contribution to underpin General Fund services, to fund the debt financing costs (interest and principal repayments) of the planned capital expenditure programme.

Ratio of Financing Costs to Net Revenue Stream					
	2017/18 Actual	**2018/19 Estimate**	**2019/20 Estimate**	**2020/21 Estimate**	**2021/22 Estimate**
General Fund	3.0%	5.0%	5.0%	5.0%	4.9%
HRA	17.7%	17.3%	16.5%	16.7%	16.3%
Harbour Account	2.3%	4.1%	6.5%	5.0%	5.5%

2. Capital Expenditure

Definition

Actual capital expenditure for 2017/18 and estimated capital expenditure for the current year and the next three years, as set out in the Council's Asset Investment Plan 2018-23.

Capital Expenditure					
	2017/18 Actual £000	**2018/19 Estimate £000**	**2019/20 Estimate £000**	**2020/21 Estimate £000**	**2021/22 Estimate £000**
General Fund	61,102	20,175	11,088	8,167	4,388
HRA	3,035	3,735	3,546	5,992	5,968
Harbour Account	9,621	13,654	12,000	16,386	23,379
Total	**73,758**	**37,564**	**26,634**	**30,545**	**33,735**

3. Gross Debt and the Capital Financing Requirement

Definition

The CFR reflects the authority's underlying need to finance capital expenditure by borrowing or other long-term liability arrangements. As the Council should only borrow for a capital purpose, the debt 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					
	2017/18 Actual £000	**2018/19 Estimate £000**	**2019/20 Estimate £000**	**2020/21 Estimate £000**	**2021/22 Estimate £000**
General Fund	72,508	70,467	64,813	49,221	23,037
HRA	15,593	14,785	13,976	13,168	12,360
Harbour Account	8,054	7,732	10,564	23,276	45,338
Total CFR	**96,155**	**92,984**	**89,354**	**85,665**	**80,735**
Gross External Debt		**89,354**	**89,354**	**85,665**	

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					
	2017/18 £000	**2018/19 £000**	**2019/20 £000**	**2020/21 £000**	**2021/22 £000**
Borrowing	43,379	41,478	39,182	36,900	33,356
Other Long Term Liabilities	51,293	50,023	48,688	47,282	45,896
25% Margin	23,668	22,875	21,968	21,045	19,813
Total	**118,340**	**114,376**	**109,838**	**105,227**	**99,064**

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					
	2017/18 £000	**2018/19 £000**	**2019/20 £000**	**2020/21 £000**	**2021/22 £000**
Borrowing	43,379	41,478	39,182	36,900	33,356
Other Long Term Liabilities	51,293	50,023	48,688	47,282	45,896
Total	**94,672**	**91,501**	**87,871**	**84,182**	**79,251**

6. Actual External Debt at 31 March 2017

Definition
The actual external debt taken from the Balance Sheet as at 31st March 2018.

Actual External Debt	
	31 March 2018 £000
Borrowing	41,229
Other Long Term Liabilities	50,023
Total	**91,252**

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.

	2017/18 Actual £'000	**2018/19 Indicative £'000**	**2019/20 Indicative £'000**	**2020/21 Indicative £'000**	**2021/22 Indicative £'000**
Fixed interest rate exposures	100%	100%	100%	100%	100%
Variable interest rate exposures	0%	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.

	2017/18 Actual	**Lower Limit**	**Upper Limit**
Under 12 months	0.07%	0%	25%
12 months and within 24 months	0.09%	0%	30%
24 month and 5 years	0.23%	0%	50%
5 year and within 10 years	26.85%	0%	70%
10 years and above	72.76%	0%	100%

CIPFA Code of Practice

7.01 The CIPFA Code of Practice for Treasury Management in the Public Services (2017) 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.”

7.02 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

8.01 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.

8.02 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".

8.03 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.

8.04 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.

8.05 The Prudential Code 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 6.08.

8.06 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

9.01 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."

9.02 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. Credit and Counterparty Risk Management

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 which 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. Liquidity Risk Management

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

5

Shetland Islands Council

Meeting(s):	**Policy and Resources Committee** **Shetland Islands Council**	**6 March 2019** **6 March 2019**
Report Title:	**Corporate Risk Register report**	
Reference Number:	**CRP-03-19**	
Author / Job Title:	**Christine Ferguson, Director of Corporate Services**	

1.0 Decisions / Action required:

1.1 That the Policy & Resources Committee and Council RESOLVE to:

1.1.1 NOTE the changes to the Corporate Risk Register;

1.1.2 NOTE key risks facing the Council at this time and the action taken to mitigate those risks; and

1.1.3 COMMENT and ADVISE the Chief Executive and senior managers of their views and any changes required.

2.0 High Level Summary:

2.1 The purpose of this report is to present the current Corporate Risk Register to Policy and Resources Committee and to Council as part of the organisation's Performance Monitoring arrangements. It complements the exempt Confidential Corporate Risk Register which appears later on the agenda of this meeting.

3.0 Corporate Priorities and Joint Working:

3.1 The Council states that

- 'Our approach to managing the risks we face will have resulted in a more risk-aware organisation that avoids high-risk activities', and

- 'We will be an organisation that encourages creativity, expects co-operation between services and supports the development of new ways of working'

as two of its key corporate priorities. The ongoing identification and monitoring of corporate risks are key components of that approach.

3.2 Risk Management staff provide support across the organisation to ensure that risks are being managed within the Council's risk appetite and staff and services are working within the Risk Management Policy and Strategy.

4.0 Key Issues:

4.1 The Corporate Risk Register lists twenty risks, one of which was added at the February 2019 Risk Board. All are described below in 4.4 to 4.7 and details are appended.

4.2 Risk Registers are a standing item on the agenda of the Risk Board, which meets quarterly. The most recent meeting was held on 12 February 2019.

4.3 ORG048 – Corporate Address Gazetteer - describes a new risk that was identified by ICT but which has cross-departmental and potentially community-wide impacts. It has been added to the Corporate Risk Register.

4.4 The Executive Manager – Finance has advised that an additional risk may shortly require to be added to highlight the potential implications of the government's response to a recent consultation. This also links with risk no. ORG034 and with a risk on the Confidential Corporate Risk Register. The background is as follows:

> *"The Scottish Government initiated a consultation on the structure of the Scottish Local Government Pension Scheme (SLGPS) in June 2018, which closed on 7 December 2018. The consultation asked for employers and employee representative groups to give their views on how the SLGPS should be structured to best serve its members and sponsors. The consultation document outlined 4 different potential structures: (i) retaining the current structure of 11 separate Funds, (ii) increase cooperation across 11 Funds – particularly in investment and administration, (iii) pooling of Funds' assets, and finally (iv) merger of Funds into one or more new Funds. The Council responded to the consultation outlining a preference to retain the current structure, however, we are aware of varied views being submitted by other local authorities, especially one of the unions who are supportive of a fully merged option. The Scottish Government is due to respond to the consultation exercise in 2019, but one potential outcome is that government will seek to enact legislative changes to facilitate options (iii) – pooled funds and (iv) – merged funds. A merger of Funds, if progressed, would impact on the Council as an authority that manages both investment activity and administration of its own Pension Fund, particularly around staffing."*

4.5 Previously the following four risks have been described as standing items in that they are likely to remain on the Corporate Risk Register for management and monitoring purposes. The ratings and narrative for these risks have been reviewed but have not changed:

- ORG025 – risk of harm to a child because of a failure to manage unanticipated crisis.
- ORG024 – risk of harm to a vulnerable adult.
- ORG029 – Malicious cyber-attack.
- ORG030 – Uncontrolled release of data/ loss of paperwork or data-storing technology.

4.6 There are a number of risks that are currently significant but are likely to be removed once the risk has been managed, reduced or no longer exists. The narratives have been routinely revised to reflect the current situation:

- ORG022 – STERT/ College merger – the Full Business case proposal for the merger has been approved, with the project now moved to an implementation phase.

- ORG035 – Old AHS campus plans and works. The date for the master-planning exercise is now estimated to be June 2019.

- ORG037 – Brexit and its impact. The text of this risk has been revised, recognising that the situation is uncertain and fluctuating almost daily.

4.7 A number of risks relate to finances and financial planning, some of which are anticipated to remain on the Corporate Risk Register for the foreseeable future. The narratives for these risks have been reviewed and revised.

- ORG039 – Risk around the Medium Term Financial Plan and the current economic climate. The risk and control measure narrative has been revised to factor in the 2019/20 financial settlement.

- ORG021 – The need for investment in Shetland's infrastructure

- ORG034 – Liabilities arising from the pension fund. The narrative may be revised or replaced, as indicated in 4.3, depending on the Government's response to a recent consultation exercise.

- ORG042 – Failure of long term financial planning.

4.8 The remaining risks are inherent to the business of the Council. There have been no change in the ratings for the following risks.

- ORG032 – Increased workload, impact on planned work, conflicting demands. While some of the identified work streams are progressing, they remain challenging and hence are retained on the Corporate Risk Register. This risk links to ORG018 below, which focuses on the external factors that impact upon staffing and recruitment, and to ORG022 – the College merger.

- ORG040 – Risks relating to partnerships. The ownership of this risk has been moved to the Director – Corporate Services as the control measures sit within that Department.

- ORG018 – Challenges around workforce change and demographics.

- ORG031 – Missed opportunities from Viewpoint surveys.

- ORG044 – Implications of the Equal Pay Audit. The control measure has been updated to focus on current and planned mitigation measures.

4.9 The Risk Board has previously discussed the possibility of creating an opportunity register. However, it is recognised that opportunities are currently considered at a number of different levels through the organisation including as part of the Service Redesign Programme and Business Transformation Programme activities. Preparing an options longlist is an integral part of the Building Better Business Cases process, and Corporate Services is also currently considering a new initiative that facilitates opportunities at an operational level. Opportunities are therefore considered, developed and reported in a number of ways. The additional work required to manage an opportunity register is therefore seen as a duplication and is not deemed necessary at this time.

4.10	The Risk Board agreed that the Monitoring Officer would provide the Proper Officer report to the April Board meeting, the Director of Corporate Services would report on the change programmes, and the Insurance Service will present a review of the first full year of self-insurance.
5.0	**Exempt and/or confidential information:**
5.1	None
6.0	**Implications :**

6.1 Service Users, Patients and Communities:	The ongoing monitoring of risks ensures that any risks that may impact on service users, services or communities are identified, considered, and managed appropriately.
6.2 Human Resources and Organisational Development:	Various risks to managing the workforce are highlighted and are actively managed.
6.3 Equality, Diversity and Human Rights:	An Equalities Impact Assessment is not required in connection with this report. The gender pay gap is recognised and highlighted on the Corporate Risk Register.
6.4 Legal:	The Executive Manager – Governance and Law, in his role as Monitoring Officer, is required to report annually to the Risk Board. Legal risks are considered and included in the Corporate Risk Register.
6.5 Finance:	All risks have a direct or indirect financial cost, whether in terms of the impact or the cost of preventing a risk from happening. All risks can affect the service that the Council seeks to deliver, and risks are managed appropriately in order to ensure that those services are protected within constrained budgets.
6.6 Assets and Property:	Risks around assets and property are considered within the service and Corporate Risk registers.
6.7 ICT and new technologies:	ICT service has identified a significant risk around the address gazetteer so this risk and efforts to mitigate it, are now regularly considered by the Corporate Management Team sitting as the Risk Board.
6.8 Environmental:	This report has no direct environmental implications.
6.9 Risk Management:	All risks are measured on the agreed risk matrix.
6.10 Policy and Delegated Authority:	Policy and Resources Committee requires the Corporate Risk Register to be reported periodically [min.ref. P&R 75/15]

	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. Ensuring the proper management of the Corporate Risk Register is therefore a delegated matter for the Policy and Resources Committee. However, the Council instructed that the Corporate Risk Register be reported to the Council quarterly as part of the PPMF cycle [Min. Ref. SIC 20/16] so that all Members are informed and involved in discussing the high level and strategic risks facing the Council alongside other performance information.	
6.11 Previously considered by:	None	

Contact Details:
Joanne Jamieson, joanne.jamieson@shetland.gov.uk, Senior Risk Management Officer, 14 February 2019

Appendices:
Appendix 1 – Corporate Risk Register

END

Shetland Islands Council Date: 4 February 2019

Risk Register - Shetland Islands Council

Risk & Details	Current Likelihood	Current Impact	Current Risk Profile	Current and Planned Control Measures	Target Probabilty	Target Impact	Target Risk Profile	Responsible Officer
One or more communities fail to be sustainable **Trigger :** Demographic and socio-economic problems on remote communities **Consequences :** Depopulation of remote areas, sudden impact on development services **Risk type :** Economic climate **Reference** - ORG0045	Possible	Signifi-cant	Medium	• Planned control measures include:Impact of connectivity from broadband and transport links; working with communities to develop sustainable plans; Progressing 'Islands with small populations' project	Unlikely	Signifi-cant	Medium	Neil Grant Shetland Islands Council
Transport Scotland has reviewed the Northern Isles Ferry Service and began tendering the service in January 2019 with the aim of having a new contract awarded by the end of July 2019 and the contract commencing on 31 October 2019. At the point of tendering it is known that the service specification cannot meet even the short term economic and social needs of Shetland. If this position is sustained for any significant period of time then there will be serious constraints on important economic sectors such as aquaculture, fishing, engineering and fabrication, construction and tourism. **Trigger :** Failure to agree and implement variations to the contract to put in place service and infrastructure improvements that adequately address short to medium economic and social need. **Consequences :** The contracted service does not meet the needs of Shetland, can't support the economic growth of Shetland and could trigger economic stagnation and decline. An opportunity to address societal inequalities is missed. Significant societal and economic impact is experienced in Shetland **Risk type :** Partnership working failure **Reference** - ORG0046	Possible	Extreme	High	• Scottish Government has structured the contract so that it is "flexible" and variations can be made to the contract to reflect changing economic and social needs. Resources will be applied to gather and submit evidence to Transport Scotland making the case for contract variations as soon as possible to address capacity constraints, reliability and costs for freight and passengers.	Unlikely	Major	Medium	Michael Craigie Shetland Islands Council

There is a challenge to sustain current business and developing new business activity at Sullom Voe Terminal. Sullom Voe Terminal employs some 400 staff directly and many more indirectly. Exports from SVT through the Port of Sullom Voe (PoSV) earn c£6m - £8m contribution to Council reserves annually, an income level which is a key component of the Councils MTFP. **Trigger :** SVT processes Oil received through pipeline from East of Shetland (Brent & Ninian Pipeline Systems) and West of Shetland (Clair Pipeline System). East of Shetland volumes are in long term decline but West of Shetland is forecast to increase significantly over the coming years and be sustainied for a considerable period pof time, c2050-60. There are however evaluations and negotiations ongoing between Clair system owners and SVT operator and owners about whether a long term contract for Clair/SVT can be agreed, or whether some by-pass option might be preferred. Without Clair volumes the medium / long term future of SVT would be in some jeopardy. **Consequences :** If SVT cannot secure long term business on a satisfactory commercial basis then there is a risk that the terminal would close in the medium term perhaps around 2025. A significant decline or cessation of Oil & Gas activity at SVT would have very considerable economic, financial and social consequences. **Risk type :** Loss of revenue/income **Reference** - ORG0047	Possible	Extreme	High	• The Council has recognised that there is a significant review processbeing carried out at the moment between Clair and SVT. Discussions have been held with both parties and further discussions sought with the UK Oil & Gas Authority (OGA). A specialised consultant has been appointed to focus on this issue and specific items of technical advice are being considered with legal, financial and technical advisors. Engagement has been initiated through the Sullom Voe Association and Council SVA directors are being kept informed of developments as a sounding board. Further reports on progress and plans will be brought to Council through appropriate channels to ensure commercial confidentiality.	Unlikely	Major	Medium	John Smith Shetland Islands Council
The Corporate Address Gazetteer is a Scottish Government system that is populated by each Local Authority with address information for residential and domestic properties. The information in the gazetteer is increasingly being used by emergency services to locate properties, and the plan is to use it for the 2021 census, which is to be completed electronically for the first time. The data in the Shetland section of the gazetteer is less than satisfactory, and there is no clear responsibility - for example, a Custodian has not been identified for the gazetteer. ICT has instigated a cross departmental project to rectify this, and to clarify responsibilities going forward. **Trigger :** The gazetteer, which is required to support service delivery (e.g. for the census), does not function as required due to the poor quality of the data. **Consequences :** Impact on service, possible incidents of emergency services not being able to identify property locations, delay to census, national embarrassment, potential penalty from Scottish or UK Government. **Risk type :** Records/Research data/systems/security/confidentiality/ back-up. **Reference** - ORG0048	Possible	Signifi-cant	Medium	• ICT has instigated a project to address data issues and inaccuracies, and to clarify responsibilities going forward.	Rare	Significant	Low	Susan Msalila Shetland Islands Council

Child Protection - Children's Services deliver a range of services across a wide geographic area and all service users need to be safe. Children's Social Work manage high risk, complex situations in their work with families. Often it requires significant resource provision to mitigate risks and ensure the safety of a child or young person. The most significant current example of this risk relates to the failure to appropriately accommodate looked-after children, off-island placement. There are circumstances when the Children & Families Team is required to accommodate children and young people away from home. Currently, there is a shortage of foster placements and residential placements in Shetland. On occasion this results in placements being sought away from Shetland, which is undesirable and which comes at a high cost to the Local Authority. **Trigger :** Crisis or escalation of complex situation, usually unanticipated and which puts child at increased risk of harm. Shortage of foster placements and residential placements in Shetland. There are situations whereby the assessed needs of a child or young person are such that they require a specialist service that is not available in Shetland, such as secure accommodation or a parenting assessment unit. **Consequences :** Failure to act quickly or to the extent that is required because of restricted resources can result in child being exposed to potentially more harm or to harm for a longer period of time, harm to child, impact on services, financial impact. Placements have to be sought away from Shetland, which come at a high cost to the Local Authority. **Risk type :** Physical - People / Property - Other **Reference** - ORG0025	Possible	Major	High	• Robust systems and procedures in place. Preventative measures, effective communications and information sharing to ensure that any changes or increased risk are identified quickly. The Child Protection Committee's Training Strategy, and the training sub-committee, ensure that a range of Child protection training is delivered to frontline staff. This Inter-agency training is led by Shetland Islands Council and training activity is reported quarterly to the Child Protection Committee. Children's Services is working to increase capacity in Shetland to provide accommodation for looked after children, where required. This includes growth in the Family Placement and Residential Childcare services, to reduce demand for more expensive out of area/off island placements.	Unlikely	Major	Medium	Helen Budge Shetland Islands Council
Risk of harm to a vulnerable adult - Shetland has an increasing older population and an increase in people with a learning disability reaching older age. Statutory services will need to have oversight of an increasing number of vulnerable adults to prevent harm occurring. **Trigger :** Statutory services fail to identify and take account of all vulnerable adults within their remit, systems failure means that information is not fully collated and/or shared **Consequences :** Vulnerable adult is not given access to full range of services that they need, delay in access to services leads to harm to vulnerable adult, reputational risk to organisation, potential for HSE action, Care Commission/ external advisors' negative report, civil action. **Risk type :** Communications failure **Reference** - ORG0024	Possible	Major	High	• New Adult Protection Format in place.New Adult Protection Format in place, which is to combine Child and Adult Protection into one committee with the Chief Officers group retaining oversight, This is an improved arrangement where the Directorate provides care for both Adults and Children. •There are well established mechanisms in place to support the detection of risk with an active Adult Protection Committee overseeing the work. There is good multi-agency working within formal arenas to discuss individual cases causing concern. Transitions group in place for Learning Disability Services to manage childhood support to adult support. Ongoing work to review services to make effective use of limited and reducing budgets. Chief Officers Group provides assurance on the effectiveness of the Adult Protection Committee.	Unlikely	Major	Medium	Simon Bokor-Ingram Shetland Islands Council

Malicious cyber attack could happen at any time. ICT and SIC have a host of security systems and approaches in place. However, an attack, successful or otherwise, can always happen. It may be impossible to tell whether there has been an attack, or what any attack has looked at/ taken/ copied. Any attack could result in compromise /damage to systems or reputation, data leak, loss of data or system downtime. **Trigger :** Attack on the Council's network resulting in compromise/damage to systems or reputation, data leak, etc **Consequences :** Loss of data, system downtime **Risk type :** Malicious damage/ vandalism/sabotage **Reference** - ORG0029	Unlikely	Major	Medium	• Anti-virus and firewall defences, ICT security policy,, boundary appliance scan all incoming e-mail; Corporate anti-virus installed on all servers and workstations; Corporate firewalls, Systems support team ensure software and hardware are patched to the latest secure versions; Annual penetration testing resulting in security remediation actions, PSN and Cyber Essentials Plus certification; Regular internal system scans and reviews to ensure systems are up to date and secure. System monitoring for unusual activity, which may be linked to a cyber-attack Fortnightly Security Review meetings discuss and evaluate threats; Active participation in national Security forum CiSP, and implementation of advice from government bodies such as Secure Email Blueprint, Webcheck, and Secure DNS. Documentation of a Cyber Incident Response plan, including escalation points of contact at central government level, including Netcraft.	Rare	Significant	Low	Susan Msalila Shetland Islands Council
The Council handles significant quantities of data including confidential and personal data on a daily basis. It is expected to be an exemplar of good practice and to maintain high standards of security and confidentiality at all times. Information management is managed within the legislative framework as set out by the Information Commissioner. **Trigger :** Data is released in an uncontrolled manner, accidentally or deliberately, and potentially without the knowledge of the organisation, because of a lack of training/ understanding, poor security, loss of paperwork or data-storing technology. **Consequences :** Release results in reputational damage or action against the organisation by the Information Commissioner. Financial loss/ fine. Negative media coverage and reputational damage. Possible disciplinary action, stress for staff. Loss of confidence in Services. **Risk type :** Breach of Legislation - Data Protection, Human Rights, Employment Practice, Health and Safety etc **Reference** - ORG0030	Unlikely	Major	Medium	• Current and planned controls -• Current and planned controls - Current: There are already robust systems and procedures in place to prevent the loss of data and information. To date, over 600 staff have accessed training in basic Data Protection and Freedom of Information principles, including attendance at a conference provided by the Assistant Information Commissioner in 2015, and by the Office of the Scottish Information Commissioner in 2016, and by accessing online training through iLearn/Brightwave. Planned: Information management and improvement is a strand of the Business Transformation Programme 2016-2020. This is supported by an Information Management Strategy, which provides a framework for improvement and development of information management policies and procedures to ensure our services can work together in a smarter way. The Improvement Programme includes a number of work streams, including information security, business continuity, culture and training, all of which will contribute to further reducing the risks inherent with maintaining and processing large amounts of information, and will aim to keep these considerations at the forefront of business transformation projects. Governance, accountability and strategic direction for the Information Improvement Programme is provided by the Information Governance Board. The Board includes those who have management responsibility, accountability and ownership of information assets and this will be supplemented by the continued raising of awareness amongst, and further training of, managers, administrators and other staff in the proper handling of information.	Rare	Major	Medium	Christine Ferguson Shetland Islands Council

Failure to deliver the College merger would result in an unsustainable tertiary sector within Shetland. A Full Business Case for merger was agreed in December 2018, with targeted vesting date August 2020. We are working with SFC and UHI to recruit a Project Manager for the implementation phase (expected by end of February 2019), though the SIC element of the implementation team is already in place, to support the Project Manager and the Principal Designate once appointed.. **Trigger :** Project management failure, partner failure, project resources **Consequences :** Failure to deliver a sustainable and affordable model for tertiary education, training and research. Partner may cease to exist. **Risk type :** Professional - Other **Reference** - ORG0022	Unlikely	Signifi-cant	Medium	• Project Manager and Shadow Board to be put in place quickly, and partner project team participants to be identified and freed up.	Unlikely	Minor	Low	Neil Grant Shetland Islands Council
The current Anderson High School campus is a large open site with a number of buildings on it. There are various access points to the campus and it is surrounded by residential properties. The school was vacated in Sept/ Oct 2017 when the service/ staff/ pupils, etc moved to the new build at the Clickimin. **Trigger :** Failure to properly plan for the future of the site **Consequences :** A failure to plan for the future of the site could lead to missed opportunities to capitalise on this asset, . There will be on-going costs associated with the site, rates, maintenance etc. and a risk of vandalism or other damage. There is also a risk of reputational damage if the site is not developed. **Risk type :** Missed opportunities **Reference** - ORG0035	Unlikely	Extreme	High	• The Council is undertaking a master-planning exercise for this site. It is hoped this will be complete by June 2019.	Unlikely	Significant	Medium	Robert Sinclair Shetland Islands Council

On 23rd June 2016, the UK voted to leave the European Union. There has been, and continues to be, ongoing economic and political uncertainty following that decision. **Trigger :** The date for leaving the EU is 29th March 2019 and there is, at 24th January, no clarity as to the way forward. The UK could leave the EU without an agreement, with an as-yet-unclear agreement or the departure date could be set back. Each of these potential scenarios has potentially significant implications locally and nationally. **Consequences :** Generally, impacts are most likely in relation to constraints on the supply chain, for imports and/or exports. Shetland Seafood industry is worth circa £450M pa and the English channel is a key part of the export supply chain. Shetland's electricity and fuel supplies are partly or wholly outwith national supply frameworks and so may be overlooked in the event that UK government seeks to control or protect those supplies. The vessels which provide the lifeline ferry service to Shetland are owned by the Scottish Government so could be commandeered, for example, to ship goods on international routes. A lag in the move from EU funding to the UK prosperity fund might impact on projects, activities and industry across Shetland. There is a possible impact on EU nationals working in Shetland, and a number of Shetland nationals who live abroad may return at short notice. Medium term: Withdrawal of funding, political and economic uncertainty, legislative & regulatory uncertainty, impact on pension fund and Council investments, issues round fish quotas/ market/ pelagic fleet, economic impact, uncertainty for non-UK EU nationals employed in Shetland, potential impact on recruitment (of staff/ students). Potential for further legislative, political and structural change, opportunity to influence direction and shape of new legislation, impact on partner organisations and partner-funded bodies, risks around capital expenditure. **Risk type :** Political - Other **Reference** - ORG0037	Likely	Extreme	High	• EU exit is a standing item on CMT agenda and Resilience Advisor reports there weekly. Resilience Advisor is in close communication with various national local authority and Category 1 responder groups which have been convened and meet twice-weekly to consider EU exit preparedness and the changing Scottish and UK planning assumptions. Development Services are preparing regular update papers to Committee and Community Planning board. An EU Engagement and Brexit Sounding Board was agreed by the Development Committee in June 2017 and met once in Nov 2017. Its remit is to help inform the Council and Community Partners of opportunities and risks.	Possible	Extreme	High	Maggie Sandison Shetland Islands Council
The Medium Term Financial Plan covers the period from 2018/19 to 2023/24 and as an instrument to direct the organisation's budget setting and expenditure is prudent and in line with available resources. Over 75% of the Council budget is funded by the Scottish Govt. The local authority's annual grant from the Scottish Govt is expected to reduce in the short and medium term but is currently un-quantified, a reduction of 7.29% has been assumed across the MTFP period. This amount has been estimated based on a best case scenario of a possible growth of 2.7% and a worst case scenario of a reduction of 14.4% over the next 5 years. **Trigger :** Organisation's failure to plan or put in place sustainable services for future years, continued reductions to govt grant of an unanticipated or unknown magnitude. **Consequences :** If there is no adequate planning to take account of grant reduction then the Council will be unable to respond to the uncertainty presented by austerity which could result in knee-jerk decisions being made to balance budgets and/ or an unsustainable draw from Council reserves. **Risk type :** Economic climate **Reference** - ORG0039	Likely	Significant	High	• Service redesign across all areas to identify and implement sustainable levels of service going forward. Implementation of business transformation programme to support service redesign. Impact of 19/20 financial settlement is generally in line with MTFP expectations, however full funding of internal ferry services is not included which creates an immediate pressure of £2.9M on the Council's 19/20 budget (and on the MTFP). Settlement also reinforces the need for the Council to transform the way it provides services in the future in order to deliver the right outcomes in an efficient and cost-effective way (for the community), i.e. to proceed with the ambitious Service Redesign programme and Business Transformation Programme	Unlikely	Major	Medium	Jamie Manson Shetland Islands Council

The Council invested heavily in infrastructure at the time when the oil industry was taking off. This infrastructure was funded from income generated from the oil industry. That infrastructure is now ageing and will need to be replaced, however, the financial situation is now tighter which will mean that it will be challenging to finance this. **Trigger :** Need for Investment in Shetland's infrastructure Consequences : Challenge to finance the maintenance and/or replacement of existing infrastructure **Risk type :** Physical - People / Property - Other **Reference** - ORG0021	Likely	Extreme	High	• The current Asset Investment Plan focuses on the maintenance of existing assets in order to prolong their useful economic lives. This should mitigate against the risk of immediate failure. In order to address the longer term replacement of assets, a Borrowing Policy was approved by Council on 11 December 2013. Other measures in place include: MTFP, budget monitoring and scrutiny, clear and robust roles and responsibilities for managers and financial procedures & regs. A report on Long Term Asset Investment planning has been prepared and presented to the Council. It identifies the extent of future programmes, which will inform funding options. LTAI planning highlights the significant challenges - for example fair funding for ferries is a challenge that is larger than is manageable by the SIC and requires national input and support. Lobbying of Scottish Govt to be undertaken.	Likely	Major	High	Christine Ferguson Shetland Islands Council
The SIC Pension Fund is currently not 100% funded. At 31 March 2017 triennial evaluation the Fund was 90% funded. The SIC Pension Fund, as well as the Council has a number of Scheduled and Admitted Bodies that have liabilities to fund over the long term. Admitted bodies failing or being unable to meet their contributions places risk from these arrangements on the Council, as the largest contributor to the Pension Fund. Trigger : Any circumstance that triggers a liability to crystalise Consequences : Financial impact, significant long term obligations on pension fund employers Risk type : Customer / Citizen - Other Reference - ORG0034	Almost Certain	Major	High	• The 2017 Triennial valuation has been completed, along with a revised Funding Strategy Statement (FSS). This provides an up-to-date funding position for the SIC Pension Fund along with a revised FSS to ensure the Funds deficit can be met over the long term. Deficits are estimated to be recovered over a period of less than 20 years. A review of the Pension Fund strategy was approved by the Pension Committee and Board on 22nd May 2018 and is now in progress. KPMG are advising us of options in relation to the Pension Fund investment Strategy in order to realise the Pension Fund Strategy objective of reaching 100% funding level by 2027. For Bodies seeking admission to the Pension Fund, if they are not a scheduled body with tax raising powers, they must provide a guarantee and/or bond to meet any liabilities should they default in the future. This mitigates the risk to the Fund in relation to new employers.	Rare	Extreme	High	Jamie Manson Shetland Islands Council

Long term financial planning - fulfilling the Council duty of best value has been defined (in part) by the Accounts Commission as addressing and doing more long term planning. Failure to recognise the longer term factors that impact on Council finance and service delivery obligations and challenges may result in serious criticism from Audit Scotland and the Accounts Commission, while at the same time impacting on customers and the organisation at large. **Trigger :** Failure to prepare and take account of longer term scenario planning and to make informed assumptions about the impact of those on services and finance. A trend in the one-off use of reserves to balance revenue budgets. Use of invested capital for one-off or recurring expenditure and failing to recognise the cost of that capital and the impact on future budgets. **Consequences :** If the Council operates unsustainably and without intervention it will have to increasingly rely on its reserve, the compounding effects of this eventually resulting in the depletion of reserves/investments and being no longer able to provide additional funds to support services in the General Fund budget. Reputational damage, the current expectations of customers not met and the Council outcomes not achieved. **Risk type :** Economic / Financial - Other **Reference** - ORG0042	Rare	Extreme	High	• Strong financial management arrangements in place, with MTFP refreshed and reported to Council in August 2018. A clear and robust financial cycle of annual budget process, regular monitoring and annual accounts in place, with positive feedback from external auditors. Regular / annual review of MTFP based on adoption of current year's budget and any likely changes in wider local government funding environment. Work to review the LTFP is expected to commence over the next 12 - 18 months. Service redesign across all areas to identify and implement sustainable levels of service going forward. Implementation of business transformation programme to support service redesign.	Unlikely	Major	Medium	Jamie Manson Shetland Islands Council

Recent Council activities plus local / national issues have led to an increased workload for Services across the Council and within Corporate Services - and particularly for Finance, Governance and Law, Capital Programme and Human Resources. There is a limit to how much additional work staff can absorb - staff and services are considered to be at capacity. The implemented move from 8 North Ness was disruptive and there is an ongoing increase in workload caused by the work arounds required so that the Council can continue to operate from other locations. **Trigger :** Main triggers include: revised budget post Scottish Govt settlement, budget setting challenges - the requirement to make savings now and in the future, implementing various pay and conditions requirements plus 3rd edition of JE scheme, the tertiary review is a significant on-going piece of work, as are the various tasks and activities around the establishment and operation of the IJB. Governance and law workload includes governance reviews and organisation-wide project work. Service redesign work also requires significant staff time. **Consequences :** Impact on planned work including in particular important corporate/ strategic reviews and strategy development: there is a risk that work will not be scheduled or will not be completed on time, leading to missed opportunities and/or increased costs. Teams at capacity, stress on staff, potential sickness absence, any reduction in resources, e.g. from absences, or resources diverted, can lead to missed opportunities or deadlines/ impact on quality of work as well as difficulty in meeting timescales. Significant work/ strategic planning/ long-term vision is affected or displaced by urgent tasks, short deadlines, reactive work and external demands. Impact on quality of work, missed information, failure to take adequate account of all relevant information, poor quality input / information can lead to poor decision-making. **Risk type :** Corporate/Community plan - failure to meet **Reference** - ORG0032	Possible	Signifi-cant	Medium	• The effects of the move from 8 North Ness are being monitored and adjustments made where possible to ensure minimal disruption to services. • Our Plan 2016-20 has been agreed. This explains the outcomes that the SIC wants to achieve by April 2020. Our financial planning process is more robust and in line with other planning processes. The risks to Directorate and Service plans are articulated and considered in reports. The Risks for new initiatives including the allocation of resources are considered at Project start up and kept under review.	Unlikely	Minor	Low	Christine Ferguson Shetland Islands Council

Shetland Islands Council and specific Directorates, Services and sections are in a number of partnerships. Some have a legislative element and have a strategic directing role (the Community Planning Partnership, SADP, etc), some are entered into for the purpose of delivering services (Community Health and Social Care/ IJB, SIC Housing Service and Hjaltland Housing Association). Many are contractual but for some, the partnership may exist only through an informal agreement. There is no formal list of the council's partnership arrangements or agreements. **Trigger :** Partner fails (legally, financially, is wound up, becomes insolvent or goes into administration) or is no longer able to provide their part of the partnership. Grant or funding is cut to partner. Board resignation, difficulty in recruiting board members, failure to achieve buy-in from essential partners, volunteer fatigue. **Consequences :** If a partner fails, the responsibility to deliver service or function for which the partnership was formed, may fall to Shetland Islands Council. Contractual obligations such as leases may become the (moral or financial) responsibility of Shetland Islands Council. Financial responsibilities such as for pensions, may fall to Shetland Islands Council. Civil liabilities such as through claims, may fall to Shetland Islands Council in the event that joint liability exists. **Risk type :** Partnership working failure **Reference** - ORG0040	Possible	Extreme	High	• Various controls in place.All new admitted bodies comply with current requirements, all contracts are scrutinised by Legal Services / Governance and Law/ Finance staff. Assurance required that managers engage with Corporate Services BEFORE commencing service redesign programmes. Managers must adhere to Commissioning and Procurement framework.	Unlikely	Major	Medium	Christine Ferguson Shetland Islands Council
The Council is required to manage changes and challenges in its workforce and in some services across the organsiation there are considerable challenges in recruitment, such as social work, teaching and other technical and professional posts. These difficulties are not limited to Shetland. Services must review the demands on services, consider strategies to attract and retain employees and they need accurate and timely data and analysis from the council's HR system to inform their decision making. Human Resources must ensure that effective use is made of information management and reporting to support services to enable effective workforce and succession planning. HR and Council services must work together to develop and review policies, procedures and the employment offer from the Council to minimise the risks of having insufficient staff to deliver council services. **Trigger :** Increase in staff turnover and inability to recruit staff to vacant posts . **Consequences :** Posts remaining unfilled due to failure to recruit which places strain on services to deliver and increases pressure on existing workforce. The relocation and interview expenses budget increases with the increasing need to recruit from outwith Shetland. We are also having to advertise more frequently with teaching posts in particular being difficult to fill. Services must engage proactively with HR in order to analyse the reasons why staff leave to minimse staff turnover. Working patterns, and terms and conditions of service should also be reviewed by services to remove any unnecessary barriers to employment. **Risk type :** Employment issues **Reference** - ORG0018	Likely	Minor	Medium	• HR continually reviews the council's HR policies and processes to ensure policies and procedures support the organisation to become more responsive and flexible in the deployment of existing staff. The Council's Workforce Strategy provides a framework to focus attention and prioritise work streams that identify and develop talent as well as increase the number of ways young people can join the organisation. The Council's Market Forces Policy can be applied in appropriate circumstances.	Unlikely	Minor	Low	Denise Bell Shetland Islands Council

An organisation-wide Staff Viewpoint Survey was carried out in January 2015 and again in late 2017 for the purpose of gauging staff opinions. The returns were analysed with the issues prioritised, and that information was reported to Directors, Managers and staff. Managers and Directors were then tasked with putting in place a range of measures to address the specific issues raised. The comments made reflect concerns about the Council, recent changes, and the impact of those changes. In general you suggested things such as: •better communication, •listening more, •being clear about Council strategy and sticking to it, •having better training for Managers, •Senior Leaders spending more time on the “shop floor”. **Trigger :** Perception (real or imagined) that organisation, senior management or specific manager(s) will not/ have not acted upon the findings of the survey. No change evidenced, status quo despite assurances or promises to the contrary. Failure to communicate change to front-line staff, failure to embed change, so situation reverts to that which led to dis-satisfaction. **Consequences :** Disillusioned/ unhappy / disengaged staff, increased disillusionment following the expectation that the survey would make a difference, no confidence in manager or organisation, demotivated staff, poor commitment to Service, impact on Service and/or productivity. Staff retention issues - Increased turnover of staff with resulting recruitment costs and service impacts. Reputational damage, staff more likely to raise grievances. Stress, increase in sickness absence, perception that the whole exercise was a waste of public money. **Risk type :** Missed opportunities **Reference** - ORG0031	Possible	Signifi-cant	Medium	• Check and ensure good communication between staff and management. Managers must ensure effective communication methods are in place between managers and staff. The Council’s Workforce Strategy, Staff Development Policy and Personal Development Plan Policy set out clear direction and framework to ensure the tools are in place to make sure this happens. Directorate Consultation Forums have been put in place to bring together senior managers and staff representatives at least 4 times a year to exchange information and maintain communication throughout the organisation.The 2015 Viewpoint Action Plan has led to the launch of a new set of Council Values & Behaviours which have been launched and promoted council-wide. The second Viewpoint Survey was completed in January 2018 that shows improvement in all factors. Action planning is now underway to inform the next Council-wide Viewpoint Plan. •Check and ensure good communication between staff and management. ERD's and training needs are implemented All managers must ensure effective communication methods are in place between managers and staff. The Council’s Workforce Strategy, Staff Development Policy and Personal Development Plan Policy set out clear direction and framework to ensure the tools are in place to make sure this happens. The 2015 Viewpoint Action Plan has led to the launch of a new set of Council Values & Behaviours which have been launched and promoted council-wide. An on-going publicity campaign is in place to make sure there is continuing awareness. New Directorate Consultation Forums have been put in place to bring together senior managers and staff representatives at least 4 times a year to exchange information and maintain communication throughout the organisation. The launch of the council's new values with posters and video available council-wide is supporting work to embed these values and every opportunity is taken to encourage staff to reflect on the values and particpate in focus groups. A new staff recognition scheme is also being introduced and led by the Chief executive.	Rare	Significant	Low	Denise Bell Shetland Islands Council

The Equal Pay Audit carried out on 2015/16 pay resulted in a published pay gap of 11.21% in favour of men. This is calculated on basic pay, and when other pay elements and allowances, except non-contracted overtime are included the gap increases to 16.23%. when non-contracted overtime is included the gender pay gap increases further to 20.05%. The Equality and Human rights Commission advise that any gender pay gap greater than 5% is of concern and action should be taken to address the gap. **Trigger :** Failure to address the identified issues, public / media scrutiny, equal pay claim from a member of staff, scrutiny by EHRC. **Consequences :** There is a risk that not addressing the equal pay gap identified in the Equal Pay Audit 2016 could lead to equal pay claims being made where pay inequalities exist. There is a risk that recruitment and retention of staff is detrimentally impacted by a failure to address barriers from gender, disability and race inequalities, and that this will impact on service delivery. A failure to realise the benefits of greater diversity in employment represents a waste of talent and an opportunity to address workforce and skills shortages. Occupational segregation means the clustering of employees with a particular protected characteristic into particular occupations or different levels of work. The published Equal Pay Statement 2017-2021 provides analysis that shows 97% of employees in the Marine occupational category are men, while 89% of employees in the Care occupational category are female. The data also shows an under representation of male employees in lower grades relative to their share of total employees, and an over representation at higher grades, with the reverse that case for female employees. These will also place a demand on resources and require specialist legal input, there will be financial pressure from legal costs and any damages, reputational damage and negative media coverage should there be equal pay claims, and a detrimental impact on staff confidence and morale. Increased recruitment and retention difficulties are likely. **Risk type :** Economic - Other **Reference** - ORG0044	Possible	Major	High	• Various significant activities are in place: The SIC Workforce Strategy,Equal pay Statement; Equal pay Audit Action plan. A new council-wide approach is being developed in the Council's travel at work arrangements for implementation by 1 April 2019, a new pool car scheme has been approved for use by the care at home service to address inequalities identified through the equal pay audit. The council is required to carry out a further equal pay audit and publish its equal pay statement by the end of March 2019.	Unlikely	Significant	Medium	Denise Bell Shetland Islands Council