



REPORT

**To: Services Committee
Shetland Islands Council**

**7 May 2009
20 May 2009**

From: Head of Finance

ANDERSON HIGH SCHOOL – FUNDING PROPOSALS

Report No: F-015-F

1. Introduction

- 1.1 Report F-015-F to the Shetland Islands Council on 14 May 2008 (Min. Ref.63/08) was approved, which meant that the Council approved a sale/leaseback deal with the Shetland Charitable Trust (in practice, with Shetland Leasing and Property Development Ltd., or SLAP) as the most promising approach to funding the new Anderson High School.
- 1.2 I was given the task of exploring this option with SLAP, the external auditors and the Scottish Government, with a view to reporting back to the Council with specific details of a prospective deal. This report sets out those details for Council consideration. The SCT/SLAP side of the deal will be reported to them in the same cycle.

2. Links to Corporate Plan

- 2.1 This report links to the Council's corporate priorities and financial policies, defined in its Corporate Plan, especially with regard to the financial sustainability of capital spending.

3. Background

- 3.1 The conclusions from Report F-015-F are summarised below.
- 3.2 The Anderson High School project is such a major and unprecedented investment that its funding has required a review of Council financial policy and capital spending plans. It has become apparent that the status quo on financial policy cannot be maintained in the face of such a major infrastructure investment.
- 3.3 It is clear that whatever method of funding the AHS is used, the project is of such a magnitude that it will to some degree constrain other capital spending. But it can be concluded that cutting non-AHS capital spending cannot by itself preserve financial policy and provide financial sustainability.

- 3.4 Simply changing the Council's financial policy targets (especially lowering the Reserves Floor to, say, £200 million from £250 million) can be seen as moving the goalposts, and permanently impairs the sustainable level of ongoing capital spending.
- 3.5 Going back into debt is not technically possible in respect of commercial debt (because that would be borrowing in advance of need), and it makes no practical sense for the General Fund to borrow from General Fund Reserves.
- 3.6 Commercial PPP/PFI is unpopular with many Councils, and is expensive, and is used only by those who have no choice.
- 3.7 Leasing, especially a finance lease negotiated with SLAP/Charitable Trust, is an approach that involves the minimum of change to Council financial policy, and holds sufficient attractions for the Charitable Trust (SLAP's parent) as to hold out the hope of a negotiated deal between the parties that serves both their interests and those of the wider Shetland community. It should be noted, however, that the lease payments will have an ongoing impact on achieving sustainable use of reserves, which will require to be balanced by either:
 - 3.7.1 further efficiency gains in General Fund revenue spend;
 - 3.7.2 reduced Reserve Fund programmes;
 - 3.7.3 reduced annual Capital Programme allocations.

4. Leasing in Principle

- 4.1 The Council, even during the period of the Debt Free Policy, has made occasional use of leasing as a way of spreading the costs of acquisition over an asset's lifetime. It has usually done so in response to particular circumstances and advantages (such as the few areas in which lease payments have generated financial support from central government) and has retreated from such arrangements when those advantages have been eroded or circumstances have changed (for example the buy-back of leased ferries in 2005/06).
- 4.2 That pragmatic approach seems appropriate in principle for the financing of the new AHS, and/or for other infrastructure projects in present circumstances, and that option will now be explored in some detail.
- 4.3 Leases can be of two different types: operating leases or finance leases. Operating leases leave most of the burdens of ownership with the lease company, whereas finance leases substantially transfer the risks and rewards of ownership to the lessee (in this case the Council). A finance lease, which ultimately gives rise to title being transferred back to the Council, appears to be the most appropriate approach for key infrastructure, which is vital to the delivery of Council services (such as the AHS). The accounting treatment of finance leases requires the value of such leased assets to be accounted for on the Council's balance sheet, but the bottom line in cash terms is that the Council only needs to find the cash to pay the lease company its annual lease charges.

- 4.4 The remaining policy question is whether a finance lease solution meets the Council's Debt Free Policy. Technically speaking, a finance lease deal does not involve incurring debt, so on a literal interpretation the Council's General Fund would remain debt free. However, it must be recognised that the spirit of the Debt Free Policy involved the objective of leaving no financial liabilities for future generations to bear. A finance lease leaves obligations for the length of the lease (in this example for 30 years) so it does represent that degree of departure from the spirit of the Debt Free Policy.
- 4.5 There is no doubt that a finance lease deal on the AHS has significant practical advantages in present circumstances. It recognises the extraordinary size of the investment required, and provides a special means of spreading the cost of that investment with the minimum need for modifying the Council's financial policy framework. It does, however, represent the biggest change in the Council's financial approach since it went debt free in 1992. It is not a change to make lightly.

5. External Consultees

- 5.1 I met with officials in the Scottish Government in late 2008, the main objective being to clarify that there were no alternative approaches to funding the AHS which would be preferable to a sale/leaseback deal with SLAP. The problem has always been that any attempt to tap into a different Government funding stream contains the risk of unsettling the existing capital funding arrangements with the Scottish Government (principally the Notional Loan and Leasing Charges deal bilaterally negotiated in 1994, which is currently worth £15.7 million per annum to the Council).
- 5.2 I was satisfied by the discussions in Edinburgh that none of the existing Scottish Government funding mechanisms hold out the promise of improved funding from the Scottish Government. I was also convinced that the Government's preferred vehicle for future capital funding (the Scottish Futures Trust) is still not sufficiently developed as to offer any prospect of improved external funding in the foreseeable future.
- 5.3 I have recently requested a view from Audit Scotland (the Council's external auditors) on the prospective sale/leaseback deal, to seek assurances that there are no regulatory or technical impediments to the deal. I have started this dialogue from a position of high certainty that there won't be a problem, on the basis that the Council has entered into several similar arrangements in the last fifteen years (notably the sale of the Sullom Voe Terminal site, and the sale/leaseback of ferries), but the AHS deal is of such significance it is still worth double checking its feasibility. I have received an initial response from Audit Scotland and have entered into a dialogue with them on this subject, and when that is concluded I will report to the Council as soon as possible. Given that there is no need to implement the deal until the new Anderson High School is completed I do not believe the current absence of their conclusive views should hold up the project in the meantime.

6. Leasing in Practice

- 6.1 All recent leasing deals of any magnitude have been done between the Council and SLAP, and there are a number of reasons why that might be the most appropriate way forward in this case also.
- 6.2 I am conscious of recent controversy in dealings between the Council and the Charitable Trust (SLAP's owner), and it might therefore be argued that the Council should not concern itself with the Charitable Trust's interests. However, in any negotiation it pays to understand the other party's interests in the deal, and in this case there is also the wider interest of the Shetland community for both parties to the prospective deal to consider.
- 6.3 The Shetland Charitable Trust is, in orthodox fund terms, a very mature fund (meaning that its regular annual outgoings far exceed its regular annual income, so that it is heavily reliant on investment returns to meet its ongoing liabilities). A mature Pension Fund would respond by switching from risky investments providing potentially high returns (equities) to more stable investments providing guaranteed, but lower, returns (bonds), but the Charitable Trust has not been able to afford to do so because of its high outgoings. It should therefore be attractive to the Charitable Trust to put a sizeable portion of its capital into something which provides a good guaranteed rate of return.
- 6.4 It is therefore reasonable to conclude that there is sufficient mutual benefit and common interest for the Council and the Charitable Trust to make a negotiated finance lease deal with SLAP worthy of exploration. It was on that basis, and on the basis of the Council's decision on 14 May 2008, that I negotiated the following prospective deal with officers of SCT/SLAP:
- 6.4.1 SIC will fund the construction of the new Anderson High School for the estimated cost of £49 million in the estimated period 2009-2013;
- 6.4.2 in 2013 (or after completion) the SIC will sell the AHS at cost (estimate £49 million) to SCT/SLAP;
- 6.4.3 SIC will lease the AHS back from SCT/SLAP for a thirty year period, during which all the burdens of ownership will fall upon the Council (maintenance, rates, running costs, insurance, and so on), and after which the title to the AHS will pass to the Council at no further cost;
- 6.4.4 the price of the lease, based on a fair return on capital to SCT/SLAP and a fair cost of capital to the SIC (5% real) is £3.19 million per annum at 2013/14 prices (to be index linked to the Consumer Prices Index thereafter). The discounted cash flow which calculates the price is contained in Appendix A.
- 6.5 The General Manager and Financial Controller of SCT/SLAP have commented as follows on the prospective deal:

- 6.5.1 “we like the deal as proposed, in terms of it being commercial, fair and attractive, and will recommend it to both the Trust (which will need to provide some fresh funds) and SLAP (the actual vehicle);
- 6.5.2 “however, we want to point out to you (and so to the SIC), that this project (£49 million), plus the existing and planned investments in property by SLAP and at SVT, plus the existing and planned commercial investments in the infrastructure of the District Heating Scheme, will take the Shetland Charitable Trust Group up to, or very near to, the limit that I believe that the Trust Group should invest in these type of leasing investments. This means that if the SIC asks the Trust (through SLAP) to commit to this proposed financing route, then the SIC should not expect this type of funding to be available for other significant purchase and leaseback type projects”.
- 6.6 The fact that this deal will use up the Charitable Trust’s capacity to do this kind of transaction should be noted by the Council. There is no obvious merit in applying this capacity to any other kind of project, since the effect on the Council’s bottom line will be the same.
- 6.7 Appendix B shows the possible effect on the Council’s discretionary reserves of a finance lease deal on the new AHS costing £3.19 million per annum. It is also based on reducing the non AHS Capital Programme to £15 million for 2010/11 (as has long been recognised in policy), £15 million for 2011/12, followed by the maximum possible non-AHS capital spend compatible with the Reserves Floor Policy of £250 million (which scales the General Fund Capital Programme down to £10 million per annum for 2013/14 and beyond).
- 6.8 Appendix C shows that under this scenario the Annual Limit Policy of £20 million would be breached in 2009/10, 2010/11 and 2011/12 and that the Reserves Floor Policy would be temporarily breached in 2009/10, 2010/11 and 2011/12. However, after that temporary period covering the construction of the AHS, both policies could be adhered to, provided that the Council accepted that it could afford on average no more than £10 million per annum on non-AHS capital spending thereafter.

7. Further Observations

- 7.1 A concern which has been expressed is that over thirty years the Council will make payments of £95.7 million to buy a £49 million school. The difference is apparent and not real, however. Provided that the price is right (and Appendix A is calculated at a 5% discount rate, which is my judgment of a fair price for capital) then paying £49 million now is exactly equivalent to paying £3.19 million per annum for thirty years, no more and no less. That same calculation applies to Housing Revenue Account debt and to personal debt, such as mortgages.
- 7.2 Another view which has been expressed is that the prospective deal is more valuable to the Shetland Charitable Trust than it is to the Council, on the basis that it provides them with thirty years of secure funding for what might be regarded as optional, “value added” services, at the expense of core Council services. It does provide them with increased security (which is why it may be appealing to the Trust), but as stated

above it is not at a punitive cost to the Council, provided the price on the deal is a fair one.

- 7.3 The choice of whether to finance the Anderson High School out of Council Reserves or by sale/leaseback with SCT/SLAP is, in the end, quite finely balanced. If the Council wishes to spread the cost and defend its Reserves Floor Policy at £250 million, it makes sense. If those objectives are not considered important, it may be as well to fund the School directly.

8 Policy and Delegated Authority

- 8.1 The funding of the Capital Programme is a matter for the Full Council to decide upon. However, the Anderson High School is a project of such importance to the Services Committee that it was considered important to give the Committee the opportunity to consider this report and make its views known to the Council.

9. Conclusions

- 9.1 The proposed sale-leaseback deal for the Anderson High School is estimated to cost the Council £3.19 million per annum (in 2012/13 prices) for 30 years for a £49 million school. This is a fair cost of capital for the Council (there are no known alternatives offering a better price) and a fair return on capital for the Charitable Trust (meeting their planned level of financial return while providing a very low risk source of cash flow).
- 9.2 The deal allows the Council to maintain its discretionary Reserves at the £250 million Reserves Floor level after 2011/12 and, on the assumption that the lease payment will be met out of Capital Programme resources, will allow an ongoing General Fund Capital Programme of £10 million per annum from 2013/14.

10. Recommendations

- 10.1 I recommend that Committee should recommend to the Council, and that the Council should:
- 10.1.1 approve the sale/leaseback deal with SLAP set out in 6.4 and Appendices A, B and C) as the preferred method of financing the new Anderson High School, with the detailed paperwork to be concluded with SLAP in time for implementation on completion of the building (current estimate 2013); and
- 10.1.2 in the meantime keep all other options under review in case circumstances change in a way, which would favour an alternative approach.

Year	Discount Factor	Cash Flow Sale	Cash Flow Lease	Discounted Cash Flow	Cumulative Discounted Cash Flow
		£million	£million	£million	£million
-	1.000	(49.00)		(49.00)	(49.00)
1	0.952		3.19	3.04	(45.96)
2	0.907		3.19	2.89	(43.07)
3	0.864		3.19	2.76	(40.31)
4	0.823		3.19	2.62	(37.69)
5	0.784		3.19	2.50	(35.19)
6	0.746		3.19	2.38	(32.81)
7	0.711		3.19	2.27	(30.54)
8	0.677		3.19	2.16	(28.38)
9	0.645		3.19	2.06	(26.33)
10	0.614		3.19	1.96	(24.37)
11	0.585		3.19	1.87	(22.50)
12	0.557		3.19	1.78	(20.73)
13	0.530		3.19	1.69	(19.03)
14	0.505		3.19	1.61	(17.42)
15	0.481		3.19	1.53	(15.89)
16	0.458		3.19	1.46	(14.43)
17	0.436		3.19	1.39	(13.04)
18	0.416		3.19	1.33	(11.71)
19	0.396		3.19	1.26	(10.45)
20	0.377		3.19	1.20	(9.25)
21	0.359		3.19	1.15	(8.10)
22	0.342		3.19	1.09	(7.01)
23	0.326		3.19	1.04	(5.97)
24	0.310		3.19	0.99	(4.98)
25	0.295		3.19	0.94	(4.04)
26	0.281		3.19	0.90	(3.14)
27	0.268		3.19	0.85	(2.29)
28	0.255		3.19	0.81	(1.47)
29	0.243		3.19	0.77	(0.70)
30	0.231		3.19	0.74	0.04
	Total	(49.00)	95.70		
NET PRESENT VALUE				0.04	

Shetland Islands Council Discretionary Reserves

(values on Balance Sheet at cost)

Finance Lease Deal on AHS

As at 31 March	Capital Programme Expenditure (4)	Special Items	AHS Cost (2)	AHS Sale/ Leaseback	Reserve Fund Programme Expenditure	General Fund Revenue Deficit (1)	TOTAL RESERVES (3)
	£million	£million	£million		£million	£million	£million
2005							(318.7)
Investment Returns							(16.9)
Harbour Surpluses (5)							(5.2)
Expenditure	13.9	20.1	0.7		7.4	4.0	46.1
2006		(4 ferries)					(294.7)
Investment Returns							(18.0)
Harbour Surpluses (5)							(2.0)
Expenditure	14.2	1.8	0.3		7.8	3.6	27.7
2007		(Single Status)					(287.0)
Investment Returns							(20.1)
Harbour Surpluses (5)							(4.0)
Expenditure	16.6	2.0	1.4		6.5	3.5	30.0
2008		(Single Status)					(281.1)
Investment Returns							(19.7)
Harbour Surpluses (5)							(3.0)
Expenditure	16.4	6.0	1.6		6.0	4.0	34.0
2009		(Islesburgh, Single Status)					(269.8)
Investment Returns							(18.9)
Harbour Surpluses (5)							(3.0)
Expenditure	20.0	6.0	16.0		6.8	3.0	51.8
2010		(Shetland Towage)					(239.8)
Investment Returns							(16.8)
Harbour Surpluses (5)							(3.0)
Expenditure	15.0	0.0	12.0		6.9	2.0	35.9
2011							(223.7)
Investment Returns							(15.7)
Harbour Surpluses (5)							(3.0)
Expenditure	15.0	0.0	12.0		7.0	1.0	35.0
2012							(207.4)
Investment Returns							(14.5)
Harbour Surpluses (5)							(3.0)
Expenditure	11.0	0.0	5.0	(49.0)	7.2	0.0	(25.8)
2013							(250.7)
Investment Returns							(17.6)
Harbour Surpluses (5)							(3.0)
Expenditure	10.0	0.0		3.2	7.3	0.0	20.5
2014							(250.8)
Investment Returns							(17.6)
Harbour Surpluses (5)							(3.0)
Expenditure	10.0	0.0		3.2	7.5	0.0	20.7
2015							(250.6)
Investment Returns							(17.5)
Harbour Surpluses (5)							(3.0)
Expenditure	10.0	0.0		3.2	7.6	0.0	20.8
2016							(250.4)
			TOTAL	49.0			
Notes							
Gross Investment Returns (%)							7.0
Inflation Rate (%)							2.0
Real Investment Return (%)							5.0

(1) SIC policy involves reducing the draw on Reserves to support revenue to £0 by 2012/13.

(2) Current best estimate for Anderson High School cost is £49 million.

(3) SIC policy is to maintain Reserves at no less than £250 million (the "Reserves Floor").

(4) SIC policy is to allocate £20 million per annum from Reserves to support the Capital Programme.

(5) Harbour surpluses are running well below the normal £8 million per annum at present (mainly due to poor traffic levels through Sullom Voe).

Shetland Islands Council Discretionary Reserves

(values on Balance Sheet at cost)

Finance Lease Deal on AHS

As at 31 March	Bad Case	Good Case	Forecast
	£million	£million	£million
2006	314.3	314.3	294.7
2007	300.1	301.6	287.0
2008	284.9	289.4	281.1
2009	260.7	270.3	269.8
2010	234.2	250.9	239.8
2011	213.5	254.8	223.7
2012	187.3	252.0	207.4
2013	157.0	254.0	250.7
2014	121.9	255.9	250.8
2015	78.8	255.1	250.6
2016	25.6	249.9	250.4

SIC - G

Discret

£ 0.0

~ a

Year F

or



REPORT

To: **Shetland Islands Council**

20 May 2009

From: **Capital Programme Service Manager**

Report No: **CPS-10-09-F**

Subject: **Capital Programme: Feasibility Studies/ Working Up Projects Budget**

1.0 Introduction

- 1.1 The Capital Programme for 2009/10 includes the sum of £500,000 for Feasibility Studies/ Working Up Projects.
- 1.2 This budget has not been allocated. A list of potential projects for funding from this budget was presented by the Chief Executive to Members in a seminar on 15 December 2008.
- 1.3 This report makes recommendations to allocate this budget against projects - see Appendix A

2.0 Links to Corporate Priorities

- 2.1 The capital programme continues to be managed in line with available funds in delivering a more sustainable approach to Council's spending and contributing towards the Council ensuring that its reserves are maintained at a sustainable level of £250M.

3.0 Projects for Allocation

- 3.1 The Executive Director – Education and Social Care has identified two projects which require funding to progress as priority, these recommendations have been approved at Services Committee.
 - OT Resource Centre
Work on the OT Centre to date has taken the project to Feasibility Stage. More detailed design work now needs to commence to enable the project to progress to tender stage (subject to the Council allocating funding in future years capital programmes).
The current allocation of £100,000 in 2009/10 is now considered insufficient to progress this project to tender stage so the Executive

Director – Education and Social Care is proposing to ask the Council to allocate an additional £50,000 from the overall budget allocation for Fees in 2009/10.

- Eric Gray Replacement Project

In order to progress the detailed design of the Eric Gray Replacement project, the Executive Director – Education and Social Care is also proposing to bid for £290,000. This project is ranked as the next highest priority on the Service Committee's capital projects aspirations after the OT Resource Centre. The Feasibility Study was approved by Services Committee on 5 February 2009 and approval given (subject to funding being available) to progress to Stage 1 proposals for Complex needs (min. ref 01/09).

- 3.2 The Roads Service has requested £200,000 to carry out appraisal and advanced design work on a range of potential projects, the proposed funding allocation for these is detailed in Appendix A. This funding will cover recharges from the Roads Service, Asset and Property Service as well as fees paid to Consulting Engineers.

The following projects were previously considered by the Capital Programme Review Team and were pending inclusion into future years programmes.

- Germatwatt Footways
Land acquisition followed by detailed design etc.
- Papa Stour Road
Planning approval for temporary quarry and preparation of emergency works.
- A970 Scord to School
Continue with outline design and discussion with potential developers of adjacent land.
- B9071 Bixter to Aith Phase 2
Land acquisition, planning approval and tender documents.
- Burra and Trondra Bridges
Inspection walkways planning to seek quotations.

The following projects are proposed for development under the guidance of the Member Officer Working Group (Roads), using an appropriately abbreviated version of STAG (Scottish Transport Appraisal Guidance).

Advance design of schemes. Project initiation, option appraisal (STAG Stage 1), option development, land acquisition, planning application, etc. The projects under development this year are likely to include the following:-

- Major Structure Replacements: Laxaburn Bridge (Effirth), Strand Loch Bridge (Tingwall) and Burn Beach Seawall (Scalloway).
- Major New Footways: Gremista Road (Lerwick), Germatwatt (Walls), Vidlin Shore Road, East Voe (Scalloway), Burravoe (Yell), Tingwall and Burravoe (Brae).
- A971 West Burrafirth Junction to Brig o' Walls.
- B9071 Parkhall to Sand Junction.
- B9082/3 Gutcher to Cullivoe.

- Gulberwick Road.

3.3 These proposals have been considered by the Roads Member/ Officer Working Group which meets thrice yearly, however this group has no financial authority in relation to the capital programme.

4.0 Finance Member Officer Working Group Recommendations

4.1 These proposals were presented to the Finance Member Officer Working Group on 29 April 2009. The group recommended that the Council approve the allocation of feasibility/ working up project funding to the OT Resource Centre and Eric Gray Replacement projects.

4.2 The Member Officer Working Group requested that the Roads projects be listed in priority order. The priority order above has been prepared by the Roads Network and Design Manager.

5.0 Financial Implications

5.1 The budget allocation for Feasibility/ Working Up Projects is £500,000.

5.2 The bids noted above (and detailed in Appendix A) are seeking a total of £540,000.

5.3 If approved, this exceeds the approved Capital Programme by £40,000. However slippage is likely throughout the year which could fund this over commitment.

6.0 Policy and Delegated Authority

6.1 The allocation of projects to the Capital Programme requires a decision of the Council.

7.0 Recommendation

7.1 I recommend that Shetland Islands Council approves the allocation of the Feasibility/ Working Up Projects Budget in line with Appendix A attached.

Our Ref: GMF/RS/CPS-10-09-F

Date: 11 May 2009

Enclosed: Appendix A

Feasibility/ Working Up Projects Budget - Available Budget 2009/10 - £500,000

Note - all costs at at end 2008 and subject to inflation.

Project	Current Status	Proposed Allocation
OT Resource Centre	100K allocated in 2009/10 Capital Programme, further 50K required to progress project to tender stage	50,000
Eric Gray Replacement	Funding required to progress detailed design	290,000
Germatwatt Footways	Land Acquisition & detailed design required	10,000
Papa Stour Road	Planning approval required, preparation of emergency works	20,000
Scord To School	Continue with outline design and land acquisition required	10,000
Bixter To Aith Phase 2	Land Acquisition, planning approval and tender documents required	20,000
Breiwick Road Sea Wall	Obtain licences and prepare tender documents	5,000
Burra & Trondra Bridges	Inspect walkways and preparation for quotations	5,000
Major Structure Replacements	Projects being developed under the guidance of the Member/Officer Working Group (Roads), using an appropriately-abbreviated version of STAG (Scottish Transport Appraisal Guidance). Project initiation, option appraisal, option development and in some cases design sufficient to produce land plans, land aquisition and planning application.	30,000
Major New Footways		40,000
A971 W Burrafirth Junction to Brig o' Walls		5,000
B9071 Parkhall to Sand Junction		5,000
B9082/3 Gutcher to Cullivoe		10,000
Gulberwick Road		5,000
Projects in Lerwick and a number of rural areas including work for other Council Services		35,000
		540,000



REPORT

To: Shetland Islands Council

20 May 2009

From: Capital Programme Service Manager

Report No: CPS-07-09-F

Subject: Performance Bonds on Works Contracts

1.0 Introduction

- 1.1 This report provides information to members on the use of Performance Bonds on works contracts and;
- 1.2 Seeks a decision by the Council as to the future use of Performance Bonds.
- 1.3 A discussion document on this subject was presented to the Financial Resources Member Office Working Group on 3 April 2009. That group made a recommendation to Council to discontinue the use of performance bonds on Council contracts unless there was specific requirement for a bond to be in place which was to be reported to the Council for approval.

2.0 Links to Council Priorities

- 2.1 The proposals within this report will link to the Council's corporate plan by enhancement of skills development and learning.
- 2.2 Section 3 of the Corporate Plan commits us to manage the Capital Programme in line with available funds.

3.0 Performance Bonds

- 3.1 A Performance Bond is a conventional instrument that basically insures a client for 10% of a works contract cost, at a price of around 0.5% of contract cost, against the risk of a Contractor failing and/ or failing to fulfil the contract therefore breaching the contract, before the contract is complete.

- 3.2 A Performance Bond is added or is already included in the conditions of the works contract and it is the Contractors responsibility to secure the bond from a financial institution. The cost that the Contractor incurs in securing the bond is generally incurred by the Council as part of the contract overheads.
- 3.3 The cost of a bond varies but is generally around 0.5% of the contract cost. Therefore a £500k contract would require a £50,000 Performance Bond at a cost of approximately £2,500. A £10 million contract would require a £1 million Performance Bond costing around £50,000.
- 3.4 A Performance Bond would enable the Council to claim up to 10% of the concluded contract cost for demonstrable costs and losses arising from Contractor failure or failure to fulfil the contract. The final contract cost could be more or less than that at award of contract due to any variations that may be applied during construction.

4.0 Council Use of Bonds

- 4.1 Council custom and practice is to obtain Performance Bonds on works contracts over £250,000. This financial bar has been in place for over 30 years and has not been revised upwards to reflect inflation over this time. It is understood that this value was intimated via COSLA related guidance.
- 4.2 There is no corporate policy covering the use of Bonds and custom and practice has not been applied consistently throughout the Council. Reference is made to Bonds and Guarantees at a meeting of the Education Committee in September 1994 (Min. Ref. 77/94) in relation to report on Schools Meals Catering Contract.
- 4.3 In the last 20 years there is only one instance where a bond has been used in respect of a Contactor failure and this was for a relatively minor sum. We are also aware of at least two 'near misses' during this period. However, during the 1970's when large numbers of houses were being constructed there are believed to have been some instances where Bonds were used in respect of Contractor failure. There is no central record maintained of the costs incurred in securing Bonds.
- 4.4 In the event of Contractor failure or failure to fulfil the contract, the bond covers the costs associated with securing another Contractor to continue with the works contract or completion of the works. It would cover an increase in tender costs which may be incurred through a new tender or procurement exercise but the total claimed would be limited to a maximum of 10% of the concluded contract value. Additional costs have to be evidenced in accordance with the performance bond terms and justified.
- 4.5 There are means of checking Contractors accounts and financial status as a condition of their inclusion in tender lists. A Performance Bond only covers the risk of contract failure before the completion of a contract.

- 4.6 The use of Performance Bonds over the past 20 years has not necessarily represented value for money in pure financial terms. However this cannot be fully evaluated given the fact there is no central record maintained to demonstrate costs incurred.
- 4.7 It has to be recognised, however, that the current threshold of £250,000 is low and would, therefore, indicate that the risk of failure has been much less.
- 4.8 It may be considered, however, that the use of Bonds has reduced the risk of Contractor or contract failure by stopping Contractors who would be unable to secure a bond from a financial institution from submitting a tender.
- 4.9 It is also considered that Banks or Financial institutions through the provision of a Bond provide a comprehensive service on the Council's behalf by assessing the risk in considerably more detail and by either accepting or refusing to provide the guarantee. This practice has led to us accepting bids from Contractors who prove to be financially sound over a good period of time.
- 4.10 There is no formal procedure in place for the management of the bond process in terms of checking, securing and releasing bonds and, if the use of Bonds is to be continued, a simple procedure is required to ensure a consistent approach throughout the Council.

5.0 Project Risks

- 5.1 The purpose of a Bond is to cover the Council against the risk of a Contractor failing, and therefore breaching the contract, before the contract is complete.
- 5.2 Should a Contractor fail to meet its contract obligations the Council is exposed to the costs of completing the project. These costs will vary depending on the type and size of the project. Some projects, regardless of value could be considered to be high risk, others may be high value but the risk in terms of cost to complete a project may be less, i.e. subject to the Contractor concerned, complexity of the contract, payment terms, etc.
- 5.3 The Costs which the Council could face in the event of Contractor/ contract failure include:
- Appointing an alternative Contractor or the Council to complete the project.
 - Costs of completing the project.
 - Council costs in terms of staff time and professional advice in managing this process.
 - Costs in terms of Service delivery should the completion of a project be delayed.

- 5.4 The exposure to risk of Contractor/ contract failure, and the costs to which the Council is exposed in such an event of should be addressed on a project-by-project basis.
- 5.5 It can be argued that paying for Contract bonds on low value works contracts does not represent value for money and that the Council should stop using Contract bonds and accept the risk. The cost incurred through a Contractor or contract failure would require to be funded from the Council's reserves. Higher value contracts not completed would, therefore, have a greater draw on reserves.

6.0 Options

- 6.1 The Council requires to address whether it wishes to continue with the use of Bonds or whether to stop the use of these and accept the risk and cost implications of any Contractor or contract failure to be funded from its reserves.
- 6.2 Should the use of Bonds be retained the cost threshold of £250,000 requires updating. This has been in place for over 30 years and an equivalent sum at today's prices is £2,000,000.
- 6.3 Raising this threshold would remove the majority of the Councils projects from the requirement to have a bond with a reduction in the costs on securing bonds and a reduction in staff time spent in managing the process. However some projects may have higher risks and the increased threshold should not preclude the use of a Bond for smaller contracts if a risk assessment makes it prudent to use a Bond.
- 6.4 For projects over £2,000,000 bonds may be mandatory or discretionary, subject to a project-by-project assessment of risk. Making bonds mandatory commits the Council and/ or the Contractor to the cost of providing bonds. If the use of a bond is not mandatory there may be pressure not to use a bond for factors other than risk, e.g. cost pressures.
- 6.5 Should the Council wish to discontinue the use of bonds on works contracts as a general policy it should be noted that there may be individual contracts where the Project team or Budget Responsible Officer consider that there are particular risks applicable to the contract and wish to secure a bond.

7.0 Discussion by the Financial Resources Member Office Working Group

- 7.1 A discussion document on this subject was presented to the Financial Resources Member Office Working Group on 3 April 2009. That group made a recommendation to Council to discontinue the use of performance bonds on Council contracts unless there was specific requirement for a bond to be in place which was to be reported to the Council for approval.

- 7.2 All options presented to the Council enable bonds to be used and a procedure will be drafted to ensure that the management of the bond process in terms of checking, securing and releasing bonds is applied consistently throughout the Council.

8.0 Financial Implications

- 8.1 There are no immediate financial implications arising from this report however if members wish to raise the threshold over which bonds are applied or to discontinue the use of bonds there will be savings on future large works projects of up to approximately 0.5% of the works value.
- 8.2 However it needs to be balanced by noting that there may be a draw on reserves where contract/ Contractor failure occurs and no bond has been secured.

9.0 Policy and Delegated Authority

- 9.1 Decisions relating to approval or variation to the Council's Capital Programme requires approval of the Council (Section 8.0 – Scheme of Delegations). No formal policy currently exists, therefore, a decision of the Council is required.

10.0 Recommendations

- 10.1 It is recommended that the use of performance bonds on contracts should be discontinued unless the Budget Responsible Officer or Project Team consider that there is a requirement for a bond to be in place in order to provide best value for a specific contract, which will be reported to Council for approval.

Our Ref: GMF/RS/CPS-07-09-F

Date: 12 May 2009



REPORT

To: Pension Fund Management Consultative Committee
Shetland Islands Council

13 May 2009
20 May 2009

From: Head of Finance

Shetland Islands Council Pension Fund Review of Funding Strategy Statement (FSS) Report No: F- 017-F

1.0 Introduction

- 1.1 The purpose of this report is to bring to Members' attention the revised Funding Strategy Statement for Shetland Islands Council Pension Fund.

2.0 Links to Corporate Priorities

- 2.1 This report links to the Council's Corporate Plan, specifically in relation to prioritising and planning so we can sustain the services we want to provide and help develop our economy, in particular, by maintaining as nearly constant employer contribution rates as possible, which will keep revenue budgets within sustainable limits.

3.0 Background

- 3.1 Regulation 75A & 76 of the Local Government Pension Scheme Regulations (Scotland) 1998 and Regulation 31 of the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 require that each administering authority, prepare, review and publish a written Funding Strategy Statement.
- 3.2 The FSS is reviewed in detail at least every three years ahead of triennial valuations being carried out, with the next full review due to be completed by 31 March 2012. The FSS is a summary of the Fund's approach to funding liabilities
- 3.3 Attached, as Appendix 1, is a copy of the FSS, which has been prepared in collaboration with the Fund's actuary, Hymans Robertson LLP, at the same time as they were preparing the Shetland Islands Council Triennial Valuation Report as at 31 March

2008. This revised version of the FSS replaces the previous FSS and is effective from 31 March 2009.

The information contained in the Rates and Adjustment Certificate of the main Triennial Valuation Report is detailed at Annex A of the FSS.

4.0 Purpose of Funding Strategy Statement (FSS)

4.1 The purpose of the FSS is: -

- to establish a **clear and transparent funding-specific strategy** which will identify how employer' pension liabilities are best met going forward;
- to support the regulatory framework to maintain **as nearly constant employer rates as possible**; and
- to take a **prudent longer-term view** of funding those liabilities

5.0 Financial Implications

5.1 Closer monitoring of how Employers' pension liabilities are funded should result in Employers' pension contributions remaining as stable as possible. The recent triennial valuation has concluded that in order to maintain the solvency of the Pension Fund, there should be a phased increase to the Employers' contribution rate of some 1.1% over the inter-valuation period (2006/07 to 2008/09 the rate was fixed at 14.4%). This meaning that for the next 3 years the Employers' Rate shall be:

2009/10: 15.5%
2010/11: 16.6%
2011/12: 17.7%

This equates to an annual increase in employee costs of approximately £770k per year. This additional cost has already been budgeted for in 2009/10.

6.0 Policy and Delegated Authority

6.1 The Head of Finance has no delegated authority in this matter. This matter is dealt with under Regulation 75A of the Local Government Pension Scheme (Scotland) Regulations 1998 and from 1 April 2009 will be dealt with under Regulation 31 of the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008.

6.2 This matter stands referred to the Council in terms of Section 8.2 of the Scheme of Delegations. In addition, the view of the Pension Fund Management Consultative Committee is sought in relation to its remit to oversee the management of the Pension Fund.

7.0 Conclusions

- 7.1 This report revises the FSS that was adopted by Council on 9 May 2006 (Report F-020-F).

8.0 Recommendations

- 8.1 I recommend that the Pension Fund Management Consultative Committee recommend that the Council:-

- 8.1.1 Adopts the revised Funding Strategy Statement attached as Appendix 1, with effect from 31 March 2009.

Date: 30 April 2009
Ref: MGS/S/1/37

Report No: F-017-F

Shetland Islands Council Pension Fund Funding Strategy Statement

1. Introduction

This is the Funding Strategy Statement (FSS) of the Shetland Islands Council Pension Fund (“the Fund”), which is administered by Shetland Islands Council, (“the Administering Authority”).

It has been prepared by the Administering Authority in collaboration with the Fund’s actuary, Hymans Robertson LLP, and after consultation with the Fund’s employers. This revised version replaces the previous FSS and is effective from 31 March 2009.

1.1 Regulatory Framework

Scheme members’ accrued benefits are guaranteed by statute. Members’ contributions are fixed in the Regulations at a level which covers only part of the cost of accruing benefits. Employers currently pay the balance of the cost of delivering the benefits to members. The FSS focuses on the pace at which these liabilities are funded and, insofar as is practical, the measures to ensure that employers or pools of employers pay for their own liabilities.

The FSS forms part of a framework which includes:

- the Local Government Pension Scheme Regulations (Scotland) 1998 (regulations 75A and 76 are particularly relevant);
- the Rates and Adjustments Certificate, which can be found appended to the Fund actuary’s triennial valuation report;
- actuarial factors for valuing early retirement costs and the cost of buying extra service; and
- the Statement of Investment Principles.

This is the framework within which the Fund’s actuary carries out triennial valuations to set employers’ contributions, provides recommendations to the Administering Authority when other funding decisions are required, for example when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

1.2 Reviews of FSS

The FSS is reviewed in detail at least every three years ahead of triennial valuations being carried out, with the next full review due to be completed by 31 March 2012. More frequently, Annex A is updated to reflect any changes to employers.

The FSS is a summary of the Fund’s approach to funding liabilities. It is not an exhaustive statement of policy on all issues. If you have any queries please contact Mary Smith in the first instance at mary.smith@sic.shetland.gov.uk or on 01595 744669.

Shetland Islands Council Pension Fund Funding Strategy Statement

2. Purpose

2.1 Purpose of FSS

The purpose of the FSS is:

- *“to establish a **clear and transparent fund-specific strategy** which will identify how employers’ pension liabilities are best met going forward;*
- *to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**; and*
- *to take a **prudent longer-term view** of funding those liabilities.”*

These objectives are desirable individually, but may be mutually conflicting.

This statement sets out how the Administering Authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers’ contributions, and prudence in the funding basis.

2.2 Purpose of the Fund

The Fund is a vehicle by which scheme benefits are delivered. The Fund:

- receives contributions, transfer payments and investment income;
- pays scheme benefits, transfer values and administration costs.

One of the objectives of a funded scheme is to reduce the variability of pension costs over time for employers compared with an unfunded (pay-as-you-go) alternative.

The roles and responsibilities of the key parties involved in the management of the pension scheme are summarised in Annex B.

2.3 Aims of the Funding Policy

The objectives of the Fund’s funding policy include the following:

- to ensure the long-term solvency of the Fund as a whole and the solvency of each of the notional sub-funds allocated to the individual employers;
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- not to restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk;

Shetland Islands Council Pension Fund Funding Strategy Statement

- to help employers recognise and manage pension liabilities as they accrue with consideration to the effect on the operation of their business where the Administering Authority considers this appropriate;
- to minimise the degree of short-term change in the level of each employer's contributions where the Administering Authority considers it reasonable to do so;
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations; and
- to address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective; and
- to maintain the affordability of the Fund to employers as far as is reasonable over the longer term

Shetland Islands Council Pension Fund Funding Strategy Statement

3. Solvency Issues and Target Funding Levels

3.1 Derivation of Employer Contributions

Employer contributions are normally made up of two elements:

- a) the estimated cost of future benefits being accrued, referred to as the “*future service rate*”; plus
- b) an adjustment for the funding position (or “solvency”) of accrued benefits relative to the Fund’s solvency target, “*past service adjustment*”. If there is a surplus there may be a contribution reduction; if a deficit a contribution addition, with the surplus or deficit spread over an appropriate period.

The Fund’s actuary is required by the regulations to report the *Common Contribution Rate*¹, for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay. For the purpose of calculating the Common Contribution Rate, the surplus or deficit under (b) is currently spread over a period of 12 years which is equivalent to the remaining working lifetime of all the employers’ scheme members.

The Fund’s actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed “peculiar” to an individual employer². It is the adjusted contribution rate which employers are actually required to pay. The sorts of peculiar factors which are considered are discussed in Section 3.5.

In effect, the *Common Contribution Rate* is a notional quantity. Separate future service rates are calculated for each employer or pool together with individual past service adjustments according to employer or pool-specific spreading and phasing periods.

For some employers it may be agreed to pool contributions, see Section 3.7.3.

Annex A contains a breakdown of each employer’s contributions following the 2008 valuation for the financial years 2009/10, 2010/11 and 2011/12. It includes a reconciliation of each employer’s rate with the *Common Contribution Rate*. It also identifies which employers’ contributions have been pooled with others.

Any costs of early retirements other than on the grounds of ill-health must be paid as lump sum payments at the time of the employer’s decision in addition to the contributions described above (or by instalments shortly after the decision).

Employers’ contributions are expressed as minima, with employers able to pay regular contributions at a higher rate. Employers should discuss with the Administering Authority before making one-off capital payments.

¹ See Regulation 76(4)

² See Regulation 76(6)

Shetland Islands Council Pension Fund Funding Strategy Statement

3.2 Solvency and Target Funding Levels

The Fund's actuary is required to report on the "solvency" of the whole fund at least every three years.

'Solvency' for ongoing employers is defined to be the ratio of the market value of assets to the value placed on accrued benefits on the Fund actuary's *ongoing funding basis*. This quantity is known as a funding level.

The ongoing funding basis is that used for each triennial valuation and the Fund actuary agrees the financial and demographic assumptions to be used for each such valuation with the administering authority.

The Fund operates the same target funding level for all ongoing employers of 100% of its accrued liabilities valued on the ongoing basis. Please refer to paragraph 3.8 for the treatment of departing employers.

3.3 Ongoing Funding Basis

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experiences of LGPS funds advised by the Fund Actuary. It is acknowledged that future life expectancy and in particular, the allowance for future improvements in mortality, is uncertain. Mortality assumptions have therefore been based on the PMA92 and PFA92 'year of birth' mortality tables with no allowance for any 'cohort effect', Employers are aware that their contributions are likely to increase in future if longevity exceeds the funding assumptions.

The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed statutory guarantee underpinning members' benefits. The demographic assumptions vary by type of member and so reflect the different profiles of employers.

The key financial assumption is the anticipated return on the Fund's investments. The investment return assumption makes allowance for anticipated returns from the Fund's assets in excess of gilts or even match the return on gilts. There is, however, no guarantee that assets will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

In light of the statutory requirement for the Actuary to consider the stability of employer contributions it is therefore normally appropriate to restrict the degree of change to employers' contributions at triennial valuation dates.

Given the very long-term nature of the liabilities, a long term view of prospective returns from equities is taken. For the 2008 valuation, it is assumed that the Fund's investments will deliver an average additional return of 1.7% a year in excess of the return available from investing in index-linked government bonds at the time of the valuation. Based on the asset allocation of the Fund as at 31 March 2008, this is equivalent to taking credit for excess returns on equities of 2% p.a. over and above the gross redemptions yield on index-linked gilts on the valuation date and for excess returns of 0.4% p.a. on the non-equity assets.

Shetland Islands Council Pension Fund Funding Strategy Statement

The same financial assumptions are adopted for all ongoing employers. All employers have the same asset allocation.

3.4 Future Service Contribution Rates

The future service element of the employer contribution rate is calculated on the ongoing valuation basis, with the aim of ensuring that there are sufficient assets built up to meet future benefit payments in respect of future service. The future service rate has been calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole.

The approach used to calculate the employer's future service contribution rate depends on whether or not new entrants are being admitted. Employers should note that it is only Admission Bodies that may have the power not to admit automatically all eligible new staff to the Fund, depending on the terms of their Admission Agreements and employment contracts.

3.4.1 Employers that admit new entrants

The employer's future service rate will be based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year. Technically these rates will be derived using the *Projected Unit Method* of valuation with a one year control period.

If future experience is in line with assumptions, and the employer's membership profile remains stable, this rate should be broadly stable over time. If the membership of employees matures (e.g. because of lower recruitment) the rate would rise.

3.4.2 Employers that do not admit new entrants

Certain Admission Bodies have closed the scheme to new entrants. This is expected to lead to the average age of employee members increasing over time and hence, all other things being equal, the future service rate is expected to increase as the membership ages.

To give more long term stability to such employers' contributions, the *Attained Age* funding method is adopted. This will limit the degree of future contribution rises by paying higher rates at the outset.

Both funding methods are described in the Actuary's report on the valuation.

Both future service rates will include an allowance for expenses of administration to the extent that they are borne by the Fund and include an allowance for benefits payable on death in service and ill health retirement.

Shetland Islands Council Pension Fund Funding Strategy Statement

3.5 Adjustments for Individual Employers

Adjustments to individual employer contribution rates are applied both through the calculation of employer-specific future service contribution rates and the calculation of the employer's funding position.

The combined effect of these adjustments for individual employers applied by the Fund actuary relate to:

- past contributions relative to the cost of accruals of benefits;
- different liability profiles of employers (e.g. mix of members by age, gender, part-time/full-time, manual/non manual);
- the effect of any differences in the valuation basis on the value placed on the employer's liabilities;
- any different deficit/surplus spreading periods or phasing of contribution changes;
- the difference between actual and assumed rises in pensionable pay;
- the difference between actual and assumed increases to pensions in payment and deferred pensions;
- the difference between actual and assumed retirements on grounds of ill-health from active status;
- the difference between actual and assumed amounts of pension ceasing on death;
- the additional costs of any non ill-health retirements relative to any extra payments made;

over the period between the 2005 and 2008 valuations and each subsequent triennial valuation period.

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

The Fund actuary does not allow for certain relatively minor events occurring in the period since the last formal valuation, including, but not limited to:

- the actual timing of employer contributions within any financial year;
- the effect of more or fewer withdrawals than assumed;
- the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

Shetland Islands Council Pension Fund Funding Strategy Statement

3.6 Asset Share Calculations for Individual Employers

The Administering Authority does not account for each employer's assets separately. The Fund's actuary is required to apportion the assets of the whole fund between the employers (or pool of employers) at each triennial valuation using the income and expenditure figures provided for certain cash flows for each employer or pool of employers. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus". The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund. The asset apportionment is capable of verification but not to audit standard.

The Administering Authority recognises the limitations in the process, but having regard to the extra administration cost of building in new protections, it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

3.7 Stability of Employer Contributions

3.7.1 Deficit Recovery Periods

The Administering Authority instructs the actuary to adopt specific deficit recovery periods for all employers when calculating their contributions.

The Administering Authority normally targets the recovery of any deficit over a period not exceeding 12 years or the remaining working lifetime of each employer's active members. However, these are subject to the maximum lengths set out in the table below.

Type of Employer	Maximum Length of Deficit Recovery Period
Statutory bodies with tax raising powers	a period to be agreed with each employer not exceeding 20 years
Community Admission Bodies with funding guarantees	a period to be agreed with each employer not exceeding 20 years
Transferee Admission Bodies	the period from the start of the revised contributions to the end of the employer's contract
Community Admission Bodies that are closed to new entrants e.g. Bus Companies, whose admission agreements continue after last active member retires	a period equivalent to the expected future working lifetime of the remaining scheme members allowing for expected leavers, subject to not less than 9 years.
All other types of employer	a period equivalent to the expected future working lifetime of the remaining scheme members

Shetland Islands Council Pension Fund Funding Strategy Statement

This *maximum* period is used in calculating each employer's *minimum* contributions. Employers may opt to pay higher regular contributions than these minimum rates.

The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2008 for 2008 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative spreading periods, for example to improve the stability of contributions.

3.7.2 Surplus Spreading Periods

Any employers deemed to be in surplus may be permitted to reduce their contributions below the cost of accruing benefits, by spreading the surplus element over the maximum periods shown above for deficits in calculating their **minimum** contributions.

However, to help meet the stability requirement, employers may prefer not to take such reductions.

3.7.3 Phasing in of Contribution Rises

Transferee Admission Bodies are not eligible for phasing in of contribution rises. Other employers may opt to phase in contribution rises as follows:

- for employers contributing at or above its future service rate in 2008/09, phasing in the rise in employer contributions over a period of maximum of four years;
- for employers contributing at less than its future service rate in 2008/09, phasing in the rise in employer contributions over a period of two years.

3.7.4 Phasing in of Contribution Reductions

Any contribution reductions will be phased in over six years for all employers except Transferee Admission Bodies who can take the reduction with immediate effect.

3.7.5 The Effect of Opting for Longer Spreading or Phasing-In

Employers which are permitted and elect to use a longer deficit spreading period than was used at the 2005 valuation or to phase-in contribution changes will be assumed to incur a greater loss of investment returns on the deficit by opting to defer repayment. Thus, deferring paying contributions will lead to higher contributions in the long-term.

However any adjustment is expressed for different employers the overriding principle is that the discounted value of the contribution adjustment adopted for each employer will be equivalent to the employer's deficit.

Shetland Islands Council Pension Fund Funding Strategy Statement

3.7.6 Pooled Contributions

3.7.6.1 Smaller Employers

The Administering Authority allows smaller employers [of similar types] to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not permitted to participate in a pool. Transferee Admission Bodies are also ineligible for pooling.

3.7.6.2 Other Contribution Pools

Some Admission Bodies with guarantors are pooled with the Council.

Some other bodies are pooled with Shetland Recreational Trust.

Those employers that have been pooled are identified in Annex A.

3.8 Admission Bodies ceasing

Admission Agreements for Transferee Admission Bodies are assumed to expire at the end of the contract.

Admission Agreements for other employers are generally assumed to be open-ended and to continue until the last pensioner dies. Contributions, expressed as capital payments, can continue to be levied after all the employees have retired. These Admission Agreements can however be terminated at any point.

If an Admission Body's admission agreement is terminated, the Administering Authority instructs the Fund actuary to carry out a special valuation to determine whether there is any deficit.

The assumptions adopted to value the departing employer's liabilities for this valuation will depend upon the circumstances. For example:

- (a) For Transferee Admission Bodies, the assumptions would be those used for an ongoing valuation to be consistent with those used to calculate the initial transfer of assets to accompany the active member liabilities transferred.
- (b) For non Transferee Admission Bodies that elect to voluntarily terminate their participation, the Administering Authority must look to protect the interests of other ongoing employers and will require the actuary to adopt valuation assumptions which, to the extent reasonably practicable, protect the other employers from the likelihood of any material loss emerging in future. This could give rise to significant payments being required.
- (c) For Admission Bodies with guarantors, it is possible that any deficit could be transferred to the guarantor in which case it may be possible to simply transfer the

Shetland Islands Council Pension Fund Funding Strategy Statement

former Admission Bodies members and assets to the guarantor, without needing to crystallise any deficit.

Under (a) and (b), any shortfall would be levied on the departing Admission Body as a capital payment.

3.9 Early Retirement Costs

3.9.1 *Non Ill Health retirements*

The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health. All employers irrespective of whether or not they are pooled, are required to pay additional contributions wherever an employee retires "early" (see below) with no reduction to their benefit or receives an enhanced pension on retirement..

It is assumed that members' benefits on age retirement are payable from the earliest age that the employee could retire without incurring a reduction to their benefit and without requiring their employer's consent to retire. Members receiving their pension unreduced before this age other than on ill-health grounds are deemed to have retired "early".

The additional costs of premature retirement are calculated by reference to these ages.

3.9.2 *Ill health monitoring*

The Fund monitors each employer's, or pool of employers, ill health experience on an ongoing basis. If the cumulative number of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer will be charged additional contributions on the same basis as apply for non ill-health cases.

Shetland Islands Council Pension Fund Funding Strategy Statement

4. Links to Investment Strategy

Funding and investment strategy are inextricably linked. Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice.

4.1 Investment Strategy

The investment strategy currently being pursued is described in the Fund's Statement of Investment Principles.

The investment strategy is set for the long-term, but is reviewed from time to time, normally every three years, to ensure that it remains appropriate to the Fund's liability profile. The Administering Authority has adopted a benchmark, which sets the proportion of assets to be invested in key asset classes such as equities, bonds and property. As at 31 March 2008, the proportion held in equities and property was 83% of the total Fund assets.

The investment strategy of lowest risk would be one which provides cashflows which replicate the expected benefit cashflows (i.e. the liabilities). Equity investment would not be consistent with this.

The Fund's benchmark includes a significant holding in equities in the pursuit of long-term higher returns than from a liability matching strategy. The Administering Authority's strategy recognises the relatively immature liabilities of the Fund and the secure nature of most employers' covenants.

The same investment strategy is currently followed for all employers. The Administering Authority does not currently have the facility to operate different investment strategies for different employers.

4.2 Consistency with Funding Basis

The funding policy currently adopts an asset outperformance assumption of 1.7% p.a. over and above the redemption yield on index-linked gilts. The Fund's actuary considers that the funding basis does conform to the requirements to take a "prudent longer-term" approach to funding.

The Administering Authority is aware that, in the short term – such as the three yearly assessments at formal valuations – the proportion of the Fund invested in equities brings the possibility of considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of the outperformance target. The stability measures described in Section 3 will damp down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

Shetland Islands Council Pension Fund Funding Strategy Statement

4.3 Balance between risk and reward

Prior to implementing its current investment strategy, the Administering Authority considered the balance between risk and reward by altering the level of investment in potentially higher yielding, but more volatile, asset classes like equities. This process was informed by the use of Asset-Liability techniques to model the range of potential future solvency levels and contribution rates.

4.4 Intervaluation Monitoring

The Administering Authority monitors investment performance and reports back to employers on an annual basis.

Shetland Islands Council Pension Fund Funding Strategy Statement

5. Key Risks & Controls

5.1 Types of Risk

The Administering Authority's has an active risk management programme in place. The measures that the Administering Authority has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and
- governance.

5.2 Financial Risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term	<i>Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing.</i> <i>Analyse progress at three yearly valuations for all employers.</i>
Inappropriate long-term investment strategy	<i>Consider measuring performance and setting managers' targets relative to bond based target, absolute returns or a Liability Benchmark Portfolio and not relative to indices.</i>
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities	<i>Some investment in bonds helps to mitigate this risk.</i>
Active investment manager under-performance relative to benchmark	<i>Short term (quarterly) investment monitoring analyses market performance and active managers relative to their index benchmark.</i> <i>This gives an early warning of contribution rises ahead. In the short term, volatility damped down by stability measures on contributions. However, if underperformance is sustained over a period, contributions would rise more.</i>
Pay and price inflation significantly more than anticipated	<i>The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.</i>

**Shetland Islands Council Pension Fund
Funding Strategy Statement**

	<p><i>Some investment in index-linked bonds also helps to mitigate this risk.</i></p> <p><i>Employers pay for their own salary awards and are reminded of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.</i></p>
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	<p><i>Seek feedback from employers on scope to absorb short-term contribution rises.</i></p> <p><i>Mitigate impact through deficit spreading and phasing in of contribution rises.</i></p>

Shetland Islands Council Pension Fund Funding Strategy Statement

5.3 Demographic Risks

Risk	Summary of Control Mechanisms
Ill-health retirements significantly more than anticipated.	<i>Monitoring of each employer's ill-health experience on an ongoing basis. The employer may be charged additional contributions if this exceeds the ill-health assumptions built in.</i>
Pensioners living longer.	<p><i>Set mortality assumptions with some allowance for future increases in life expectancy.</i></p> <p><i>Fund actuary monitors combined experience of around 50 LGPS funds to look for early warnings of lower pension amounts ceasing than assumed in funding.</i></p> <p><i>Administering Authority encourages any employers concerned at costs to promote later retirement culture. Each 1 year rise in the average age at retirement would save roughly 5% of pension costs.</i></p>
Deteriorating patterns of early retirements	<p><i>Employers are charged the extra capital cost of non ill health retirements following each individual decision.</i></p> <p><i>Employer ill health retirement experience is monitored.</i></p>

5.4 Regulatory

Risk	Summary of Control Mechanisms
Changes to regulations, e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employees	<p><i>The Administering Authority is alert to the potential creation of additional liabilities and administrative difficulties for employers and itself.</i></p> <p><i>The Administering Authority considers all consultation papers issued by the SPPA and comments where appropriate.</i></p>
Changes to national pension requirements and/or HM Revenue & Customs rules e.g. effect of abolition of earnings cap for post 1989 entrants from April 2007, abolition of 85 year rule and new 2009 scheme.	<p><i>The Administering Authority will consult employers where it considers that it is appropriate.</i></p>

Shetland Islands Council Pension Fund Funding Strategy Statement

5.5 Governance

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements).	<i>The Administering Authority monitors membership movements on an ongoing basis.</i>
Administering Authority not advised of an employer closing to new entrants.	<i>The Actuary may be instructed to consider revising the rates and Adjustments certificate to increase an employer's contributions (under Regulation 77) between triennial valuations.</i>
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body and losing the opportunity to call in a debt.	<i>In addition to the Administering Authority monitoring membership movements on an ongoing basis, it requires Transferee Admission Bodies to inform it of forthcoming changes, for example, prior notification of the termination of Transferee Admission Agreements.</i>
An employer ceasing to exist with insufficient funding or adequacy of a bond.	<p>The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.</p> <p>The risk is mitigated by:</p> <ul style="list-style-type: none"> • <i>Seeking a funding guarantee from another scheme employer, or external body, wherever possible.</i> • <i>Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.</i> • <i>Vetting prospective employers before admission.</i> • <i>Where permitted under the regulations requiring a bond to protect the scheme from the extra cost of early retirements on redundancy if the employer failed.</i>

Shetland Islands Council Pension Fund Funding Strategy Statement

Annex A – Employers' Contributions, Spreading and Phasing Periods

Following the 2008 valuation, the minimum employer contributions shown in the Rates and Adjustment certificate attached to the 2008 valuation report are based on the deficit recovery periods and phasing periods shown in the table below. The table also shows the individual adjustments under Regulation 76(6) to each employer's contributions from the 'Common Contribution Rate'.

Employer Code	Employer Name	Minimum contributions for the year ending			Deficit Recovery Period (years)	Contribution rate phasing (years)
		31 March 2010	31 March 2011	31 March 2012		
1	Shetland Islands Council	15.5%	16.6%	17.7%	20	4
5	Shetland Fisheries Training Centre Trust	15.5%	16.6%	17.7%	20	4
15	Shetland Seafood Quality Control	15.5%	16.6%	17.7%	20	4
20	Shetland Development Trust	15.5%	16.6%	17.7%	20	4
25	Atlantic Ferries ¹	17.1%	17.1%	17.1%	20	-
4	Shetland Recreational Trust	15.1%	16.6%	18.2%	20	3
6	Shetland Alcohol Trust	15.1%	16.6%	18.2%	20	3
9	Shetland Amenity Trust	15.1%	16.6%	18.2%	20	3
13	Shetland Youth Information Service	15.1%	16.6%	18.2%	20	3
23	Shetland Charitable Trust	15.1%	16.6%	18.2%	20	3
24	Shetland Arts Development Agency	15.1%	16.6%	18.2%	20	3
Individual Employers						
3	Lerwick Port Authority	20.7%	21.9%	23.1%	20	3
7	Shetland Enterprise Co Ltd ²	£41.3k p.a.	£43.4k p.a.	£45.6k p.a.	3	-
8	Shetland Islands Tourism ³	18% plus £22.4k p.a.	18% plus £23.5k p.a.	18% plus £24.7k p.a.	3	-
11	ABA Services Ltd	13.6%	15.7%	17.9%	20	3
19	Orkney & Shetland Joint Valn Board	20.8%	21.8%	22.8%	20	3

Changes to contributions have been phased in except Atlantic Ferries, Shetland Enterprise Co Limited and Shetland Islands Tourism.

1 Atlantic Ferries will continue to pay 17.1% in line with the contribution rate set when the employer joined the Fund.

2 Shetland Enterprise Co Limited are required to pay monetary lump sum amounts for the period of 1 April 2009 to 31 March 2012 as follows;

2009/2010	£41.3k
2010/2011	£43.3k
2011/2012	£45.6k

3 In addition to the employer's future service rate of 18.0%, Shetland Islands Tourism are required to pay monetary lump sum amounts for the period of 1 April 2009 to 31 March 2012 as follows;

2009/2010	£22.4k
2010/2011	£23.5k
2011/2012	£24.7k

**Shetland Islands Council Pension Fund
Funding Strategy Statement**

Annex B – Responsibilities of Key Parties

The Administering Authority should:-

- collect employer and employee contributions;
- invest surplus monies in accordance with the regulations;
- ensure that cash is available to meet liabilities as and when they fall due;
- manage the valuation process in consultation with the fund's actuary;
- prepare and maintain and FSS and a SIP, both after proper consultation with interested parties; and
- monitor all aspects of the fund's performance and funding and amend FSS/SIP

The Individual Employer should:-

- deduct contributions from employees' pay correctly;
- pay all contributions, including their own as determined by the actuary, promptly by the due date;
- exercise discretions within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain, excess ill-health early retirements if appropriate; and
- notify the administering authorities promptly of all changes to membership or, as may be proposed, which affect future funding.

The Fund actuary should:-

- prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the Administering Authority and having regard to the FSS; and
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters.



REPORT

To: Shetland Islands Council

20 May 2009

From: Waste Services Manager

CE-23-F

CORPORATE PROCUREMENT STRATEGY – UPDATE REPORT

1. Introduction

- 1.1 This report provides an update on progress to date on the implementation of the procurement strategy and development of a Corporate Procurement Function within the Capital Programme Service.
- 1.2 It seeks approval from Council for a Sustainable Procurement Policy and provides information on progress relating to national contracts.

2. Link to Corporate Priorities

- 2.1 The Council's Corporate Improvement Plan includes a commitment to a corporate approach to procurement. This is to be developed by taking a consistent approach to procurement across the organisation taking account of efficiency, effectiveness, sustainability and equality issues.
- 2.2 Section 2 of the Corporate Plan requires the Council to organise its business and administration to make sure that the community and corporate plans are implemented by finances, consistent planning and action, performance, management and communication.
- 2.3 The Corporate Plan 2008-2011 states we will ensure that we are being as efficient as possible in the way we procure goods and services – delivering 10% savings on procurement budgets.

3. Background

- 3.1 In July 2007, Shetland Islands Council approved a procurement strategy for the Council (Min Ref 90/07). The strategy covered a number of initiatives to progress a more efficient approach to the Council's procurement processes, including options for more collaboration in this field. Authority to implement the strategy and amend as required was delegated to the Chief Executive.
- 3.2 In September 2008 the Council approved the joining of Scotland Excel and participation in National Contracts through Procurement Scotland.

4. Corporate Procurement Progress and Recommendations

4.1 Procurement Function

4.1.1 The necessity for the establishment of a procurement function within the Council was discussed in the previous report in September 2008, the establishment of this function will now form part of the review of the Capital Programme Service being undertaken by the Assistant Chief Executive.

4.1.2 I would envisage that the procurement function would take responsibility for:-

- All collaborative procurement across the Council.
- Collaborative procurement with other organisations, such as Trusts, NHS, Scotland Excel and Procurement Scotland.
- Development of e-Procurement.
- Providing advice on procurement options and contracts.
- Liaising with suppliers and developing local suppliers.
- Maintaining the approved supplier list.
- Developing appropriate policies and procedures.
- Ensuring procurement across the Council is lawful.
- Monitoring performance and savings achieved through efficient procurement.

4.1.3 These functions will not progress and develop fully until a procurement unit is established and appropriately resourced.

4.2 Scotland Excel / Procurement Scotland

- 4.2.1 Appendix 1 contains a list of current and planned contracts by Scotland Excel and Procurement Scotland.
- 4.2.2 I have included indicative expenditure against these goods and detailed existing suppliers, suppliers under the new contracts and the current status of the contract for the Council.
- 4.2.3 We are not participating in national contracts relating to food as we are currently reviewing options for local food procurement and production and believe participation in national contracts prior to a strategy being established could be detrimental to the local agriculture and the future strategy for food procurement.
- 4.2.4 Contracts where it can be seen that there is currently a significant local spend are being reviewed and benchmarked against the new contracts to determine potential savings and local impact to establish which option represents best value for the Council. Where there is a clear conflict between potential savings and local jobs these will be reported to Council with appropriate recommendations.
- 4.2.5 Contracts that have little or no local impact and provide a saving to the Council are being made available to staff through the Councils procurement pages on the Intranet.
- 4.2.6 We are participating in the development of contracts with Scotland Excel and Procurement Scotland to ensure our needs are met in future tenders.
- 4.2.7 The indicative spend for the contracts given in appendix 1 is approx £9 million, benchmarking on building materials, computers and stationary contracts have shown savings between 15% and 40%. Not all these will be realised once we consider local impact and best value, however I would suggest that on the evidence to date we should be able to achieve the 10% saving prioritised in the corporate plan.

4.3 Work in Progress

- 4.3.1 We will be carrying out a pilot exercise for e-procurement over the coming months using the Councils existing financial management system.
- 4.3.2 Procurement pages are now available on the Councils website collating all procurement information, policies and catalogues for staff to use.
- 4.3.3 Corporate procurement training has been arranged through Train Shetland with the first course-taking place in June 2009 to advise staff of the council procedures, standing orders, Scotland Excel and national contracts.

- 4.3.4 Training on EU procurement regulations was recently provided to staff involved in major contracts, and other complex procurement exercises.
- 4.3.5 Continuing the liaison with Procurement Scotland and Scotland Excel to ensure we maximise the potential for savings in the goods and service we procure and ensuring we participate and influence the content of new contracts to achieve greater benefits for Shetland.
- 4.3.6 Improve our communication with suppliers and assist them through communication and training to access Council contracts and improve our records on supplier performance.
- 4.3.7 Investigating the current levels of local food procurement and developing ways in which these can be improved.
- 4.3.8 Developing a procurement policy that incorporates the aims of the Corporate Plan and contains suitable guides for the inclusion of clauses in contracts that will deliver sustainable procurement considering economic, environmental and social aspects of the goods and services we buy.

5 Hub Initiative

- 5.1 It is recommended that the Council participates in the HUB Initiative which is part of the Scottish Futures Trust. The Initiative aims to establish a Northern Territory Programme Board to help deliver community infrastructure projects between partners. It is intended that the board will contract a Private Sector Development Partner to help develop shared community infrastructure projects delivering efficiencies in procurement, tendering and construction.
- 5.2 There is full participation from the partners listed on page 1 of Appendix 2 and funding for the establishment of the board is being provided through the Scottish Futures trust. Whilst there is not envisaged to be any major benefit to Shetland at this stage, there may be future opportunities for closer working with NHS Shetland which this forum could facilitate and potentially provide funding or savings in terms of project delivery.
- 5.3 A Memorandum of Understanding establishing a framework within which the partners will operate is given in appendix 2. There are no financial implications arising from the participation in this initiative and it may provide opportunities for improved project delivery and external funding for joint projects

6. Financial Implications

- 6.1 There are no financial implications resulting from this report. The Corporate Plan seeks 10% efficiency savings in procurement and the work referenced in this report is essential to deliver these savings.

7. Policy & Delegated Authority

- 7.1 The Council's procurement strategy approved in July 2007 (Min Ref 90/07) delegated authority to the Chief Executive to implement it.

8. Conclusions

- 8.1 To improve the procurement methodology and allow full participation in National contracts it will be necessary to establish a corporate procurement service and this will be considered as part of the Assistant Chief Executives current review of the Capital Programme Service.
- 8.2 Where national contracts have no significant impact on local business these are being made available to staff through the Councils Intranet. Contracts which have the potential to significantly impact on the local economy are being benchmarked against local service providers to identify potential savings and impacts, and recommendations on best value will be reported to the Council before these contracts are entered into.
- 8.3 The HUB initiative may offer opportunities for joint delivery of community infrastructure projects and potential for some funding on suitable projects. Delegated authority for the Chief Executive or his nominee to participate in the initiative is sought from the council in order to progress the partnership arrangements as outlined in the MOU in appendix 2

9. Recommendations

- 9.1 It is recommended that Council approve,
- 9.1.1 that the Chief Executive or his nominee be given delegated authority to participate in the Hub initiative to seek opportunities for improved joint working, improved community infrastructure provision and service delivery, and
- 9.1.2 note the contents of this report.

Report No: CE-23-F

Appendix1

Commodity / Service	Contracting authority	Contract in place?	Indicative. Annual Spend	Current / Previous Principal Suppliers	Excel/ Procurement Scotland Suppliers	Status
Audio Visual & Presentation Equipment	Scotland Excel	Yes	£117,000	Cameron Communications, Congress Systems	BDC, RM Education, Cameron Communications, Scotsys, Computacenter, Service centre, Harris of Saltcoats, SSUK, IDNS, Vision Sound, Jessops, Wave Audio Visual, Matrix Display, Wilson and garden, Misco, XMA	Limited local impact Contract available for use
Building Materials	Scotland Excel	Yes	£358,000	Lerwick Building Centre, Buildbase	M & T builders Merchants, McNair Building and Timber Merchants, Travis Perkins, Wolseley	Significant local impact requires further benchmarking and impact assessment
Catering Disposables	Scotland Excel	Yes	£53,000	Hobart manufacturing, Nisbets	King UK	Limited local impact Contract available for use
Catering Sundries	Scotland Excel	Yes	see above		3663, BGL Rieber, Bunzl, CJ Lang, Instock, Nisbet, Reward, Thermo Box, Three Source	Limited local impact Contract available for use
Electrical Materials	Scotland Excel	Yes	£492,000	Newey & Eyre, John MacLean & Sons	Bemco, City Electrical Factors, Edmundson, Hagemeyer, Holland House, Rexel senate, Trilight	Newey and Ayre supply through local agents giving potential local impact requires further benchmarking and impact assessment
Fitness Equipment	Scotland Excel	Yes	Low Spend		Inspirit, Life Fitness UK, Pulse Fitness, Technogym UK	Contract available for use
Groceries & Provisions	Scotland Excel	Yes	£530,000	Hughson Brothers, J W Gray, Linkshouse Stores,	Brakes, and manufacturers AG Barr, Britvic, Calypso, Caterer's Choice Ltd, Coca Cola Enterprises, Golden Acre Dairy Foods Ltd, Kent Foods Ltd, MacEwan Falconer, Moorhead & McGavin, Nestle, Premier, Rickmers, Rowan Glen, Unilever, Westlars Foods Ltd	Local Food is subject to a separate review, we will not participate in national food contracts until the strategy for local food procurement has been developed

Plumbing Materials	Scotland Excel	Yes	£107,000	William Wilson , P.T.S.	Jewson, John Glendinning, McNair, Plumbing and Drainage Merchants, Travis Perkins, William Wilson , Wolesley,	Limited local impact Contract available for use
Signage	Scotland Excel	Yes	£36,000	Artmachine Scotland, Scrimsign Microelectro nics	Dee- Organ	Standardised Signage contract of limited local impact available for use
Timber	Scotland Excel	Yes	£134,000	John Flemimg	A Brown, Howdens joinery, Jewson, McNair, MGM, Rowan Timber Supplies, Thoenbridge Sawmills, Travis Perkins,	Limited local impact currently being reviewed
Vending Machines	Scotland Excel	Yes	£7,000	Early Bird Catering	Autobar, Automatic, Excel, Ideal, Mars, Myrtle, Out of the Box	Contract available for use
Water Coolers	Scotland Excel	Yes	£1,300	Water Coolers Direct .Com	Bottled: AG Barr, Fresca Ltd, Nestle Pow Wow, Plumbed: Water Coolers Scotland , Fresca Ltd, Nestle Pow Wow	Contract available for use
Bitumen	Scotland Excel	Yes	£129,000	Finnpave	Nynas, Jobling Purser, Colas	Contract not suitable for Shetland Delivery and Specifications
Early learning materials	Scotland Excel	Yes	SEE CLASSROOM MATS		Findel , YPO, Fine Solutions, Spectrum, Community Playthings, Active Learning, Asco, Synergy	Contract available for use
Exercise books	Scotland Excel	Yes	SEE CLASSROOM MATS		Grosvenor, Findel , Clyde Paper, Moray Office, YPO, Pegasus	Contract available for use
Musical Instruments	Scotland Excel	Yes	£18,000	Omega Music, High Level Music, Wood, Wind & Reed, Music	Haydock, Band Supplies, Rimmers, Wind section, Dawsons, Normans, Heritage, Omni	Contract available for use

				Village.		
PPE	Scotland Excel	Yes	£224,000	Globus, Cosalt, Arco	Alexandra, Arco , DF Wishart, Direct Workwear, Future Garments, Greenham, Haxton Safety, MacGregor Industrial, Protec, Scot Industrial	Contract under review to assess local impact and specifications
Science Equipment and Materials	Scotland Excel	Yes	SEE CLASSROOM MATS		Sci-Chem, Findel , Timstar, Anderson, YPO, Newton,	Contract available for use
Specialist Audio Equipment	Scotland Excel	Yes	£0		Coomber, Findel , Kent Music, Hills	Contract available for use
Trade tools and Sundries	Scotland Excel	Not Yet	£65,000	Deral Ltd		Will be Involved in contract development
Advertising	Scotland Excel	Not Yet	Low spend			
Aids for daily living	Scotland Excel	Not Yet	£322,000	Arjo, Homecraft Roylan, Woodalls		Will be Involved in contract development
Casual Hire of Vehicles and Plant	Scotland Excel	Not Yet	£219,000	Johnson Transport, Martins Car Hire		Likely to be of limited use in Shetland
Classroom Materials	Scotland Excel	Not Yet	£250,000	Findell, Morleys of Bicester, Hope		Will be Involved in contract development
Courier Services	Scotland Excel	Not Yet	£24,000	DHL, TNT		Will be Involved in contract development
Dining Room Furniture	Scotland Excel	Not Yet	£0		Gopak, Sico Europe, Spaceright, Wagstaff School Furniture	Will be Involved in contract development

Education Furniture	Scotland Excel	Not Yet	£9,000	British Thornton ESF, Esa McIntosh	Community Playthings, Remploy, EFM, Sebel furniture, EME, Wilson and Garden, IOT, Matrix, Metalform, Mogo Direct, Nordeck	Will be Involved in contract development
Education Seating	Scotland Excel	Not Yet	See Above			Will be Involved in contract development
Educational Software	Scotland Excel	Not Yet	£0			Will be Involved in contract development
Frozen Food	Scotland Excel	Not Yet	£36,000	Shetland Freezer Foods		Not participating in National contract
Heavy Vehicles	Scotland Excel	Not Yet	£346,000	A M Phillip Trucktech, James A Cuthbertson, Volvo		Will be Involved in contract development
Hygiene Solutions and Paper Towels	Scotland Excel	Not Yet	£0			Will be Involved in contract development
Hygiene Units	Scotland Excel	Not Yet	£0			Limited application in Shetland
Industrial Gases	Scotland Excel	Not Yet	£7,000	BOC		Will be Involved in contract development
Ironmongery	Scotland Excel	Not Yet	£36,000	Laidlaw Solutions		Will be Involved in contract development
Light Vehicles	Scotland Excel	Not Yet	£125,000	CD Bramall, R & M Nicholson		Will be Involved in contract development
Meats - Fresh prepared, cooked inc. Fresh fish	Scotland Excel	Not Yet	£40,000	Scottish Sea Farms, H M Johnson		Not participating in National contract
Milk - fresh	Scotland Excel	Not Yet	£0			Not participating in National contract

pasteurised						
Office furniture (inc metal)	Scotland Excel	Not Yet	£252,000	Danwood Highland, MES Business Equipment		Will be Involved in contract development
Rocksalt	Scotland Excel	Not Yet	£0			Will be Involved in contract development
Sports, Games, Equipment	Scotland Excel	Not Yet	£43,000	Evans of Longton, Intersport	Foams 4 Sport, Newitts	Will be Involved in contract development
Tyres	Scotland Excel	Not Yet	£63,000	Shetland Exhaust and Tyre Centre		Will be Involved in contract development
Vehicle Spare Parts	Scotland Excel	Not Yet	£84,000	Total Vehicle Solutions, Dingbro		Will be Involved in contract development
Wheeled Bins	Scotland Excel	Not Yet	£73,000	Glasdon, BPI Recycled products		Will be Involved in contract development
Franking Machines	Scotland Excel	Not Yet	£14,000	Pitney Bowes, Neopost		Will be Involved in contract development
Paper	Procurement Scotland	Yes	£50,000	Viking Direct, Shetland Office Supplies, MES	Lyreco	Reviewing local impact benchmarking prices, testing goods and service
Computers	Procurement Scotland	YES	£500,000		Insight Direct, Computacentre	Contract available

Computer Supplies	Procurement Scotland	YES	included in stationary	Viking Direct, inkjet and toners, ccs media	Spectrum	Contract available although benchmarking has shown contract is not providing any significant saving over current prices
Stationery	Procurement Scotland	YES	£200,000	Viking Direct, Shetland Office Supplies, MES	Lyreco	Reviewing local impact benchmarking prices, testing goods and service
Electricity	Procurement Scotland	Not Yet	£1.4 million	Scottish Power		Participation agreement signed, new contract commences Oct 09
Marine Fuel	Procurement Scotland	Not Yet	£1.5 Million	GB Fuels		Participating with Northlink, Caledonian McBrain and Orkney through Procurement Scotland to establish a contract for Marine fuel
Fuel	Procurement Scotland	Not Yet	£1.5 Million	GB Fuels		Scotland Excel are currently negotiating with OGC on our behalf to improve current contract. Procurement Scotland will be establishing a new national contract in a year's time.

DATED 24th APRIL 2009

- 1. Aberdeen City Council**
- 2. Aberdeenshire Council**
- 3. Argyll and Bute Council**
- 4. Comhairle nan Eilean Siar**
- 5. Grampian Fire and Rescue Service**
- 6. Grampian Police**
- 7. Highland Council**
- 8. HIFRS**
- 9. Moray Council**
- 10. NHS Grampian**
- 11. NHS Highland**
- 12. NHS Orkney**
- 13. NHS Shetland**
- 14. NHS Western Isles**
- 15. Northern Constabulary**
- 16. Orkney Island Council**
- 17. Shetland Islands Council**

**hub MEMORANDUM OF
UNDERSTANDING**

**relating to the joint working
arrangements of Territory
Participants in the development and
subsequent delivery of the Territory
Programme and the procurement of
a suitable private sector
development partner pursuant to
the hub initiative.**

1. PURPOSE OF THIS MEMORANDUM OF UNDERSTANDING

1.1 The purpose of this Memorandum of Understanding (referred to in the remainder of this document as the “**MoU**”) is to:

1.1.1 establish the way that the participants to the MoU will work together on the development of the Territory Programme, its governance and thereafter the management of the procurement of a private sector development partner (the “**PSDP**”); and

1.1.2 establish and record guidelines for taking joint working forward by participants to the MoU to the next stage of establishing a “**Territory Programme Board**”.

hereinafter referred to as the “**Purpose**”.

1.2 The signatories to the MoU comprise:

- Aberdeen City Council;
- Aberdeenshire Council;
- Argyll and Bute Council;
- Comhairle nan Eilean Siar;
- Grampian Fire and Rescue Service;
- Grampian Police;
- Highland Council;
- HIFRS;
- Moray Council;
- NHS Grampian;
- NHS Highland;
- NHS Orkney;
- NHS Shetland;
- NHS Western Isles;
- Northern Constabulary;
- Orkney Island Council; and
- Shetland Islands Council.

(hereinafter collectively called the “**Territory Participants**” and individually as “**Participants**” where the context so applies.

- 1.3 The Territory Participants referred to in 1.2 above shall form the North Territory (the “**Territory**”).

2. BACKGROUND

- 2.1 The Territory Participants share a commitment to;
- 2.1.1 the effective delivery over time of a sustained programme of investment in community based infrastructure to support local service improvement through multi-disciplinary team working (wherever possible and appropriate) from single sites; and
 - 2.1.2 increasing the scale of joint service working and integrated service delivery between community planning partners across Scotland resulting in better outcomes at the point of service delivery; and
 - 2.1.3 establishing a more efficient and sustainable procurement vehicle for the delivery of community based projects and services.
- 2.2. The Participants intend to publish a joint contract notice in the Official Journal of the European Union in order to seek expressions of interest for a PSDP to establish a limited company with the Territory Participants under the hub initiative. The Territory Participants hereby record their support for the procurement of a PSDP and agree to work together to support the selection of a suitable PSDP.

3. STATUS OF THE MOU AND THE TERRITORY

- 3.1 The MoU is an operational document. It is not a formal or legally binding contract and so nothing in its operation shall give rise to legally binding rights and obligations between the parties. Its scope will evolve over time and in particular as the development of the Territory Programme and the procurement of a PSDP progresses.
- 3.2 Subject to clause 3.5 the Territory Participants, have (by signing the MoU) agreed to use reasonable endeavours to comply with the terms and spirit of the MoU.
- 3.3 The Territory Participants are not a legal entity. Accordingly, they cannot employ staff or enter into a contract(s) in their own right and will therefore have to act through an agent, normally one of the Participants.

- 3.4 The Territory has no delegated or executive powers. The Territory Participants agree that any decisions to be made by the Territory Participants in pursuance of the Purpose shall be made via the Territory Programme Board in accordance with its constitution.
- 3.5 Nothing contained or implied in this MoU shall prejudice or affect the Territory Participants' rights, powers, discretions, duties and obligations in their functions as local authorities, NHS Boards and or in any other capacity including for the avoidance of doubt their Standing Orders or Standing Financial Orders as the case may be. All rights, powers, discretions, duties and obligations of the Territory Participants under all laws may at all times be fully and effectually exercised as if the Territory Participants were not a party to this MoU.

4. KEY PRINCIPLES

The Territory Participants have agreed the following key principles to guide their activities.

4.1 Transparency

The Territory Participants are committed to ensuring the development of the Territory Programme and the procurement of a PSDP in a transparent manner.

4.2 Consultation

The Territory Participants recognise the importance of effective consultation and dissemination of information amongst Participants and the need to consult as widely as possible with all relevant public sector bodies and wider participants in the hub initiative.

4.3 Co-operation

- 4.3.1 The Territory Participants accept the need to work closely together to provide effective, efficient and financially viable community based infrastructure. The Territory Participants will explore the development of joint initiatives between all or some of the Participants, with or without third party authorities or private companies to develop a strategic long-term programme approach to the procurement of community based infrastructure.
- 4.3.2 The Territory Participants agree to monitor and review the effectiveness of the strategies agreed, as well as consider the options for the future delivery of services to meet the aims and objectives of the strategies.

- 4.3.3 The Territory Participants agree to work together in a spirit of mutual trust, support and respect, and to ensure that when difficulties or differences of opinion arise they are addressed quickly, honestly and openly.
- 4.3.4 The Territory Participants agree that general costs associated with the running of the Territory will be shared in a fair and equitable manner and project costs will be the responsibility of the participants in the project and be in proportion to their obligations to the project.

5. INFORMATION

- 5.1 Without prejudice to clause 3.5 and in recognition of the importance of information and statistics in relation to the hub initiative, the Territory Participants intend and are committed to providing and sharing information relating to the Purpose with the hub Programme Delivery Office (the “**PDO**”), the Scottish Futures Trust and any other Scottish Government body established to support the efficiency and effectiveness of public sector infrastructure procurement necessary to monitor and measure the effectiveness of the Territory in implementing the hub initiative.
- 5.2 Such information as referred to in 5.1 above should be collected and presented in an agreed format to enable quick and easy interpretation by the Territory Participants and the public.
- 5.3 The Territory Participants are committed to using their best endeavours to agree to ensure that information and statistics provided are accurate, supplied in a timely fashion and produced to high standards of data quality.

6. TERRITORY OBJECTIVES

- 6.1 The objectives (“**the Objectives**”) of the Territory Participants are as follows:
 - 6.1.1 to empower those tasked with making decisions at a Participant level to the full extent permitted by their organisation’s vires/governance arrangements.
 - 6.1.2 to establish robust governance and supporting local arrangements which support the implementation of hub within the Territory;
 - 6.1.3 to identify and appoint a Territory Programme Board to manage the procurement of a suitable PSDP and the development of the Territory Programme; and

- 6.1.4 to deliver effective Territory Programme management to ensure successful Territory Programme development and procurement of the PSDP;
- 6.1.5 to achieve transparency through effective consultation and dissemination of information amongst Territory Participants;
- 6.1.6 to manage the costs and timescales involved in the management of the Territory Programme and procurement of the PSDP and to generally support the Territory Programme Director; and
- 6.1.7 to endeavour to fully engage all community planning partners in the respective geographic areas of the Participants.

7. THE hub INITIATIVE

- 7.1 The Territory Participants recognise that the procurement of premises through the hub initiative will require the negotiation, agreement and implementation of a legally binding partnering agreement between the Participants and the PSDP via a joint venture hub company (the “**hub Co**”) which will establish a long term partnering arrangement between hub Co and the Participants and, amongst other things, set out the Participants obligations in relation to the governance and management of the Territory Programme development, and procurement and subsequent delivery of hub projects.
- 7.2. The Territory Participants are committed to working together with the PSDP to agree a timetable for reaching agreement on the terms of the hub Partnering Agreement (“**hPA**”).
- 7.3 The Territory Participants recognise that the agreement of the hPA is vital to the management of certain risks associated with the successful procurement of a hub project.

8. THE TERRITORY PROGRAMME BOARD

- 8.1 The Territory Participants have appointed a Territory Programme Board whose constitution is as set out in Schedule A to this Agreement.

9. DURATION

- 9.1 The arrangements set out in this MoU will remain in operation until they are superseded by entry into the hpa by participating Participants. They may, however, be varied by agreement of all the Territory Participants.
- 9.2 It is intended that the MOU may be reviewed from time to time by agreement with all of the Territory Participants at a meeting of the Territory Programme Board.
- 9.3 Any Territory Participant may withdraw from the Territory at any time by giving notice of its withdrawal at a meeting of the Territory Programme Board.

10 FREEDOM OF INFORMATION (SCOTLAND) ACT 2002

Each of the Participants acknowledges that each of the others is subject to the requirements of the Freedom of Information (Scotland) Act 2002 ('FOIA') and each Participant shall where reasonable assist and co-operate with the other Participant (at their own expense) to enable the other Participant to comply with these disclosure obligations.

This MoU is agreed by the following:

On behalf of Territory Participant (1)

[*Senior Responsible Officer*].....

On behalf of Territory Participant (2)

[*Senior Responsible Officer*].....

On behalf of Territory Participant (3)

[*Senior Responsible Officer*].....

On behalf of Territory Participant (4)

[*Senior Responsible Officer*].....

On behalf of Territory Participant (5)

[*Senior Responsible Officer*].....

On behalf of Territory Participant (6)

[*Senior Responsible Officer*].....

On behalf of Territory Participant (7)

[*Senior Responsible Officer*].....

On behalf of Territory Participant (8)

[*Senior Responsible Officer*].....

On behalf of Territory Participant (9)

[*Senior Responsible Officer*].....

On behalf of Territory Participant (10)

[*Senior Responsible Officer*].....

On behalf of Territory Participant (11)

[*Senior Responsible Officer*].....

On behalf of Territory Participant (12)

[*Senior Responsible Officer*].....

On behalf of Territory Participant (13)

[*Senior Responsible Officer*].....

On behalf of Territory Participant (14)

[*Senior Responsible Officer*].....

On behalf of Territory Participant (15)

[*Senior Responsible Officer*].....

On behalf of Territory Participant (16)

[*Senior Responsible Officer*].....

On behalf of Territory Participant (17)

[*Senior Responsible Officer*].....

On behalf of Territory Participant (18)

[*Senior Responsible Officer*].....

SCHEDULE A

CONSTITUTION OF THE NORTH TERRITORY PROGRAMME BOARD

1. Preamble

- 1.1 This constitution provides a framework for co-operation to facilitate joint working between the members of the North Territory Programme Board (“NTPB”) to effect the implementation of the hub initiative in the North Territory. The NTPB will be the shadow Strategic Partnering Board, the board that shall be formed on entering into the Strategic Partnering Agreement.

2. Purpose and Aims

- 2.1 The purpose of the NTPB is to provide a forum through which all members can establish close working relationships in order to:

- increase the scale of joint service working and integrated service delivery between community planning partners in the North Territory to achieve better outcomes at the point of service delivery;
- deliver an effective and sustained programme of investment in community based infrastructure to support local service improvement through multi-disciplinary team working (wherever possible and appropriate) from single sites; and
- establish a joint venture between the public and private sectors for the delivery of premises for community based services (“hub Co”).

- 2.2 The purpose and aims will be achieved by:

- Working in an open and transparent manner jointly and in co-operation with, all members of the NTPB and, as appropriate, other public sector agencies who are not members of the NTPB.
- Promoting the purpose and aims of the NTPB at all times.
- Empowering NTPB members to commit resources and funds as appropriate
- Setting down a hub Delivery Plan that will be informed by local service strategies to allow holistic property solutions and recording the extent of joint working achieved by members.

- Appointing a Private Sector Development Partner with whom a joint venture will be formed by undertaking a competitive procurement
- Providing strategic direction to the project team undertaking the procurement on behalf of the NTPB.
- Appointing a Programme Director who will manage the procurement team and will be responsible for reporting to the NTPB on procurement matters and for implementing its decisions.

3. Membership and Organisation of the NTPB

3.1 Membership of the NTPB shall comprise the 17 organisations listed in paragraph 3.2 or, in the case of any prospective members, whose membership has been approved by a majority of the NTPB members.

3.2 Current organisational membership includes;

1. Aberdeen City Council
2. Aberdeenshire Council
3. Argyll and Bute Council
4. Comhairle nan Eilean Siar
5. Grampian Fire and Rescue Service
6. Grampian Police
7. Highland Council
8. HIFRS
9. Moray Council
10. NHS Grampian
11. NHS Highland
12. NHS Orkney
13. NHS Shetland
14. NHS Western Isles
15. Northern Constabulary
16. Orkney Island Council

17. Shetland Islands Council

- 3.3 Member representatives will be provided by their member organisation and will be empowered by their organisation to participate to the full extent permitted by its vires/governance arrangements.
- 3.4 Current member representatives and alternative representatives are listed in Appendix A.

4. Proceedings

- 4.1 The Chair and Vice Chair of the NTPB will be appointed on the basis of a majority vote by members of the NTPB. Appointments will be for a period of 1 year.
- 4.2 The Chair appointed will be responsible for setting out the framework for the number of meetings, duration, frequency and reporting all minutes of meetings to the member organisations for approval/comment/instruction.
- 4.3 The Vice Chairperson will conduct the business of the meeting in the absence of the Chairperson.
- 4.4 Sub groups may be established by the NTPB to take forward any matters requiring detailed work. These groups will normally report to the NTPB in writing at each meeting.
- 4.5 A quorum of six members being present is required before any decision making can be undertaken.
- 4.6 Each member representatives (or his/her substitute) shall have one vote, the right to vote being conditional on submission to hub Programme Delivery Office of a letter of intent to participate in the hub initiative. There will be no casting vote. If there is an equality of voting on an issue that matter shall be deferred and considered again at the next meeting (which may be a special meeting convened especially for the purpose of reconsidering the matter concerned).
- 4.7 Voting will be carried out in such a manner that each member representing a member organisation acts freely and independently.
- 4.8 The member organisations will endeavour to reach agreement on issues that are voted upon taking all reasonable steps to reach a consensus.

- 4.9 Meetings shall be held monthly but extraordinary meetings may be arranged where issues of importance need to be considered outwith the planned monthly cycle. A special meeting shall be held if called by either the Chair or if at least 50% of the member representatives request such a meeting in writing to the minute secretary/ Chairperson's Office.
- 4.10 Minutes of the NTPB will be drawn up and submitted to the next meeting for approval.
- 4.11 The NTPB will provide the member organisations with an annual report by 31 March each calendar year.

5. Secretariat

- 5.1 The overarching secretariat will be provided by the Chairperson's Office, however at visiting venues a minute secretary will be provided by the member organisation hosting the meeting.
- 5.2 A minute will be taken of the meeting.
- 5.3 Meeting venues shall alternate between Inverness and Aberdeen. Meetings and venues will be agreed by the member representatives for each calendar year.

6. Conflict Resolution

- 6.1 Conflict between the NTPB's purpose and aims and that of a member organisation's policies/standing financial instructions will be considered by the NTPB in the hope of finding a resolution. (This may be done using the District Valuer to act as arbiter). Failing which, the member organisation's policies/standing financial instructions will prevail.

North Territory Memorandum of Understanding

24/04/09

APPENDIX A

Chair	Gerry Donald	Head of Physical Planning NHS Grampian Summerfield House 2 Eday Road Aberdeen, AB15 6RE Tel: 01224 558699 gerry.donald@nhs.net
Vice Chair	Steve Barron	Director of Housing & Property The Highland Council Glenurquhart Road Inverness IV3 5NX Tel: 01463 702853 steve.barron@highland.gov.uk
Authority Representatives		
Aberdeen City Council	Representative	Michael Duncan Asset Policy Manager (Non Housing) Aberdeen City Council Resources Management 10th Floor St Nicholas House Broad Street Aberdeen AB10 1AA mjd@aberdeencity.gov.uk Tel: 01224 522166 GEdwards@aberdeencity.gov.uk
	Alternative	Gordon Edwards Corporate Director, Resources Management 08456 080910 – general number
Aberdeenshire Council	Representative	Syd Gray Head of Property within the Transportation and Infrastructure Service Tel: 01224 664500 sydney.gray@aberdeenshire.gov.uk
	Alternative	Alan Wood Corporate Finance Manager Telephone 01224 664230 Mobile 07748 181867 alan.wood@aberdeenshire.gov.uk
Argyll & Bute Council	Representative	Nick Allan Corporate Asset Manager, Development Services Blairvadach, Shandon Helensburgh G84 8ND Tel: 01436 658950 Fax: 01436 658965 Mobile: 07768 511804 nick.allan@argyll-bute.gov.uk
	Alternative	-
Comhairle nan Eilean Siar	Representative	Angus Murray angus-murray@cne-siar.gov.uk
	Alternative	Angus MacLeod a.macleod@cne-siar.gov.uk
Grampian Fire and Rescue Services	Representative	Jane Burr Head of Finance Grampian Fire and Rescue Service 19 North Anderson Drive Aberdeen AB15 6DW Tel: 01224 788747 Mobile: 07966 257588 jane.burr@grampianfrs.org.uk
	Alternative	-
Grampian Police	Representative	Alan Cormack Tel: 01224 305260 Alan.Cormack@grampian.pnn.police.uk
	Alternative and NESJPSG Representative	Stephen Homer Programme Manager NESJPSG Grampian Police Woodhill House Westburn Road Aberdeen Tel: 01224 305124 Stephen.homer@grampian.pnn.police.uk

North Territory Memorandum of Understanding

24/04/09

HIFRS	Representative	David Gill	Designation: Commander - Operations Support Tel: 01463 222722 david.gill@hifrs.org
	Alternative	-	-
Highland Council	Representative	Steve Barron	Director of Housing & Property Tel: 01463 702853 steve.barron@highland.gov.uk
	Alternative	Gary Westwater	Head of Construction Tel 01463 702235 gary.westwater@highland.gov.uk
Moray Council	Representative	Stuart Beveridge	Senior Estates Surveyor, Council Offices, High Street, Elgin, Moray, IV30 1BX Tel (01343) 563 257 stuart.beveridge@moray.gov.uk
	Alternative	Lorraine Paisey	Principal Accountant, Council Offices, High Street, Elgin, Moray, IV30 1BX Tel (01343) 563213 paiseyl@moray.gov.uk
NHS Grampian	Representative	Gerry Donald	Head of Physical Planning Tel: 01224 558699 gerry.donald@nhs.net
	Alternative	Alan Gall	Director of Finance NHS Grampian Summerfield House 2 Eday Road Aberdeen, AB15 6RE agall@nhs.net
NHS Highland	Representative	John Bogle	Acting Head of Capital and Property Planning Caithness General Hospital Wick Tel 01955 880200 KW1 5NS John.bogle@nhs.net
	Alternative	Michael Waters	Tel 01463 706724 michael.waters@nhs.net
NHS Orkney	Representative	Sanjay Shah	Tel: 01856 888287 sanjay.shah@nhs.net
	Alternative	Iain M Crozier	Chief Executive NHS Orkney, New Scapa Road Kirkwall Orkney, KW15 1BQ Tel: 00 44 1856 888223 iain.crozier@nhs.net
NHS Shetland	Representative	Lawson Bisset	Project Manager lawson.bisset@shb.shetland.scot.nhs.uk
	Alternative	Nick Kenton	Director of Finance Board Headquarters Brevik House, South Road LERWICK Shetland ZE1 0TG Tel: 01595 696767 nick.kenton@shb.shetland.scot.nhs.uk
NHS Western Isles	Representative	David Tierney	General Manager, Non-Clinical Support Services Tel: 01851 708265
	Alternative	Douglas Mackenzie	Mobile: 07590075094 Maintenance Manager Douglas.MacKenzie@wihb.scot.nhs.uk

North Territory Memorandum of Understanding

24/04/09

Northern Constabulary	Representative	Richard MacDonald	Estates Manager Tel: 01463 719005 richard.macdonald@northern.pnn.police.uk
	Alternative	Sandie Gall	Asst Procurement Officer Tel: 01463 720218 sandie.gall@northern.pnn.police.uk
Orkney Island Council	Representative	Gareth Waterson	Assistant Director of Finance and Housing (Corp) Tel: 01856 873535 x2137 Gareth.waterson@orkney.gov.uk
	Alternative	-	-
Shetland Islands Council	Representative	Jim Grant	+44 (0) 1595 743962 jim.grant@shetland.gov.uk
	Alternative	Morgan Goodlad	Chief Executive Shetland Islands Council +44 (0) 1595 693535 morgan.goodlad@shetland.gov.uk
Strathclyde Fire Brigade	Representative	Alex Lane	Alex.lane@strathclydefire.org
	Alternative	-	-



REPORT

To: **Shetland Islands Council**

20th May 2009

From: **Head of Organisational Development
Executive Services**

CE-17-F

Fairer Scotland Funding 2009-10

1 Introduction

- 1.1 This report provides details of the projects that have been allocated funding through the Scottish Government's Fairer Scotland Fund 2009-10.

2 Link to Corporate Priorities

- 2.1 This report contains no significant recommendations so therefore has no direct links to the Council's Corporate Plan 2008-11.

3 Background

- 3.1 As part of the Scottish Government's Spending Review a new "Fairer Scotland Fund" was created and launched on 21st December 2007. The fund, which was allocated to all 32 Community Planning Partnerships (CPPs) in Scotland, replaced the following funding sources, which the Council had benefited from over the past 3 years -

- Community Regeneration Fund
- More Choices, More Chances
- Community Voices Fund

- 3.2 The Shetland Community Planning Partnership was allocated funding over a 3-year period. The Shetland allocation for 2009-10 was £348,000, with a provision that this be increased to £500,000 in 2010-11. Although this is a ring-fenced fund for the first two years, by 2010-11, the ring-fencing will be removed and the funding will be rolled-up into the Council's Revenue Support Grant.

4 Setting Priorities for the Funding

4.1 The Scottish Government has set three national strategic priorities for the Fairer Scotland Fund.

- Regenerating the most disadvantaged communities;
- Improving the life chances of individuals and groups experiencing poverty and disadvantage; and
- Improving employability – particularly for young people and other hard to reach groups

Community Planning Partnerships are expected to reflect these when setting their own local priorities and allocating funding.

4.3 In order to ensure that Shetland's allocation could be focussed on the areas that would make the most impact, a Reference Group was set up to seek to establish some local strategic priorities for the fund. The membership of the group is set out below, but this was essentially the group that supported the Deprivation and Social Exclusion research that was published in 2006.

NHS Shetland

Director of Public Health – Dr Sarah Taylor

Shetland Council of Social Services

Executive Officer – Catherine Hughson

Shetland Islands Council

Transport Strategy Officer – Emma Perring

Environmental Health Service Manager – Maggie Dunne

Performance Management Co-ordinator – Peter Peterson

Youth Services Manager – Avril Nicol

Service Manager – Housing and Property – Vaila Simpson

Shetland Childcare Partnership Co-ordinator – Rosemary Inkster

Admin Asst (School Meals) – Lillian Leslie

Community Work Service Manager – Bill Crook

Head of Business Development – Douglas Irvine

Shetland Charitable Trust

Chairman – Bill Manson

5 Funding Allocation process

5.1 Applications were sought for the Fund during January and February this year. The Community Planning Delivery Group then met on 6th March to consider the applications and decide which projects would receive funding. The projects that received funding are attached as Appendix 1.

6 Financial Implications

- 6.1 There are no financial implications arising from this report. As is shown in Appendix 1, funding totalling £346,762 has been allocated to projects across Shetland. £1238 has been retained for administering the fund (0.36% of total funding allocated). This is well below the 2.5% which Scottish Government guidance allows.

7 Policy and Delegated Authority

- 7.1 There are no policy or delegated authority issues associated with the terms of this report.

8 Conclusion

- 8.1 This report has been prepared in order to show which projects have been allocated funding from the 2009-10 Fairer Scotland Fund.

9 Recommendations

- 9.1 I recommend that Members note the contents of this report, which is provided for information only.

12 May 2009

CE-17-F

FAIRER SCOTLAND FUND – PROJECTS RECEIVING FUNDING

APPENDIX 1

Grantee / Amounted awarded	Brief description of project
Shetland Befriending Scheme (£19,435)	<p>Recruitment of a worker for the Children and Young People at Risk section of the Befriending Service to recruit more volunteers to support more matches. This service targets the following:</p> <ul style="list-style-type: none"> • Vulnerable young people aged between 7-15 years • Where external factors (such as the family home, peers or substance use) are having a detrimental and negative impact on their ability to reach their full potential • Who have been involved in anti-social behavioural issues • Who have significant social and emotional issues and difficulties in forming and maintaining positive relationships/friendships with other adults and their peers • Who lack consistent positive adult role models and who would benefit from regular contact with an adult befriender
SIC Revenues Service (£19,548)	<p>To maximise benefit uptake among those groups experiencing poverty and disadvantage across Shetland by reducing the number of Council Tax and Housing Debt benefit claims refused due to claimants' failure to provide the necessary information. The proposal is to continue a service level agreement with the Citizens Advice Bureau to provide a hands-on approach for the Council.</p>
Shetland Community Bikes Project (£25,000)	<p>This is a social enterprise that delivers Intermediate labour market opportunities for clients who are otherwise excluded from mainstream employment due to a complex range of employment barriers including: drug and/or alcohol, chaotic lifestyles and or criminal record. The project offers a 6 month paid placement working in the recycling and repair of bicycles. The project will also provide 200 hours community service placements in partnership with Criminal Justice.</p> <p>The project aims to teach clients the basic employability skills. For instance good time keeping, team working and the importance of good customer care. The project does not tolerate drugs or alcohol in the work place and also provides clients with a personal training plan. A good reference from The Shetland Community Bike Project can often be an avenue into work for clients.</p>
Shetland Heatwise Ltd (£19,000)	<p>Heatwise is regularly approached for help from clients who are suffering from fuel poverty, however at present cannot assist them because they do not fit into the category of clients targeted by energy efficiency schemes. The project will seek to improve the energy efficiency of an additional 10-15 households throughout Shetland in the year 2009/10.</p>

Hjaltland Housing Association (£7,200)	<p>This is a multi-agency pilot project to develop a foyer style provision to support young unemployed tenants and those in homeless accommodation. The project aims to promote and build on individual skills, expand the clients' experiences and self-confidence.</p> <p>Acting as a catalyst for these individuals to access opportunities for employment, further training or volunteering work, the project will pull together existing agencies to establish a co-ordinated programme that young tenants and homeless people can access. This project aims to develop a core and cluster scheme based at premises in Burgh Road, Lerwick to support young tenants and homeless applicants to participate in a programme of activities to assist them to access employment, training and voluntary work.</p>
Shetland Linkup (£46,000)	<p>Provision of a crisis response service for adults (aged 16+) who are in acute distress and whose usual network of support and personal coping strategies are failing. A team of support staff share an on-call rota and respond without delay. Their task will be to ensure that the client is safe and lethality (especially risk of suicide) is reduced, that they are psychologically stable and have attained short-term mastery of self and situation, that they are connected with appropriate formal and informal supports/resources and that follow-up (when appropriate) can be easily accessed.</p>
Northmavine Community Development Company (NCDC) (£20,000)	<p>NCDC has set out a business plan for the next 5 years based on community consultation and the Northmavine Development Plan. The company will concentrate on 3 priority themes. These are – Renewables, Social Enterprise Development and Housing.</p>
Moving On 'Job Crews' Project (£61,218)	<p>This project looks to engage clients (who are not in employment, education or training) on short-term projects throughout Shetland in order to build up confidence, introduce to team working and learn new work skills in order to improve their employability in the wider job market. This development process assists clients in "Moving On", by getting them into a position where they can take up employment or training opportunities.</p>
Fetlar Developments Ltd (£20,000)	<p>The funding will be used to provide the post of Development Worker to work to address the depopulation and enable the existing community to lead positive change and empower the population in its desire to develop regeneration activity which will become self-sustaining. The postholder will work on establishing and then maintaining projects. At the moment projects are: Community Polytunnels, A Fetlar Website, Carbon Reduction in the Garden of Shetland, Investigations into Sustainable Housing, Improvements to internal transport, Investigate and ultimately establish community run/leased housing, ensure continuity of the delivery of services, attract visitors or new businesses to make use of the 3 years Broadband trial, Improving the experience of Fetlar for visitors. Ultimately the postholder will raise the profile of the island, seek out funding for projects and attract enough business to make the post and the projects self-sustaining.</p>

<p>Shetland Pre-School Play</p> <p>(£26,852)</p>	<p>Support for the delivery of the 'Very Important Parents' (VIPs) project, the focus of which will be to work with children, young people and their families living at a disadvantage as a result of life events and experiences that may have impacted on their parents and consequently parenting skills. The VIPs project will be carried out during Autum/Winter 09-10, in 6 areas in Shetland.</p> <p>Topics being covered include:</p> <ul style="list-style-type: none"> • Finance for families – credit crunch coping • Benefits • Nutrition/healthy eating/planning your shopping (e.g) 'feed your family for 3 days on a chicken' • Raising awareness of the advantages of immunisation/breast-feeding • Mental Health and Well-being • Substance abuse • Top Tips for life with Teens • Getting into learning/linking to Community Learning Centres/Individual Learning Accounts/basic computing tasters • Step Families (by 2010, 1 in 3 families will be a step family) • 'Not just Mums' – Dads/grandparents • Keeping children safe • There will be an opportunity for parents to discuss where and how to obtain more information and help on any specific issue.
<p>North Isles Childcare</p> <p>(£26,956)</p>	<p>Project includes support for:</p> <ol style="list-style-type: none"> 1. A childcare service in Yell from 1 April 2009 to March 2010 allowing the creation of 3 full time posts for 387 weeks a year (term time) and 2 Part-time posts for 12 weeks (holiday time). A comprehensive audit of need has been carried out and the service designed to ensure best value from the investment. One full time postholder will work towards the required qualification through a Modern Apprenticeship. <p>In both Yell and Unst, staff are required in relief posts</p> <ol style="list-style-type: none"> 2. Support the service in Unst to redesign a job in the service to allow the setting to have their own manager, rather than using the peripatetic management service based in Lerwick – which has not been cost effective or efficient. Through this, an improved job will be provided in Unst. 3. From September 2009 to March 2010, the grant will continue supporting the development and sustainability of the Childcare Service in Unst.

Shetland Childcare Partnership (£10,620)	<p>Their project is designed</p> <ol style="list-style-type: none"> 1. To support children and their families, to access Out of School Care or other appropriate registered childcare by providing transport for children from all areas in Shetland who are referred by Health Visitors, Home Link Teacher, Social Worker, etc., with a need to attend an Out of School Club or other registered childcare service, during School Holidays. 2. To provide support with the costs of transport for pre-school children who are eligible for a free pre-school place but unable to access that place due to lack of transport as a result of financial hardship, parent's illness or other social need. A referral scheme is the method used for considering applications and support is provided in a range of ways – either support with mileage costs where there is evidence of financial hardship of meeting the costs of a taxi for some of the sessions per week or in some cases, providing a taxi and escort every day where the need is demonstrated.
SIC, Youth Services (£25,000)	<p>Project details include:</p> <ol style="list-style-type: none"> 1. School /College 16+Learning Choices – additional hours for staff, to support the co-ordination and implementation of Shetland's 16+ Learning Choices Strategy and action plan and ensure that young people are offered the right learning choice post 16, which will lead to a sustained positive destination. 2. Off Limits – building on the success of last year's project, the More Choices, More Chances Partnership recognise the positive impact of this early intervention with secondary 2 pupils, instilling in them a 'can do' attitude which motivates and re-engages them in learning. 3. Group work in schools – Building on previous delivery of groupwork through Princes Trust Club xl programmes, all secondary schools will be offered the opportunity to build a groupwork opportunity into the curriculum for 3rd and 4th year pupils. We look to develop a more sustainable model utilising skills in the Youth Service working alongside school staff.
SIC, Adult Learning (£18,100)	<p>The "Essential Skills" programme is designed to improve communication and numeracy skills with a focus on building employability in adults who are either unemployed, on incapacity benefit or wish to return to work. The programme will also be suitable for adults who are not in sustained employment. Adult Learning will develop and deliver an interactive 'Employability programme' which explores motivation, lifestyle and health, readiness for work, communication, literacy and numeracy skills and job planning and research skills.</p>
SIC, Schools Service (£1833)	<p>Schools in Shetland regularly organise school trips for their pupils, both in Shetland and outwith. Some parents find that they cannot afford the costs, yet would like their children to participate. The children themselves would like the option. Funding will allow head teachers to access a fund, thus creating equality of opportunity for all pupils.</p>



REPORT

To:	Development Committee	30 April 2009
	Infrastructure Committee	6 May 2009
	Audit & Scrutiny Committee	6 May 2009
	Services Committee	7 May 2009
	Shetland Islands Council	20 May 2009

From: Head of Organisational Development

Report No: CE-18-F

Shetland's Single Outcome Agreement - 2009

1 Introduction

- 1.1 This report introduces the final draft of Shetland's Single Outcome Agreement with the Scottish Government for 2009.

2 Link to Corporate Priorities

- 2.1 The Single Outcome Agreement essentially sets the key priority areas, targets and actions which the Council and its local partners propose to agree with the Scottish Government. Therefore, once agreed, all Committee reports and key Council decisions should seek to show how they are contributing to the achievement of the priorities in this Agreement.

3 Background

- 3.1 The Single Outcome Agreement for 2009 has been developed by Shetland Community Planning partners and has previously been circulated to all Members, senior officers and partners in booklet form. The Scottish Government now has Single Outcome Agreements in place with all Councils to set out how key national and local outcomes for individuals, families and communities are going to be achieved.

4 Single Outcome Agreement

- 4.1 The Single Outcome Agreement booklet provides an Executive Summary, introduction and background and details of outcomes, indicators and targets for each of the areas covered by the scope of the Agreement.

- 4.2 It also provides a short overview at the end of the booklet, summarising the position in each main area at the end of March 2009; the “Sustaining Shetland 2009 Summary Update”, section.

5. Financial Implications

- 5.1 The projects and other activities set out in this Agreement may have financial implications, however they all need to be managed within the constraints and financial strategies of each of the Community Planning Partners.

6. Policy and Delegated Authority

- 6.1 All principal policy documents require approval and appropriate monitoring by the Council (Scheme of Delegations – Section 8.0) This report covers the Shetland Single Outcome Agreement 2009 and therefore must be endorsed by Council.
- 6.2 Much of the Council’s anticipated activity within the Agreement will be discharged under the delegated authority of Committees (Scheme of Delegations – Section 7.0). Therefore Committees are invited to discuss and comment on the contents of the Agreement, particularly in those areas where they are a key delivery partner.

7. Conclusion

- 7.1 This report presents the Shetland Single Outcome Agreement – 2009 for Council endorsement. It also provides an opportunity for Committees to comment on its contents.

8. Recommendations

- 8.1 I recommend that Committees discuss the 2009 Single Outcome Agreement and make any comments regarding its contents. These will be collated by the Policy Unit, along with comments from other Community Planning Partners who are going through a similar exercise, and reported to the Council.
- 8.2 I recommend that the Council discusses the 2009 Single Outcome Agreement, taking account of any comments made by its Committees, and makes any further comments, with a view to adopting a final version of the Agreement which the Convenor will sign on behalf of the Council during June 2009.



REPORT

To: **Audit & Scrutiny Committee
Shetland Islands Council**

**6 May 2009
20 May 2009**

From: **Head of Organisational Development**

Report No: CE-20-F

Corporate Plan Progress Report 2008/2009

1 Introduction

- 1.1 This report gives an update on progress at the end of the 2008-09 financial year on the Council's 2008-11 Corporate Plan.

2 Link to Corporate Priorities

- 2.1 The Corporate Plan essentially sets the Council's key priority areas for the term of this Council and the key actions planned to deliver them. Therefore, once agreed, all Committee reports and key Council decisions should seek to show how they are contributing to the achievement of the priorities in this Plan.

3 Single Outcome Agreement and Other Reporting

- 3.1 The Scottish Government now has Single Outcome Agreements in place with all Councils to set out how key national and local outcomes for individuals, families and communities are going to be achieved. 2008-09 was the first year for this new approach and the process of integrating Corporate and other strategic planning together effectively and efficiently is still progressing. This report contains some commentary about how Shetland Islands Council's activity has delivered against the Single Outcome Agreement. We are required to provide a detailed report on SOA progress in October, the Council's contribution will also be highlighted at that point, alongside other partners. Shetland's Single Outcome Agreement for 2009-10, which this year has to be signed up to by NHS Shetland, Fire, Police and HIE is also on this agenda.
- 3.2 Progress in particular areas has been reported to Committees and Forums at various points during the year, and many of the individual activities of services have featured in Service review sessions. This report draws the picture together across the Council as a whole. Services are now completing

their plans for next year with specific actions and areas of focus detailed in that process. Guidance from the Council on any particular direction or new priority areas would assist in that activity.

4. Summary of Progress

- 4.1 Detailed progress against the Corporate Plan is set out in Appendix 1. I have added a brief summary of each main area here as an overview. The Corporate Plan has 5 main sections. The first section is the priorities we share with all our Community Planning Partners which will be reported on as part of Single Outcome Agreement reporting in October, but has some commentary in the accompanying SOA report on this agenda. The other 4 sections cover Shetland's Sustainable Economy, Society, Environment and the Council as an efficient and effective Organisation.
- 4.2 **Sustainable Economy** – Despite the very difficult world economic conditions through 2008-09, the Shetland Economy has avoided the worst effects, at least so far. Unemployment levels are still very low compared to national levels, although they have risen somewhat during the latter part of 2008. Business start-up rates have increased from the previous year and while concerns remain around the fragility of traditional sectors a number of important investments have been made.
- 4.3 **Sustainable Society** – The Council continues to deliver a wide range of very high quality services. This is confirmed by a wide range of favourable inspections in Schools, Social Care, Housing, Adult Learning and other areas. Long term planning across services has been a key activity and extensive consultation and development work has been progressed around the blueprint for Education, new build schools, long term community care services and the provision of affordable Housing.
- 4.4 **Sustainable Environment and Transport** – Shetland continues to enjoy an enviable natural environment, and continues to seek to deal with the challenges a remote and scattered population gives in Transport. Funding challenges for the provision of fixed links are a significant issue in internal transport provision, however development of the Shetland Transport Strategy Action plan has progressed a number of other areas. Solid progress continues to be made on the sustainable use of resources by the Council and preparations for significant planning activity have been progressed.
- 4.5 **Sustainable Organisation** – Detailed analysis of the Council's financial performance over the past year will be provided in the Financial Outturn report next cycle. Progress continues to be made on efficiency measures, including procurement, reductions in sickness absence and reductions to bureaucracy; however sufficiently integrated partnership working to create actual savings has made limited progress. Single Status has continued to dominate the workforce agenda, however that project is now hoped to be close to a successful conclusion.

5. Financial Implications

- 5.1 The Council's medium-term financial strategy sets out a commitment to operate within agreed revenue budgets and reduce the draw on Council reserves to support General Fund revenue spending to zero by 2012. That strategy also sets a limit on the draw from reserves to support the Capital Programme, and sets a floor level for Council Reserves of £250 million. Therefore, although the projects and other activities set out in the Corporate Plan have financial implications, they all need be managed within those constraints.
- 5.2 The Head of Finance will provide a comprehensive review of the Council's financial performance during 2008-09 at the next cycle of meetings.

6. Policy and Delegated Authority

- 6.1 All principal policy documents require approval and appropriate monitoring by the Council (Scheme of Delegations – Section 8). This report describes progress on the implementation of the Council's Corporate Plan for the period 2008-09 and therefore must be reported to Council.
- 6.2 The Audit and Scrutiny Committee is charged with review of all significant Council activity to assist in the identification of good practice and areas for potential improvement (Scheme of Delegations – Section 10). The Corporate Plan sets out the Council's overall ambitions for its term and monitoring its performance against those objectives is a key role of Audit & Scrutiny.

7. Conclusion

- 7.1 This report draws together progress against the Council's Corporate plan across all Departments, provides an opportunity for the Council to discuss that progress, and any key issues or priority work areas.

8. Recommendations

- 8.1 I recommend that the Council discuss the reported progress on the Council's Corporate Plan in 2008-09 and consider any issues arising for Departments, Services and Strategic Groups to address in their detailed implementation planning for the future.

May 2009

CE-20-F

Sustainable Economy (Wealthier and Fairer) – All Actions led by Economic Development Service.

Traditional Industries	
We will:	Progress:
Support 5 new, capable crews to be working in the white fish catching sector and replace 8 existing vessels	Loans approved for 3 new crews.
Initiate 4 fishing infrastructure projects, creating 50 jobs, by 2011	3 projects supported by loans 5 projects assisted by grants
Develop 4 projects aimed at promoting aquaculture as versatile, profitable and efficient	3 projects supported by loans. 6 projects assisted by grants.
Work with the North Atlantic Fisheries College (NAFC) to gain a better understanding of optimum growing conditions in the aquaculture sector	One project supported. Others under consideration.
Encourage the development of a shipping link to continental Europe and maintain direct air links between Shetland and London and Shetland and Bergen	Bergen air link supported in 2008. Work to achieve shipping link has not been successful so far.
Develop 4 new commercial attractions for visitors	Grants awarded for Sumburgh Head project, Mareel and new Scalloway Museum (+4 smaller projects)
Achieve 4 significant quality improvements in accommodation and food provision	Grants awarded for Fair Isle Bird Observatory and Belmont House project (+5 smaller projects)
Devise and implement 4 tourism projects that drive up quality standards	Promote Shetland project approved.
Achieve 10-15% direct growth in income in the agricultural sector	Not measured for 2008 so far. 2008 figure expected to be an improvement on 2007.
Facilitate the development of new production methods for the finishing of animals	Support for feeding crops included in Shetland Agricultural Business Scheme
Encourage the use of local produce in public sector establishments	Shetland Food Festival successfully

Ensure all assistance schemes help towards finding market-led solutions (particularly in meat products and wool)	introduced in 2008 2 projects supported. 2 under consideration
Encourage projects that seek to position Shetland as a premium supplier of textiles to a discriminating market	2 projects supported
Foster the best possible understanding of the market and market opportunities among local textile makers	10 textile projects offered marketing assistance
Foster output growth in the textile sector by 10%	Not measured so far
Support 4 projects through commercial investment or grant assistance	Support for commercial production of textiles at Shetland College
Encourage delivery of raw gas from the Laggan gas field, commitment to Rosenbank/ Lochnagar, Phase II of Clair field development and refurbishment of the terminal's crude tanks by 2011	SVT preferred option to develop onshore processing of Laggan gas
Complete the Sullom Voe Oil Terminal Port Study in 2008 and have 2 projects committing inward investment by 2009	In progress. TOTAL engaged in feasibility study for gas plant. One other project under consideration.
Promote Sullom Voe Oil Terminal as a centre for ship-to-ship oil transfer, attracting new business in this area, wherever possible	Being progressed by Ports and Harbours
Engage with service providers, when necessary, to strengthen Shetland's ability to retain and attract work. This will be done with the aim of attracting 2 further large-scale decommissioning projects by 2011	Decommissioning team engaged in attracting more work to Shetland.
Further improve and develop port facilities and services to attract vessels serving the new oil and gas	Feasibility study into dry dock/heavy lift equipment to begin soon.

fields West of Shetland	
-------------------------	--

New & Emerging Industries	
<p>We will:</p> <p>Devise and implement a Creative Industries Strategy that recognises the contribution which the creative sector can make not only to Shetland's economy but to the quality of life in the islands</p> <p>Achieve integration of the fibre-optic cable</p> <p>Maximise broadband speed (4-8MB) and extend coverage to at least 80% of Shetland's population by 2011</p> <p>Support the establishment of a 'point-of-presence' site and 20 new businesses dependent on high-speed datalinks, offering direct employment to 60 people</p> <p>Support 20 new businesses to offer direct employment to 40 people</p>	<p>Progress:</p> <p>Research into Creative Industry sector completed. Strategy to be progressed before the end of 09/10.</p> <p>Project at decision taking stage.</p> <p>2 radio broadband pilot projects underway in Vidlin and Fetlar</p> <p>POP depends on integration of the fibre optic cable as does high speed datalinks</p> <p>Support provided for 5 creative sector new businesses</p>

Renewable Energy	
<p>We will:</p> <p>Seek to support the case for establishing a fixed interconnector to the UK mainland by 2012</p> <p>Seek to provide support in developing Viking Energy's proposals to the submission of the Electricity Act application</p> <p>Support 2 renewable energy projects in the marine environment and 4 in the terrestrial environment</p> <p>Consolidate the PURE hydrogen project in Unst and the integration of low-energy technology in local</p>	<p>Progress:</p> <p>Being progressed as part of the Viking Energy study</p> <p>Nearing planning application stage – project transferred to Charitable Trust.</p> <p>Support provided for 9 terrestrial renewable energy projects.</p> <p>PURE project supported through Interreg "Cradle to Cradle Islands" scheme.</p>

building standards for business projects	
--	--

Marketing	
<p>We will:</p> <p>Establish and implement, with our partners, a marketing strategy for Shetland that will focus on encouraging the development of products and services of high quality that can be promoted with confidence to appropriate markets</p> <p>Undertake market research and make the results, and advice stemming from it, available to relevant Shetland businesses</p> <p>Hold an annual marketing conference featuring the Shetland Marketing Awards</p> <p>Create a 'Shetland Brand book' and an associated website, aimed at local businesses and service providers, that will explain the steps needed to create and maintain Shetland's reputation in its target market and provide market intelligence</p> <p>Establish www.shetland.org as a user-friendly electronic entry point to Shetland aimed particularly at those wishing to work in Shetland or move their business here</p> <p>Develop, support and improve events, in and beyond Shetland, that build Shetland's reputation and reinforce confidence in the community, including particularly the Johnsmas Foy, and organise 'Shetland Hamefarin 2010' and 'Tall Ships 2011' as high quality, successful events</p>	<p>Progress:</p> <p>Marketing Strategy approved by Council. Approach to be updated with inclusion of Promote Shetland element</p> <p>Market research projects completed on : Shetland's Internet Presence; Marketing Skills in the Knitwear Sector; and, Customer Attitude survey</p> <p>The need for this is being reconsidered</p> <p>Project should be completed in early summer 2009</p> <p>Achieved successfully</p> <p>Good progress on Tall Ships 2011, Hamefarin 2010, Johnsmas Foy. Also prospect of A Year of Island Cultures 2011. Work in progress on Shetland Events Strategy.</p>

People and Community	
We will:	Progress:
Support 8 projects engaged in community enterprises	8 projects supported
Engage with agencies and community-based groups to identify projects that help to retain active rural populations	Regeneration policy adopted and support in place for Northmavine and Fetlar project. Investment in Fetlar berthing facility.
Facilitate a project to identify more effective ways to provide child care support for working parents	Childcare strategy being led by Services committee. One project supported.

Business Guidance and Engagement	
We will:	Progress:
Ensure the effective operation of the Business Gateway	Business Gateway introduced as Council service
Engage suitable qualified mentors to assist with the achievement of business aims during 2008	Business Adviser list set up.
Set up and develop 'Agriculture', 'Fisheries', 'Tourism' and 'Industry' Panels during 2008	Panels in operation
Investigate the re-creation of the 'Shetland Chamber of Commerce'	Not progressed. Little evidence of industry support.

Sustainable Society

Community Care		
We will:	Lead Service	Progress:
Complete a redesign of dementia and homecare services to make sure we can meet needs into the future	Community Care	Long term care review approved January 2008, together with proposals for Isleshavn replacement. Dementia redesign project approved January 2008, alongside plans for the redevelopment of Viewforth
Complete a review of services for long-term	Community Care	Feasibility Study for Eric Gray Resource Centre Replacement

care, young adults with physical disabilities and the Eric Gray Resource Centre		approved February 2009
Complete the strategies for long-term mental health and joint respite care	Community Care	Shetland Mental Health Strategy approved October 2007
Complete feasibility studies or necessary capital works including Viewforth and Isleshavn Care Centres	Community Care	Work started on the funding for a temporary care home at Montfield, Lerwick. Capital Budget for fees approved for 2009/10 to progress Viewforth and Isleshavn projects
Progress the joint occupational therapy service and resource centre	Community Care	Capital Budget for fees approved for 2009/10, to progress design works
Continue to promote partnership working with the Voluntary Sector	Community Care	Carer Information Strategy approved October 2007. A Standardised Approach to Service Level Agreements approved May 2008 Advocacy Development Plan approved June 2008 Commissioning Strategy approved February 2009

Children's Services		
We will:	Lead Service	Progress:
Complete the review of the Children and Young People's Strategy	Children's Services	Approved June 2008
Develop the range of opportunities and services for young people who have left school but who are "not in education, employment or	Children's Services	Ongoing

training”		
Consider investment decisions on the replacement of Leog, Laburnum and the Bruce Family Centre	Children’s Services	Funding for Leog Replacement works approved in recent Capital Programme prioritisation process. Funding for fees to develop Laburnum and the Family Centre approved as part of the recent Capital Programme prioritisation process
Work out ways to minimise the fragility of childcare provision (for reasons of, for example, low numbers, travelling distances, volunteering commitment, training and management support) and actively support additional childminding services	Children’s Services	Emerging Themes and Principles to support a Childcare Strategy approved February 2009

Schools		
We will:	Lead Service	Progress:
Ensure a model for education is developed by 2009 that considers the educational and financial viability for schools and communities and its outputs are then implemented	Schools	Blueprint principles, following extensive period of consultation, approved February 2009 to take forward to Action Plan
Consider the development of ‘Centres for Excellence’ and build on existing high quality facilities	Schools	As above, for Blueprint
Improve our teaching facilities by completing the new	Schools	Approval given to proceed with the submission of a Planning Application for the Anderson High School in

Anderson High School and Mid Yell Junior High School		February 2009. Approval given to proceed to Early Contractor Involvement for Mid Yell Junior High School; negotiations continuing to bring costs within approved budget
Seek to increase the percentage of primary 3, 4, 6 and 7 attaining or exceeding minimum 5-14 levels for their stage in Maths, Reading and Writing	Schools	Provided in Attainment in Schools Report, October 2008
Increase the percentage of pupils who achieve at least 5 Standard Grades at level 4 or above by the end of Secondary 4	Schools	Provided in Attainment in Schools Report, October 2008

Further and Higher Education		
We will:	Lead Service	Progress:
Increase the numbers, retention and achievement rates in both further and higher education	Shetland College	Performance reported regularly through Board of Management
Work with partners to support emerging and changing industries such as the creative arts, music and textiles by making high quality training and development available	Shetland College	Plans progressing for new course in Arts and Regeneration and in Music. Recent acquisition of new machines for textiles

Health Improvement		
We will:	Lead Service	Progress:
Develop and implement a Healthy Weight Strategy to	Environmental Health	Healthy Weight Strategy published October 2008 now being implemented

address obesity and weight issues, by promoting and improving access to healthy local produce and promoting active lives and mental health and wellbeing		
Undertake activities to promote mental wellbeing and build emotional resilience in all communities to enable everyone to overcome barriers and achieve their full potential	Environmental Health	Anti Social Behaviour Activities and funding has been targeted at groups and communities most at risk- midnight football, Outdoor group activities, Arts Projects, Community Problem Solving.
Implement the Tobacco Control Strategy to reduce the percentage of the population that smokes or is exposed to second hand smoke	Environmental Health	Tobacco Control Strategy is being implemented by NHS, SIC and Northern Constabulary in partnership
Continue to promote the Drink Better Campaign, implement the SADAT Action Plan and use our Alcohol Licensing powers to protect and improve public health	Environmental Health	New Licensing Act comes into force 1 st September 2009, the Licensing Forum was set up in early 2008 to review the Licensing Board Policy. Applications under the new act are being considered to determine whether the Licensing Objectives are being delivered

Culture, Recreation and Community Development		
We will:	Lead Service	Progress:
Deliver the actions set out in a refreshed Cultural Strategy, Active Schools Programme, Sport and Recreation Strategy, Community Learning and Development Strategy	Education & Social Care	Draft Refreshed Cultural Strategy currently out to consultation. Sport and Recreation/ Active Lives Strategy being developed. Draft Skills and Learning Strategy will encompass Community Learning and Development Strategy. Shetland Literacy and Numeracy Plan updated annually.

and Shetland Literacy and Numeracy Plan		
---	--	--

Deprivation and Social Exclusion		
We will:	Lead Service	Progress:
Make sure services work less in isolation and treat individuals and households as a whole rather than in relation to service-specific issues	Policy Unit	Ongoing implementation of joint working and client centred initiatives such as Single Shared Assessment.
Promote our work to the Scottish Government as a better way for rural deprivation to be understood and tackled	Policy Unit	Growing acceptance from the Scottish Government that the SIMD alone is insufficient for targeting deprivation led funding.
Work with stakeholders to identify the level and extent of deprivation and social exclusion and develop strategies and policies to address these issues	Policy Unit	Ongoing activity in Poverty Reference group and implementation of Fairer Scotland Fund initiatives.
Revisit the Deprivation and Social Exclusion Study in 2009, to see if progress has been made in addressing people's quality of life and ability to participate fully in society	Policy Unit	Planned activity for 2009-04-27
Reduce the number of households experiencing Fuel Poverty by targeting grant assistance, education and advice	Environmental Health	

to those people most likely to be living in fuel poverty and campaigning for the control of fuel costs for those on lowest income		
---	--	--

Community Safety		
We will:	Lead Service	Progress:
Increase the feeling of being safe, secure and inclusive within the community by 20%	Community Safety Partnership	Your Voice survey in Spring 2008 found that 96.25% of people felt that the area they live in is very safe or fairly safe
Reduce the incidence of vandalism by 15% by the end of 2007/8	Community Safety Partnership	There was a slight increase from 247 incidents in 2006/07 to 255 incidents in 2007/08
Reduce the incidents of repeat domestic abuse victimisation by 15%	Community Safety Partnership	There were 48 incidents in 2007/08
Reduce the number of people killed or seriously injured as a result of road accidents by 40% by 2010	Community Safety Partnership	In 2007/08 5 people were killed and 4 seriously injured
Reduce the number of fire fatalities and injuries in Shetland homes by 10%	Community Safety Partnership	In 2007/08 there were 0 fire fatalities

Housing		
We will:	Lead Service	Progress:
Work with the Scottish Government to resolve Shetland's outstanding housing debt	Housing	No longer applicable
Investigate ways to invest in existing	Housing	Options Paper approved February 2009, alongside Strategic Housing

general and special needs housing, as well as new builds, throughout Shetland specifically aiming to provide an additional 100 affordable and or social housing units by 2012		Investment Plan
Find ways of securing affordable and sustainable housing with partner organisations	Housing	As above
Improve services that prevent and alleviate homelessness in Shetland	Housing	As above, plus Allocations Policy Review approved February 2009
Work in partnership with Social Care, NHS and the Voluntary Sector to review Shetland housing provision to ensure it is fit for 21 st Century purposes	Housing	Completed February 2009, with 3 pilot projects to run for a period of up to one year

Sustainable Environment & Transport

Protection & enhancement of our natural environment		
We will: Adopt the local Development Plan by 2011	Lead Service Planning	Progress: The first stage will be to produce a Development Plans Scheme, which outlines timescales for the various stages in achieving adoption of the new Development Plan by 2011 and includes a Participation Statement of How/Who/When consultation will be occurring throughout the process. The Main Issues Report will be produced later this year flowing from the Monitoring Statement. It should be noted that progression is subject to the release of Planning Regulations

Develop a framework for integrated sustainable management of the marine environment by June 2008	Planning	from Scottish Government in the next few months Draft guidelines are now available which are subject to further consultation
Complete the Core Path Plan, promoting at least one existing designated site (e.g. SSSI, NSA etc.) as a community resource by 2008	Planning	Plan complete; plan will be presented to the Council for adoption Spring 2009. Route and destination promotion undertaken throughout 2008 and ongoing
Maintain a cleanliness index rating for Shetland of 75 or more, which will ensure that Shetland continues to be one of the top 3 cleanest places in Scotland	Cleansing	Current Cleanliness Index (for the period from April 2007 to March 2008) is 79
Support renewable energy generation and the development of new and emerging technologies by producing guidance on energy consumption and energy ratings for homes and sustainable design by 2008	Planning	A suite of documents were produced in Dec '08 to address these issues, as follows: <ul style="list-style-type: none"> • Renewable Energy Technologies – Guidance for Householders • Towards Sustainable Construction – Guidance on Sustainable Design & Construction • Towards Better Design in Shetland – Guidance on Design • The Shetland House – Guidance for Housing Development in Shetland Islands Council Reducing Carbon Emissions in New Development was also produced as Interim Policy Sept '08

Sustainable use of Resources		
We will:	Lead Service	Progress:
Recycle more than 17% of Municipal Solid	Waste Management	Currently achieving 23%

We will:	Lead Service	Progress:
Recycle more than 17% of Municipal Solid	Waste Management	Currently achieving 23%

Waste (MSW)		
Ensure that more than 63% of MSW goes to energy recovery and less than 20% goes to landfill each year	Waste Management	Currently achieving 70% to energy recovery and 7% to landfill
Keep MSW at or below 12,613 tonnes (level in the year 2002)	Waste Management	Achieved 2007/08 and on target for 2008/09
Ensure that all businesses receiving grants or loans from the Council develop and report on good environmental practice	Waste Management	Policy adopted by the Council for grants and loans over £10,000
Ensure that all Council printing and writing paper contains at least 50% recycled material and all construction projects over £1 million will use at least 10% recycled materials	Waste Management	Policy adopted by Council
Reduce CO ² emissions from Council buildings and Council energy use by 6% by 2011	Planning	Through the carbon management process a baseline year of 2006/07 was taken for measuring all future performance on. In 2007/08 it was estimated that CO ² emissions (based on total Council energy usage) was reduced by 2.4%

Internal Transport		
We will:	Lead Service	Progress:
Endeavour to provide	Transport	Three STAG studies completed.

fixed links where they are proven to be the most effective solution		Delivery plans developed and being implemented.
Secure external funding support for island links and internal transport services and infrastructure wherever possible	Transport	ERDF funding secured for - Fetlar small craft facility and breakwater, - Skerries South Mouth Dredging; - Community Transport; - Integrated Ticketing. Awaiting decision in further EU funding.
Establish Area Transport Forums throughout Shetland as a means of involving communities, public transport users and providers in the process of planning and delivering transport services	Transport	Established in all areas. Information being used to improve services when and where possible, within existing resources.
Carry out a review of bus services, including evening services, and explore alternative models of public transport provision that are demand responsive and meet the varying needs of communities throughout Shetland	Transport	Some improvements implemented within existing contracts. Report to Council on development of service provision being prepared.
Pursue funding support for improved internal transport services and infrastructure	Transport	As above.
Carry out a review of ferry fares and ferry use	Transport	Review completed and proposal presented to Ferries Board 2008 who decided not to implement due to fuel price issues
Maintain the condition of Shetland's Road	Roads	The road network to be considered for improvement, as identified by the

network, and wherever practicable, improve its condition as measured by the Scottish Road Maintenance Condition Survey performance indicator, carrying out a rolling programme of minor road improvement		SRMCS survey, fell from 40.2% to 38.5%, an improvement of 1.7 percentage points. The roundabout at Oversund Road is now complete, as is reconstruction of part of a Harbour Street footway
Apply the Scottish Transport Appraisal Guidance (STAG) process to Bressay, Whalsay and Bluemull in 2008 and undertake a study into the viability of sub-sea tunnels in Shetland	Transport	Complete
Continue to progress the Shetland Transport Strategy Action Plan	Transport	Ongoing. Delivery group established
Work with partners to develop and deliver meaningful travel plans	Transport	Approved for SIC and NHS. Other organisations being approached

External Transport		
We will:	Lead Service	Progress:
Continue participation in current consultation arrangements with external air and sea link operators	Transport	External Transport Forum ongoing and Tier 2 Transport Forum across Highlands & Islands
Review potential to apply Public Service Obligations to external routes, in conjunction with ZetTrans, Hitrans and other Islands Councils by	Transport	ZetTrans and Hitrans have commenced a joint study into the future of the Highlands and Islands air network including the application of PSOs.

September 2008		
----------------	--	--

Sustainable Organisation

Living within our means		
We will:	Lead Service	Progress:
Ensure that services do not overspend their annual revenue budgets	Finance	BRO training is ongoing and monthly monitoring is carried out which identifies any issues quickly. The Council is underspending against budget and has been for most of 2008/9
Ensure that the Council's Medium-term Budget Strategy is adhered to, so that the draw on reserves to supplement General Fund revenue spending is ended by 2012/13	Finance	The 2009/10 annual budgeting exercise has continued to put downward pressure on the budgets and has been set in line with the Council's Medium-term Budget Strategy
Ensure that the Capital Programme continues to be managed, in line with available funds	Finance	The 2008/9 Capital Programme is still on target with predicted year end spend less than the £20m set aside. The 2009/10 programme approved is less than the £20m limit

Ensuring we are being efficient in everything we do		
We will:	Lead Service	Progress:
Deliver 2% efficiency savings on General Fund revenue spending each year (approximately £2.3 million) and publish these in an annual Efficiency Statement	Policy Unit	There is expected to be a saving of £3 million on General Fund revenue spending for 2008/9
Ensure that we are being as efficient as possible in the way we		We are participating with Scotland excel contracts and Procurement Scotland contracts where these have

procure goods and services – delivering 10% savings on procurement budgets		little or no impact on the Local economy, benchmarking of prices would indicate that a 10% saving in budget costs is achievable on these contracts.
Seek to join-up our services internally and with other public sector employers in Shetland, to make best use of resources, wherever possible	Policy Unit	No progress to report
Create a single Council Campus for services in Lerwick, to improve efficiency in the use of Council office space, starting with new headquarters for the Social Work and Housing services	Capital Programme	With the move of Economic Development and HIE into the Solarhus, Housing is still on target to move into the North Ness offices
Capitalise on potential efficiencies offered by employees working from remote locations/ home – aiming to have an additional 20 employees each year working from a remote location or from home	Policy Unit	A staff survey during 2008 established that 200 employees work remotely to some degree.
Reduce the employee sickness absence rate for the whole Council to less than 4.5%, thereby ensuring that the Council is ranked in the top 8 Councils in Scotland	Human Resources	A Promoting Attendance strategy has been launched, which has contributed to a reduction in sickness absence by almost 1% for the year 2008/9 to date
Reduce bureaucracy by making sure that the work we do adds value and we eliminate any unnecessary or unproductive tasks	Policy Unit	Two Kaizen Blitz events have taken place, in Building Services and the Staffing Section. These focussed on streamlining maintenance arrangements and reducing the time taken to recruit staff to the Council

Being an excellent employer		
We will:	Lead Service	Progress:
Seek to ensure we are treating our employees equally and fairly by introducing a 'Single Status' Agreement, in consultation with our employees and Trade Unions	Human Resources	A formal offer has been sent to the Unions. During March formal offers will be sent to all staff, prior to Union ballots
Develop innovative recruitment practices to help sustain the Council's workforce requirements in the long-term – including ensuring that at least 20% of posts that are advertised each year have a Career Grade, to allow unqualified/inexperienced candidates to apply	Human Resources	We have started using a national recruitment portal for recruitment. During 2008/9, 27% of advertised posts had a Career Grade
Meet our employees' training and development needs by ensuring that at least 80% of employees have a Personal Development Plan and are having regular reviews through the Employee Review and Development Policy by 2010	Human Resources	Figures are not yet available for Personal Development Plans
Encourage more University graduates to return to Shetland to take up employment with the Council by reinvigorating the Graduate Placement Scheme and employing at least 12		A review of the Graduate Placement Scheme has been conducted and 14 graduates were recruited in 2008

<p>graduates each year</p> <p>Carry out an Employee Satisfaction Survey during 2008 and seek to return a 60% satisfaction rate</p>	<p>Human Resources</p> <p>Human Resources</p>	<p>The Employee Satisfaction Survey was completed In May 2008. Overall, the results were very positive and what is especially reassuring is that over 80% of respondents believe that their line manager cares about them as a person believing that their opinions count and are offered opportunities to learn and grow at work.</p>
--	---	--

Basing all our decisions on evidence		
<p>We will:</p> <p>Collect the right data to describe service needs and aspirations and commission research to fill gaps in knowledge, starting with comprehensive information on population projections</p>	<p>Lead Service</p> <p>Policy Unit</p>	<p>Progress:</p> <p>A Population and Migration study has been completed, containing projections to 2030. This has been circulated widely and will inform community planning priorities for 2009/10</p>



REPORT

To: Shetland Islands Council

20 May 2009

From: Head of Organisational Development

Report No: CE-25-F

Single Status Update

1 Introduction

- 1.1 This report sets out progress on the Single Status project, and reports on the recent Union ballots strongly supporting the new offer.
- 1.2 It recommends that a collective agreement should now be concluded and implemented as soon as possible.

2 Background and Link to Corporate Priorities

- 2.1 On 4th July 2007 the Council decided that Management, Unions and Staff should investigate Job Redesign & Job Families as ways to progress Single Status following the withdrawal of the offer made earlier that year.
- 2.2 The Council declared two key objectives at that time;
 - staff deserving pay rises should get them,
 - losses of pay for others would be avoided or moderated.
- 2.3 The Council also reaffirmed that its overriding legal requirement is to make sure it is treating staff fairly, and meet its statutory duties under equalities legislation. The work since last July has been done with that firmly in mind.
- 2.4 Workforce development and equality in employment are key objectives in the Councils corporate plan. Commitments to staff include recognising and valuing their contribution and ensuring their consistent treatment. We also pledge to provide access to learning and development opportunities for all employees.

3 Results of Union Ballots on the new Offer

- 3.1 New Single Status proposals were developed between July 2007 and October 2008. All affected staff (Union members and non Union) were consulted on these proposals at the end of 2008. A majority indicated they supported them as the basis for bringing Single Status to a conclusion.
- 3.2 A formal offer was developed, incorporating the feedback from staff and sent to the relevant Unions in February 2009 for collective agreement. After performing their own equalities reviews each of the three Unions have now balloted their membership on the offers' acceptability.

Results were as follows;

▪ GMB –	For 92%	Against 8%
▪ TGWU/UNITE –	For 91%	Against 9%
▪ UNISON –	For 90%	Against 10%

- 3.3 Across the board, the Council's workforce have shown remarkably positive support for the new offer, particularly when compared to the 90+% rejection when staff were balloted on the previous proposals in 2007.
- 3.4 Indeed these results represent a unique level of approval in any ballot relating to a Single Status offer, anywhere in Scotland

4 Continuing Consultations

- 4.1 As previously reported it was not possible to make detailed offers to all staff at this time, as particular aspects of some historic terms and conditions still present special challenges.
- Port Operations sea staff, and associated posts, have proven difficult to fully assimilate due to working practices developed to suit the nature of the industry. Investigation of the options and implications arising from new vessels, and potential changes to service requirements, continue to be under discussion.
 - Early Years Workers (previously known as Nursery Nurses) have also proven difficult to assimilate to the new system, due to a locally negotiated arrangement put in place to alleviate a potential pay dispute which does not meet equalities tests under the new system. There may be options to offer extended hours, or other similar work, to staff and this will be a particular focus of the detailed consultation with staff as part of the Blueprint for Education.
 - Progress with evaluation of Economic Development staff has been delayed due to uncertainty over restructuring and staff transfers which are still being completed.

- 4.2 While we have not yet fully concluded specific proposals with these groups, work has continued to find appropriate solutions. It remains the Council's objective to introduce Single Status for all staff within as short a time frame as possible. However unavoidable delays for specific groups should not necessarily hold back implementation for the majority of staff.
- 4.3 Work is also ongoing regarding staff who would require pay protection under the new proposals. This activity will continue through and following implementation.

5 Collective Agreement

- 5.1 All the Unions have indicated that they are now willing to sign a collective agreement based on the formal offer. Preparatory work has been done to draft that agreement, which would apply to all staff, and allow Single Status to be implemented as promptly as possible.
- 5.2 Implementation through a collective agreement between a Council and the three recognised Unions was the preferred route for the conclusion of Single Status in all Councils when the agreement was first made in 1999. Should Shetland complete this process, we will be the first Scottish Local Authority who has actually achieved that outcome.
- 5.3 Implementation in other Authorities has typically been through the imposition of new terms and conditions on staff, including dismissal and re-engagement of affected staff. This has often been accompanied by significant industrial unrest and strike action.
- 5.4 With only 6 or so Local Authorities still to implement Single Status, it is possible that collective agreement in Shetland would be the only such solution.
- 5.5 This report recommends the Council endorse the completion of that agreement, and that authority is delegated to the Chief Executive to conclude it on behalf of the Council.

6 Financial Implications

- 6.1 The failure to meet Equalities Duties has already cost the Council over £3 million in Equal Pay compensation. Full Equal Pay exposure based on 100% claim award through tribunal decision and resultant tax and other liabilities would have been over £2 million for 2007/2008. Equal Pay compensation liability will continue to rise until Single Status is eventually introduced.

- 6.2 The new Single Status offer will increase Shetland Island Councils annual pay bill by £4 million. This cost is inclusive of contractual overtime, employers pension and national insurance costs at current rates, and is consistent with the potential costs reported to Council since July 2007.
- 6.3 All Councils have had to make significant additional investments in Single Status pay to meet their statutory equalities obligations. National survey work by COSLA has indicated these costs have been in the range of 2% - 6% of pay bill. Shetlands proposed investment of £4 million represents 5% of our overall pay bill, that is a similar level to costs reported by authorities such as Aberdeenshire, North Lanarkshire, East Renfrewshire and Moray.
- 6.4 Follow up cost savings through efficiency gains from redesign or other opportunities have been described in previous reports, and have been a feature of the new proposals throughout discussions. It remains difficult to quantify to what extent these will be realised as much cost recovery relates to decisions in the future about filling, or not filling, vacancies as they arise.
- 6.5 There will also be a one off cost of £5 million in back pay to affected staff relating to 1st December 2007 to 31st March 2009, the time since the last equal pay settlement expired. This represents £3.75 million per annum, pro-rata across the two financial years.
- 6.6 Back pay will be met from Reserves accumulated from under-spending in previous year's revenue budgets. The Head of Finance will address the financial implications for current and future years, next cycle, in the Council's Financial Strategy update.
- 6.7 Exposure to the possibility of 'Equal Value' claims in excess of £10 million per annum continues. If Single Status is not now implemented, this risk to the Council will rise significantly.
- 6.8 Exposure to the possibility of further claims based on the 34/37 issue will also rise, in addition to those already lodged.

7 Policy and Delegated Authority

- 7.1 In July 2007 the Council delegated authority to the Chief Executive to appoint an officer negotiating team, resource the single status project team and progress investigation on Job Families and Job Redesign as a route to take forward Single Status at a potential cost of £4 million per annum. (Minute Reference SIC 98/07).
- 7.2 In March 2008 the Council delegated authority to the Chief Executive to constitute a negotiating forum, and in discussion with the Single Status Steering Group to finalise proposals for further consultation with staff, and ultimately any formal offer. (Minute Reference SIC 44/08).

- 7.3 In June 2008 the Council approved staff consultation on new proposals based on an investment of no more than £4 million per annum in Single Status wages; with the results of that consultation, and recommendations for implementation, reported back to Council. (Minute Reference SIC 100/08).
- 7.4 In December 2008 the Council delegated authority to the Chief Executive to develop a formal offer to staff based on a maximum investment of £4 million pounds per annum, and put that offer to staff. (Minute Reference SIC 182/08).
- 7.5 A decision of the Council is required to delegate authority to the Chief Executive to conclude the collective agreement and progress its implementation.

8 Conclusions

- 8.1 After a great deal of hard work an offer which meets the Councils key objectives of fair pay for all, while avoiding large losses to individuals, and within the agreed financial parameters, was developed through partnership working between Members, Management and Unions.
- 8.2 Consultation with all affected Council staff on those new proposals produced very good engagement; and the support from the majority, for the new proposals to be used as the basis of a formal offer.
- 8.3 The formal offer made by the Council in February, has now obtained overwhelming support from Union members in recent ballots, and can clearly be regarded as the firm basis for a collective agreement. This would be the first, and perhaps only, settlement of Single Status in Scotland by comprehensive collective agreement.
- 8.4 Some historic working arrangements for particular groups continue to provide challenges to resolve. Solutions are still being worked on, but the time that may take should not hold back the vast majority of staff who will benefit from early implementation.
- 8.5 Equal Pay is a legal obligation of all Councils. Failing to bring Single Status to a conclusion will further expose the Council to Equal Pay and Equal Value claims, which are expected to increase over time.
- 8.6 Shetland is now one of only six Councils in Scotland who have not concluded this process. External scrutiny of Councils who have not settled Single Status is increasingly drawing adverse comment, with the probability of eventual enforcement action by equalities regulators.

9 Recommendations

9.1 I recommend the Council;

9.1.1 endorses the new Single Status offer made to Unions for Collective Agreement.

9.1.2 delegate authority to the Chief Executive to conclude that Collective Agreement, and progress its implementation.

9.1.3 endorse further consultation and the inclusion of the remaining staff groups within Single Status as soon as possible, and

9.1.4 endorse continued work with any staff requiring preservation under the new offer.

Date: 20 May 2009

Report No: CE-25-F