

MINUTE

B - PUBLIC

Special Shetland Islands Council
Council Chamber, Town Hall, Lerwick
Wednesday 3 December 2014 at 10.00am

Present:

M Bell	M Burgess
G Cleaver	A Cooper
S Coutts	B Fox
R Henderson	A Manson
D Ratter	F Robertson
G Robinson	D Sandison
C Smith	G Smith
T Smith	A Westlake
J Wills	A Wishart
V Wishart	

Apologies

P Campbell	A Duncan
M Stout	

In Attendance (Officers):

M Boden, Chief Executive
H Budge, Director of Children's Services
C Ferguson, Director of Corporate Services
N Grant, Director of Development Services
M Sandison, Director of Infrastructure Services
J Gray, Executive Manager – Finance
V Simpson, Executive Manager – Community Planning and Development
J Riise, Executive Manager – Governance and Law
R Sinclair, Executive Manager – Capital Programme
S Thompson, Executive Manager - Schools
M Duncan, External Funding Officer
C Anderson, Senior Communications Officer
L Adamson, Committee Officer

Also in Attendance:

J Belford, Aberdeen City Council
S Whyte, Aberdeen City Council
D McConnell, Audit Scotland
P Lindsay, Audit Scotland
I Lochhead, Audit Scotland

Chair:

Mr M Bell, Convener of the Council, presided.

Circular:

The circular calling the meeting was held as read.

Declarations of Interest

In regard to item 3 "Chair's Reports – Policy and Resources Committee – 26 November 2014 – 2015-16 Budget and Charging Proposals – All Committees; HRA; and Asset Investment

Plan”, and Item 4 “Shetland Islands Council Budget Book 2015-16”, Mr Burgess advised on a financial interest as a supplier of services to the Shetland College and a non-financial interest as a Trustee on the Shetland Fisheries Training Centre Trust (SFTCT). He advised however, that on the advice he has received, he considered the items to be of a strategic level and would therefore only leave the Chamber should the discussion move into the specifics on either of the organisations.

Mr Sandison advised on a non-financial interest a Trustee of SFTCT, in Items 3 and 4, and would only leave the Chamber should the discussion move directly to that of the organisation.

Dr Wills advised on a pecuniary interest in Item 2 “Chair’s Report – Policy and Resources Committee – 26 November 2014 – Review of Community Grants” as Vice-Chair of Shetland Charitable Trust, where he confirmed he would take no part in the discussion.

91/14 **Pension Fund Annual Report on the 2013/14 Audit**

The Council considered a report by the Executive Manager - Finance (F-061-F), which presented Audit Scotland’s Annual Report on the 2013/14 Audit.

The Executive Manager – Finance introduced the report.

During his address to Members, Mr D McConnell, Audit Scotland, reported that the key message from Audit Scotland was an unqualified opinion on the financial statements of the Pension Fund for 2013/14. He advised on the overall funding position of the Fund at 70%, and on the positive position on governance and accountability arrangements.

On the motion of Mr Robinson, seconded by Mr C Smith, the Council approved the recommendations contained in the report.

Decision:

The Council **RESOLVED** to:-

- Note Audit Scotland’s Annual Report on the 2013/14 Audit; and
- Approve the Action Plan.

92/14 **Annual Report on the Audit 2013/14**

The Council considered a report by the Executive Manager - Finance (F-060-F), which presented Audit Scotland’s Annual Report on the 2013/14 Audit.

The Executive Manager – Finance introduced the report.

Mr D McConnell, Audit Scotland, advised that overall the Audit report is a positive one over a range of areas, where he made particular mention to the less than budgeted draw on reserves, that the financial management within the Council remains strong and the good progress made in delivering the objectives in the Council’s Corporate Plan. He advised on the requirement for a workforce strategy to be developed and for further improvements to be made on procurement, and made comment on the continuing challenges ahead to achieve savings.

Dr Wills commented that the content of the Audit report was gratifying, and Members should acknowledge their debt to the Executive Manager – Finance and his staff, and also to the Council's Leader who has taken the Council through a very difficult process last year. He advised on the substantial progress made to set out the objectives in the Medium Term Financial Plan, where he made comment that one of the objectives had been to rationalise the school estate.

The Leader outlined to Members the content of the 'Outlook' section of the Audit report, at page 26, *"127. In common with other councils, Shetland Islands Council faces the key challenges of reducing budgets, an aging population with higher levels of need and the public expectation of high quality services. The council has made significant savings in recent years and this has been accompanied by a reduction in the workforce". "128. In order to deliver its Medium Term Financial Plan, decisions faced by the council will become increasingly difficult, and the council will have to focus on making the best use of all available resources and to challenge existing ways of doing things. A strong and effective performance management framework will be critical to the success of the council achieving its priorities"*. The Leader stated that this was the absolute key message for the remaining terms of this Council. He made reference to the impending announcement on the Autumn Statement, where he said that the Council could be facing a relatively small reduction in grant in 2015/16, but an increased reduction in 2016/17 and 2017/18. The Leader said that he welcomed the Audit Report, which he said gave a very fair account of how the Council has come ahead, but the Council will still face challenges in the years ahead.

On the motion of Mr C Smith, seconded by Mr Fox, the Council approved the recommendations contained in the report.

Decision:

The Council **RESOLVED** to:-

- Note Audit Scotland's Annual Report on the 2013/14 Audit; and
- Approve the Action Plan.

93/14

SIC Overall Management Accounts 2014-15 Projected Outturn at Quarter 2

The Council considered a report by the Executive Manager - Finance (F-073-F), which enabled monitoring of the financial performance of all Council services to ensure that Members are aware of the forecast income and expenditure and the impact that this will have with regard to delivering the approved budget.

In introducing the report, the Executive Manager – Finance advised on the projected outturn of the Council over all services being a total underspend of £5.874m. He provided a summary to Members on the revenue projected outturn position for the second quarter by service area and Fund, as detailed in Appendix 1. In regard to the capital projected outturn, at Appendix 2, he advised Members on the anticipated underspend which mainly relates to the timing of projects. He advised on the projected draw on reserves of £13.2m, being £7m below what was budgeted. He made comment that a draw on reserves of £13.2m is still more than is affordable, and that an affordable draw on reserves would be approximately £10m.

In response to a question, the Executive Manager – Finance referred to the Council's Policy to maintain reserves at the current level, and advised therefore that an affordable draw on reserves of £10m would only take into account interest and dividends received, and what would be affordable on the income generated. He said that with inflation, 5% would be an affordable amount to take out of the reserves to spend on services.

On the motion of Mr Robinson, seconded by Mr C Smith, the Council approved the recommendation contained in the report.

Decision:

The Council **RESOLVED** to review the Management Accounts showing the projected outturn position at Quarter 2.

94/14 **Chair's Report – Policy and Resources Committee – 26 November 2014 – Review of Community Grants**

The Council considered a report by the Chair of the Policy and Resources Committee (SIC-0312-P&R-DV045-F), which presented the findings of the recent review of Community Grants and sought approval for the proposals that have emerged from this review.

In introducing the report, Mr Robinson advised on a change required to the second part of recommendation 2.1.1, that the wording "with a further 25% reduction applied to the level of grant awarded" should be deleted. He then advised on the decision taken at Policy and Resources Committee, whereby the level of funding for community grants for 2015/16 is to remain at the 2014/15 level. Mr Robinson moved that the Council approve the recommendations, as amended. Mr Cooper seconded.

Decision:

The Council **RESOLVED** to:-

- Extend the current transitional period of the Support Grant Aid Scheme and Grounds Maintenance Scheme for another year;
- Close the Support Grant Aid Scheme and Grounds Maintenance Scheme on 31 March 2016; and
- Agree that as part of the budget proposals for 2015/16, that the level of funding for community grants be retained at the 2014/15 level, with the amount to be found from existing contingencies.

95/14 **Chair's Report – Policy and Resources Committee – 26 November 2014: 2015-16 Budget and Charging Proposals (All Committees); HRA; and Asset Investment Plan 2015-20**

The Council considered a report by the Chair of the Policy and Resources Committee (SIC-0312-P&R-Budgets-F), which presented recommendations from all the Council's Committees, Harbour Board and Shetland College Board regarding their 2015-16 budget and charging proposals, all of which require a Council decision.

Policy and Resources Committee – Budget and Charging Proposals

Mr Robinson moved that the Council approve the recommendation from Policy and Resources Committee. Mr Fox seconded.

Decision:

The Council **RESOLVED** to approve the budget proposals for the services under the remit of the Policy and Resources Committee and the proposed charging for 2015-16.

Housing Revenue Account 2015-16 Budget and Charging Proposals

On the motion of Mr Robinson, seconded by Mr Cleaver, the Council approved the recommendation relating to the Housing Revenue Account 2015-16 Budget and charging proposals.

Decision:

The Council **RESOLVED** to approve the budget proposals, and rent levels and proposed charging for 2015-16.

Proposed 5-Year Asset Investment Plan 2015-20

On the motion of Mr Robinson, seconded by Mr Fox, the Council approved the recommendation in the report relating to the 5-Year Asset Investment Plan 2015-20.

Decision:

The Council **RESOLVED** to approve the capital budget proposals for 2015/16; and, adopt this as the Council's 5-year Asset Investment Plan 2015-20, subject to any requirements of the Council's 'gateway' process, the resolution of any issues relating to external funding and any variation in the level of government grants.

Social Services Committee – Chair's Report – 2015/16 Budget Proposals

On the motion of Mr Robinson, seconded by Mr C Smith, the Council approved the budget proposals for the services under the remit of the Social Services Committee.

Decision:

The Council **RESOLVED** to approve the budget proposals and charging proposals for 2015-16 from the Social Services Committee, as part of the overall budget setting exercise; and that the level of funding for community grants be retained at the 2014/15 level, with the amount to be found from existing contingencies. The Social Services Committee had also noted that the 2015/16 draft budget proposals for Community Care and the NHS are relevant for the Integrated Joint Board that will become operational from 1 April 2015.

Development Committee – Chair's Report – 2015/16 Budget Proposals

In making reference to the Development Committee's contribution to achieve a balanced budget, the Leader commented that each of the Committees have brought forward proposals in line with what was asked for in the Participatory Budget Exercise, and in many cases in excess of the savings sought.

Mr Robinson moved that the Council approve the budget proposals for the services under the remit of the Development Committee. Mr Cooper seconded.

Decision:

The Council **RESOLVED** to approve the budget proposals and charging proposals for 2015-16 from the Development Committee, as part of the overall budget setting exercise.

Education and Families Committee – Chair’s Report – 2015/16 Budget Proposals

Mr Robinson moved that the Council approve the budget proposals for the services under the remit of the Education and Families Committee. Ms Wishart seconded.

Decision:

The Council **RESOLVED** to approve the budget proposals and charging proposals for 2015-16 from the Education and Families Committee, as part of the overall budget setting exercise.

Environment and Transport Committee – Chair’s Report – 2015/16 Budget Proposals

Mr Robinson moved that the Council approve the budget proposals for the services under the remit of the Environment and Transport Committee. Mr Coutts seconded

Decision:

The Council **RESOLVED** to approve the budget proposals and charging proposals for 2015-16 from the Environment and Transport Committee, as part of the overall budget setting exercise.

Harbour Board – Chair’s Report – 2015/16 Budget Proposals

Mr Robinson advised that the Policy and Resources Committee accepted the recommendation from Harbour Board, as is outlined in the report. Mr Robinson added that he had been pleased to note the expected contribution from the Total Gas Plant. In response to a question from Mr Sandison, the Executive Manager – Finance advised that it is anticipated that the Council will receive the first income from the Total Gas Plant in September 2015.

Mr Robinson moved that the Council approve the budget proposals for the services under the remit of the Harbour Board. Ms Manson seconded

Decision:

The Council **RESOLVED** to approve the budget proposals for 2015-16 from the Harbour Board, including the Table of Dues, as part of the overall budget setting exercise, on the proviso that Officers review the charging of all harbour users in an equal process by the end of September 2015 and that the proposals are presented to the industry on the charging structure that deals equitably with all harbour users with an implementation date being open to debate.

Shetland College Board – Chair’s Report – Budget Proposals

In introducing the report, the Leader made reference to the provision of £161k for the remaining deficit made under contingencies where he understood work was ongoing in this area. Mr Robinson moved that the Council approve the budget proposals for Shetland College for 2015-16. In seconding, Mr Cleaver commented that the Shetland College Board and the staff at the Shetland College had

welcomed the provision for the deficit, which he advised will put the College in a good position to progress on the Tertiary Education Review.

Decision:

The Council **RESOLVED** to approve the budget proposals for 2015-16 from the Shetland College Board, as part of the overall budget setting exercise.

The Leader made comment that for the first time since the 1990s, the Council will be approving a balanced budget for 2015-16. The Leader paid tribute to the officers and staff who have contributed to this achievement, where he added that it was important to retain the resolve to see through the work that was started in 2012. The Leader thanked the Members, officers and staff for their contributions to achieve a sustainable budget. The Council concurred.

96/14

Shetland Islands Council Budget Book 2015-16

The Council considered a report by the Executive Manager - Finance (F-072-F), which set out the spending plans for Shetland Islands Council in the next financial year.

The Executive Manager – Finance summarised the main terms of the report, where he advised that the 2015-16 budget requires a draw on reserves of £6.9m, which is considered to be affordable as a result of the budgeted income from the Harbour Account and the TOTAL gas plant and expected investment returns. He said that the budget contains total savings of £3.3m, exceeding the target of £2.145m as set out in the Medium Term Financial Plan, which said will give a head start to set the budget for 2016-17. He advised Members that although the Council is presenting a sustainable budget there will still be challenges ahead.

In response to questions from Members, the Leader advised on the expectation that next year will be the final year of the Council Tax freeze. He went on to inform Members on a recent announcement by the First Minister that work has commenced on a system to replace the Council Tax, where he said it is important for the Council to participate in the key debates on this issue and submit proposals into the Commission.

The Convener thanked Members for reaching a consensus, and officers for the work that has been involved in achieving a sustainable budget for 2015/16. He also thanked the the public for their contributions during what he said has been a difficult period, where he acknowledged that there will continue to be difficult periods into the future.

On the motion of Mr Robinson, seconded by Mr Fox, the Council approved the recommendations contained in the report.

Decision:

The Council **RESOLVED** to approve the 2015-16 budget by:-

- Approving the Council Budget Book 2015-16;
- Adopting the Formal Resolutions; and

- Agree to freeze the Council Tax at the current level, in line with the concordat between the Council and the Scottish Government.

97/14 **Chair's Report – Policy and Resources Committee – 26 November 2014: 2015-16 Budget Proposals – Pension Fund**

The Council considered a report by the Chair of Policy and Resources Committee (SIC-0312-P&R-F055-F), which presented the budget proposals for the Pension Fund.

In response to a question, the Executive Manager – Finance advised on the final pension contribution of £1.6m in 2015/16 for Shetland Towage employees.

On the motion of Mr Robinson, seconded by Mr Cleaver, the Council approved the recommendation contained in the report.

Decision:

The Council **RESOLVED** to adopt the recommendation from the Policy and Resources Committee, namely to approve the Pension Fund budget proposals for 2015/16.

98/14 **Chair's Report – Policy and Resources Committee – 26 November 2014: Asset Investment Plan, Gateway Process – Service Need Case Reports**

The Council considered a report by the Chair of Policy and Resources Committee (SIC-0312-P&R-CPS16-F), which presented two projects from within the Infrastructure Directorate that have been considered by the Capital Investment Group based on the submission of Service Need Case (SNC) reports.

On the motion of Mr Robinson, seconded by Mr C Smith, the Council approved the recommendation contained in the report.

Decision:

The Council **RESOLVED** to approve the recommendation from the Policy and Resources Committee, namely to retrospectively approve for implementation the projects described in the report.

99/14 **Long Term Financial Plan**

The Council considered a report by the Executive Manager – Finance (F-075-F), which presented information on the Council's longer term financial outlook and the probable impacts that current trends and future decision-making will have on the financial health of the Council in the years to come.

The Executive Manager – Finance gave a presentation to Members entitled "Shetland Island Council – Long Term Financial Plan 2015-20" (copy of slides attached as Appendix A). The presentation informed on how decisions of the past will present challenges for the future, and gave an indication of future financial implications arising from the current direction of travel, and detail in regard to the relationship between revenue and capital expenditure and the financial framework for developing a Long-Term Asset Investment. Members were also provided with a brief history of the Council since 1975, a summary of the current financial position, and information on sources of income and cost pressures. The Executive Manager – Finance also outlined the 4 different scenarios in regard to financial modelling, he informed on financial risks and provided a summary of the conclusions. The

Executive Manager – Finance outlined to Members the 6 recommendations as detailed in Section 13.8 of the Long Term Financial Plan, where he advised that further work will be carried out on the proposals in each recommendation for reporting back to Members in due course.

The Chief Executive made comment on the challenging scenario going forward, which he said will require enormous discipline in regard to decision making. He said that it was without doubt that the impact in the Council will be very significant and visible to those within the Council and outwith the organisation; however he said that every effort will be made to minimise the negative impacts in terms of services to the community. During his address, the Chief Executive said that over the past 2 years, as is evidenced by the 2013/14 Audit, the 2014/15 budget and the 2015/16 budget just approved, the Council has addressed challenges and is now able to start to address cost pressure issues relating to demographics and capital expenditure, and will plan and overcome the challenges and carry on delivering services. In his conclusion, the Chief Executive said that he was confident that the Council will overcome the challenges to achieve a balanced capital position as has been done in recent years on the revenue position.

In response to a question, the Executive Manager – Finance confirmed that there will be potential challenges and implications arising from the projected increase in the number of over 65 year olds in Shetland by 2037, which he said will impact on all areas of the Council. He said that this is an area that will require more planned work into the future.

Mr Sandison commented that he found the information provided to Members to be extremely informative, particularly in relation to the relationship with revenue and capital. In response to a question on proposals for funding Fixed Links, the Executive Manager – Finance said that funding proposals for fixed links is a difficult piece of work to be undertaken, however he advised that he was aware that a draft outline has been prepared. He questioned however that the financial risk and scale of investment for such a small Local Authority to take on its own may be a step too far. He made reference to the ongoing discussions with the Scottish Government on the future of Inter island Ferry Services, which he considered to be the best option at this time.

In response to comments from Members, the Executive Manager – Finance advised that currently the Council commits £2m per year into the Pension Fund in order to cover Compensatory Added Years payments. He advised that Recommendation 6 sets out a proposal for the Council to review the ongoing affordability of these discretionary payments.

In response to a question, the Executive Manager – Finance advised that the Council is currently doing what is required to keep its assets maintained, however decisions on the longer term assets maintenance is an area that needs further consideration. The Director of Infrastructure Services advised that reports will be presented to Environment and Transport Committee during 2015 to inform on repair and replacement costings for the lifetime of the Council's assets.

In response to questions, the Executive Manager – Finance advised that the requirement for the £5m efficiency savings through service redesign will be for one-off savings. He added that although there is a degree of flexibility in regard to achieving the savings, the sooner these can be achieved the better.

In making reference to the proposal for the Council to maintain its existing assets base, and for any replacement to be at the same scale as the existing asset, Mr Robertson reported on the significant investment that the Council made in regard to housing and infrastructure during the 1970s to support the developments at Sullom Voe, which he said has encouraged people to Shetland to live and work. He said that the Council had the opportunity then to invest in roads, schools etc, which the Council did deliver, and it is now a question for future Councils to maintain those assets.

Dr Wills commented that although the budget presented for 2015-16 is balanced, and the draw on reserves is affordable for next year, he said that the budget going forward cannot be described as sustainable. He said the Council is currently staffing more schools than is financially sustainable, that that after spending time and resources on staff and consultants have put off making decisions on closing schools, where he advised that his main concerns were in regard to the maintenance budget and the funding gap to replace Council assets.

On the motion of Mr Robinson, seconded by Mr C Smith, the Council approved the recommendations contained in the report.

The Convener advised that this will be the last meeting for James Gray, Executive Manager – Finance, who was leaving the Council. The Convener stated that James' input to the Council had been admirable, and particularly his ability to explain complex and difficult issues. He added that this final report as presented will be James' legacy to the Council. On behalf of everybody in the Chamber, the Convener thanked James and wished him well for the future.

Members and officers concurred with applause.

Decision:

The Council **RESOLVED** to:-

- Note the content of the Long Term Financial Plan; and
- Agree to the recommendations set out in paragraph 13.8 of the LTFP and ask the Chief Executive to ensure that future reports are brought forward to Members so that these can be fulfilled.

Mr Bell moved that in order to avoid the disclosure of exempt information, the Council resolved to exclude the public in terms of the relevant legislation during consideration of the following item of business. Mr C Smith seconded.

100/14 **Chair's Report – Policy and Resources Committee – 26 November 2014:
Investment in Anderson High School Subordinated Debt**

The Council considered a report by the Chair of the Policy and Resources Committee.

In his introduction, the Leader advised that the Policy and Resources Committee had unanimously agreed to recommend that the Council invest in the AHS Project as had been outlined in the report.

Following discussion, Mr Robinson moved that the Council approve the recommendations in the report. Mr Fox seconded.

Decision:

The Council **RESOLVED** to approve the recommendations from the Policy and Resources Committee, namely to:-

- Exercise its option to invest in the new Anderson High School project as the holder of subordinated debt, in principle; and
- Grant delegated authority to the Council's Section 95 Officer to make those arrangements once s/he is satisfied that the Anderson High School Financial Model provides reasonable assurance that there are sufficient future cash flows to meet all financial commitments due to the Council in its role as an investor.

The meeting concluded at 12.20pm.

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Convener