Motion proposed by Cllr. Jonathan Wills, seconded by [TBA]

That this council,

1. seeing considerable potential benefits to the people of Shetland by community councils becoming corporate bodies with the ability, among other things, to own property, enter into contracts, employ staff and raise their own revenue, including (but not restricted to) a portion of Council Tax;

2. recognising that this can only be achieved through the powers of the Scottish Parliament;

3. considering that working with our islands council partners in the Our Islands Our Future initiative may be a suitable way forward, perhaps with a pilot scheme;

4. and wishing fully to engage with Shetland's community councils and to consult widely on the development of this proposal for community empowerment;

therefore asks officers to prepare a report, for an early meeting of the next council, on how such a proposal might be taken forward.

Jonathan Wills.

22.2.17

22/2/17

Shetland Islands Health and Social Care Partnership

Agenda Item
2

Shetland NHS Board	Shetland Islands Council

Meeting(s):	Policy and Resources Committee Integration Joint Board (IJB) NHS Shetland Board	8 March 2017 10 March 2017 18 April 2017
Report Title:	Shetland Islands Health and Social Care Partnership: Joint Strategic Commissioning Plan	
Reference Number:	CC-17-17 F	
Author / Job Title:	Hazel Sutherland, Head of Planning and Modernisation, NHS Shetland	

1.0 Decisions / Action required:

1.1 That Shetland Islands Council Policy and Resources Committee recommends that Shetland Islands Council APPROVES the Shetland Islands Health and Social Care Partnership's Joint Strategic Commissioning Plan.

1.2 That NHS Shetland Board APPROVES the Shetland Islands Health and Social Care Partnership's Joint Strategic Commissioning Plan.

1.3 That the Integration Joint Board:

(a) APPROVES the Shetland Islands Health and Social Care Partnership's Joint Strategic Commissioning Plan, including the Service Delivery Plans; and

(b) NOTES that a separate report on today's agenda puts forward budget proposals for 2017-18 to deliver the Plan and address the funding gap on NHS Shetland funded services of £2.5m; and

(c) DIRECTS NHS Shetland and Shetland Islands Council to deliver the Strategic Commissioning Plan insofar as the extent of the authority delegated to them through the Integration Scheme by:

- providing the services as set out in the Service Plans;
- delivering the services within the budget and resources described in the Budget for 2017-18 (see separate Report);
- delivering the services within the overall strategic and policy framework;
- putting in place the necessary performance monitoring arrangements to reassure the IJB that:
  - services within the Strategic Commissioning Plan are being delivered;
  - that service standards and performance targets are being met;
  - that the services are provided within budget;

- the projects are being implemented on time; and
- remedial action is being taken as necessary if expected performance is not achievable.

- regularly reviewing the strategic and operational risks of delivering the plan and putting in place arrangements to reassure the IJB that the risks are well managed and appropriate mitigation is in place; and
- noting that specific authority will be sought from the IJB for any changes, as a consequence of the strategic programmes or recovery plan, which result in a significant impact on the current service model or performance outcomes; and

(d) NOTES that depending on the decisions on the Budget Report 2017-18, some NHS Shetland Service Plans may require to be amended to reflect anticipated changes in service delivery arrangements and performance outcomes and will therefore be resubmitted for further approval during the year.

2.0 High Level Summary:

2.1 In February 2017, the IJB, NHS Shetland and Shetland Islands Council approved, in principle, Shetland Islands Health and Social Care Partnership's Joint Strategic Commissioning Plan, excluding the Financial Plan and Service Delivery Plans.

2.2 The Financial Plan and Budget for 2017-18 was also considered at the meeting in February and the detailed work on how to bridge the funding gap in NHS Shetland funded services will be further considered at an IJB Seminar on 3 March 2017. The outcome of those deliberations will be included in a companion report on this agenda by the IJB's Chief Financial Officer.

2.3 The detailed service delivery arrangements are set out in the Service Plans. Ideally, there would have been time to adjust the service delivery arrangements to take account of the resourcing decisions as part of the budgeting process for 2017-18. However, the timing of the budget announcements and the decisions to be taken on how best to bridge the funding gap on the NHS Shetland funded services has meant that the service plans have had to be developed in parallel to the budget process. Where resourcing decisions are made which impacts directly and significantly on the service delivery models and performance outcomes, these will be amended and resubmitted to a future meeting for approval. The overall aim is to have in place a strategic plan, budget and set of service plans which are all aligned.

2.4 This Report therefore seeks the formal authority of the IJB to direct NHS Shetland and Shetland Islands Council to deliver the Strategic Commissioning Plan and associated services from 1 April 2017. It is the detailed service plans which provide the basis upon which the formal Directions are based.

3.0 Corporate Priorities and Joint Working:

3.1 The IJB Joint Strategic Commissioning Plan describes how health and care services can be delivered, jointly, across the services described in the Shetland Islands Health and Social Care Partnership's Integration Scheme.

3.2 The Plan is a significant part of public sector delivery in Shetland and supports the

Shetland Community Partnership's Local Outcome Improvement Plan, Shetland Islands Council's Corporate Plan and NHS Shetland's 2020 Vision and Local Delivery Plan.

3.3 Delivery of the Strategic Commissioning Plan relies on partnership working between Shetland Islands Council, NHS Shetland, Shetland Charitable Trust, other regional and national organisations (such as the Scottish Ambulance Service, NHS Grampian and other specialist Health Boards) and voluntary sector providers.

3.4 It supports a fundamental shift in the philosophy of how public sector services should be designed and delivered with and for each community, based on natural geographical areas, or localities, and integrated around the needs of service users, rather than being built around professional or organisational structures.

4.0 Key Issues:

4.1 The Directions from the Integration Authority (IJB) to the Council and Health Board are required in order to action the IJB's Strategic Plan.

4.2 The formal directions are based on the Scottish Government's Good Practice Note on Directions. The Directions must clearly identify which of the integrated health and social care functions they relate to. The Integration Authority can direct the carrying out of those functions by requiring that a particular named service or services be provided.

4.3 The Integration Scheme sets out the extent of the delegated functions from NHS Shetland and Shetland Islands Council to the IJB. In summary, the services can be described as being within one of three categories, as set out below.

- **Category A** services - the community health and social care services which are wholly integrated and wholly delegated to the Integration Joint Board within the managerial responsibility of the Chief Officer;
- **Category B** services – specific acute and hospital and health improvement services which support integration, referred to as 'set aside' services and managed outwith the IJB;
- **Category C** services – other local health services which are included in the Plan in the interest of having a holistic oversight of all health and care services. These are also managed outwith the IJB.

4.4 The Integration Scheme is mainly for adults aged over 18. However, some services are not easily delineated between children and young people and adult services, and transition into adulthood is an intrinsic part of some service offerings (eg for adults with learning disabilities). The Service Plans have been built around natural groupings of services and those which may include children services are highlighted in the schedule below.

Service Area	Category A	Category B	Category C	Children and Young People
Adult Services	√			Transition
Adult Social Work	√			
Allied Health Professionals	√			Yes
Carers	√			Yes
Community Care Resources	√			
Community Nursing	√			
Criminal Justice	√			
Domestic Abuse	√			Yes
Health Improvement		√		
Intermediate Care	√			
Mental Health	√			
Oral Health	√			Yes
Pharmacy and Prescribing	√	√		Yes
Primary Care	√			Yes
Substance Misuse	√			Yes
Suicide Prevention	√			Yes
Unscheduled Care		√		Yes
Planned Care			√	Yes
Public Health			√	Yes
Human Resources and Support Services			√	
Finance			√	
Estates, Facilities and Medical Physics			√	

4.5 The Directions must set out how each integrated health and social care function is to be exercised and the budget associated with that. A complementary report on today's agenda sets out the budget for each of the services. The level of detail to give life to the delegation is set out in the Service Plans. Taking guidance from the Strategic Commissioning Plan, the Service Plans set out the detailed service delivery arrangements – how the service will be delivered, by whom and what performance outcomes can be expected.

4.6 The Directions must be revised in year to reflect any changes in how the delegated functions are to be carried out. Specifically, therefore, for 2017-18, it is expected that some of the detailed service plans for some Health Board funded services (Allied Health Professionals, Community Nursing, Mental Health, Pharmacy and Prescribing and Primary Care) may require to be resubmitted when the impact of the approval of the Budget for 2017-18 is clearer and decisions are taken on bridging the funding gap of £2.4m.

5.0 Exempt and/or confidential information:

5.1 None.

6.0 Implications :

6.1 Service Users, Patients and Communities:	The Strategic Commissioning Plan sets out the services to be delivered over the next 3 years. Any significant changes to services will be of interest to services users, patients, unpaid carers and communities, particularly in respect of quality, equality, accessibility and availability. It is expected that the current models of delivery will continue to evolve and change to reflect the policy direction of shifting the balance of care from hospital to community settings and supporting people to live independently at home. The service focus will also be on finding ways to help people to help themselves and by increasing self-help and self-care to help people to live in good health for longer.
6.2 Human Resources and Organisational Development:	At this stage, there are no direct impacts on Human Resources and Organisational Development. However, any significant changes to existing service models and methods of delivery may, in time, affect staffing – both in terms of the number of staff and the skills mix required – in order that service costs can be accommodated within the total budget allocation. There is a specific project to support Organisational Capacity and Resilience. It is also recognised that staff are at the forefront of any potential changes to services and they need to be well-informed to help them to deal with questions and queries from our service users.
6.3 Equality, Diversity and Human Rights:	The Impact Assessment is included at Appendix 5 of the Strategic Commissioning Plan. Within the Draft Plan, there is reference to individuals, or groups of individuals, who may face difficulties in accessing services. There is a clear focus on which individuals and groups of individuals the Plan intends to support. The Impact Assessment notes that further work may be required on data collection for Ethnic Minorities.
6.4 Legal:	The Public Bodies (Joint Working) (Scotland) Act 2014 requires Health and Social Care Partnership IJBs to produce a strategic commissioning plan and update it annually. There is a requirement on all 3 partners to put in place arrangements to achieve a balanced budget each year. The Good Practice Note on Directions advices that the formal written notification be given to the Health Board and the Council to carry out the actions and services as specified in the Strategic Commissioning Plan.
6.5 Finance:	The partners face a significant challenge associated with the need to address the funding gap on NHS Shetland funded services. The estimated gap between the cost of the current service delivery models and the amount of funding made available by the funding partners in 2017-18 is £2.5m. The gap relates only to NHS Shetland funded services delegated to the IJB. A separate report on today's agenda addresses the detailed budget proposals for 2017-18 and the arrangements to be put in place to bridge the funding gap.
6.6 Assets and Property:	At this stage, there are no implications for Assets and Property. However, any significant changes to existing service models and

	methods of delivery may, in time, affect the overall estate in order that service costs can be accommodated within the total budget allocation.
6.7 ICT and new technologies:	The Plan outlines the need to continue to modernise our working practices – both internally and with our patients / service users / customers – by maximising eHealth, Telehealthcare and Telecare opportunities.
6.8 Environmental:	At this stage, there are no specific environmental implications. Any changes to services models which result in changes to access points and transport arrangements may, in time, result in environmental considerations.
6.9 Risk Management:	The Plan includes a section on risk factors and has identified a range of governance, financial, partnership and capacity issues. If approved, the IJB's Risk Register will be updated and will then form part of the ongoing risk mitigation and management arrangements reported regularly to the IJB. The consequence of not approving the refreshed Strategic Commissioning Plan would be that the existing Plan remains in force, that the Strategic Programmes for developing sustainable models of service would not be endorsed and the funding gap would therefore continue to grow month on month.
6.10 Policy and Delegated Authority:	Shetland's Integration Joint Board (IJB) was formally constituted on 27 June 2015 and operates in accordance with the approved Integration Scheme, Scheme of Administration, and the Financial Regulations. The IJB assumed responsibility for the functions delegated to it by the Council and the Health Board when it (the IJB) approved and adopted the joint Strategic (Commissioning) Plan at its meeting in November 2015. The delegated functions are set out in the Integration Scheme. <u>SIC Policy and Resources Committee</u> Shetland Islands Council delegated functions, including the planning arrangements, to the IJB. The Policy and Resources Committee is responsible for receiving reports on any matters relating to functions delegated to the IJB that require to be reported to the Council. Approval of strategic policies, including the Strategic Commissioning Plan, falls within this remit. <u>NHS Shetland Board</u> NHS Shetland delegated functions, including planning for acute and hospital services, to the IJB. The NHS Board retains the overall authority for consideration and approval of strategic planning, taking guidance from its Standing Committees, in particular the Strategy and Redesign and Staff Governance Committees. Approval of the Strategic Commissioning Plan

	therefore rests with the NHS Shetland Board. IJB The Integration Scheme states that, "The IJB has responsibility for the planning of the Integrated Services. This will be achieved through the Strategic Plan....The IJB will be responsible for the planning of Acute Hospital Services delegated to it....". Consideration and approval of the annual update of the Strategic Commissioning Plan is therefore within and the authority delegated to the IJB. The Integration Scheme also states that, 'the detailed commissioning and operational delivery arrangements will be set out in the Strategic Plan'.	
6.11 Previously considered by:	Strategic Planning Group	6 March 2017

Contact Details:

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27 February 2017

Appendices:
Appendix 1 - Shetland Islands Health and Social Care Partnership Strategic Commissioning Plan 2017-2020 This Appendix is available electronically only - http://www.shetland.gov.uk/coins/agenda.asp?meetingid=5205

Background Documents:

Shetland Islands Health and Social Care Partnership Integration Scheme
http://www.shetland.gov.uk/Health_Social_Care_Integration/documents/SHSCPartnershipIntegrationScheme15May2015.pdf

Scottish Government: Good Practice Note Directions from Integration Authorities to Health Boards and Local Authorities
http://www.gov.scot/resource/0049/00498164.pdf

Shetland Islands Council

Agenda Item

3

Meeting(s):	Shetland Islands Council	8 March 2017
Report Title:	SIC Response to 'A Consultation on the Long Term Management of the Crown Estate in Scotland'	
Reference Number:	DV-27-17-F	
Author / Job Title:	Martin Holmes / Coastal Zone Manager	

1.0 Decisions / Action Required:

1.1 That the Council RESOLVE that the attached response to the consultation on the long term future of the Crown Estate be sent as its official response, subject to any amendments or additions Members wish to make.

2.0 High Level Summary:

2.1 The Scottish Government is consulting on how Scottish Crown Estate assets could be managed in the long term following devolution to Scotland in April this year. This report summarises progression to this point and highlights the major aspects of the proposed response including further devolution to the local level (as set out in the Smith Commission report) and the need for a pilot to inform long term management.

3.0 Corporate Priorities and Joint Working:

3.1 The consultation response advocates further devolution to the local authority which will link to the corporate priorities associated with the Corporate Plan, Local Outcomes Improvement Plan and the Community Plan.

4.0 Key Issues:

4.1 The Crown Estate in Scotland comprises two distinct aspects – the ancient rights held by the Crown since medieval times and the more recent (20th/21st century) property and land acquisitions. Both are currently administered by the Crown Estate Commissioners (CEC), a public body governed by the terms of the Crown Estate Act 1961. Foremost amongst the ancient rights vested in the Crown and of greatest interest in a Shetland context is ownership of the whole of the sea bed out to the limits of territorial waters (12 nm) and around half of Scotland's foreshore. The Crown also has rights over the continental shelf area (12 – 200 nm) to minerals and sedentary species. Hydrocarbons are excluded from any of the sea bed rights or ownership. Other historic Crown rights include those to naturally occurring mussels and oysters in territorial waters and coastal, river and loch fishing.

4.2 The Scottish assets of the Crown Estate form a relatively small part of the UK wide interests with regard to value and revenue. As with all its interests the CEC are charged with the function of 'managing and turning to account' Crown assets with such 'cash or investments as seems to them to be required for the discharge of their functions'. In doing so they have a general duty 'to maintain and enhance its value and the return obtained from it, but with due regard to the requirements of good management'. The CEC have interpreted 'good management' to mean 'sustainable management' but purely from a financial perspective rather than in the broader sense of sustainability for the wider public interest. With such a narrow commercial mandate the CEC cannot support national or local policy objectives, whether social, economic or environmental in nature, designed to achieve wider community benefit.

4.3 There have been a number of reports investigating the way the Crown Estate in Scotland is managed and administered. Reports by the Crown Estate Review Working Group in December 2006, the House of Commons Treasury Committee in March 2010 and the Scottish Affairs Committee in March 2012 all advocated the management and administration responsibilities of the CEC should be devolved to the Scottish Parliament. The themes common to all the reports, particularly in regard to the foreshore and the sea bed, was the requirement to address issues around the lack of accountability and transparency, lack of consultation and communication with local communities, financial leakage from local and national economies and the CEC's monopolistic position in the marine environment. The Scottish Affairs Committee further advocated decentralisation of the management and revenue responsibilities down to the local authority level.

4.4 Recognising that constitutional change was likely whatever the outcome of the 2014 Independence Referendum, the three Islands Councils (Orkney, Shetland and Comhairle nan Eilean Siar) came together under the banner 'Our Islands, Our Future' (OIOF), a campaign built on the principles of community benefit and subsidiarity. Amongst the areas covered is the control and management of the Crown Estate assets in Scotland and, from an islands perspective, is primarily focussed on the foreshore and sea bed interests.

4.5 Both the Scottish and UK Governments published their response to the OIOF campaign prior to the 2014 Referendum. The Scottish Government promised the transfer of net revenue generated around the Islands be passed down to the Islands and proposed a framework of limited management of the foreshore and local authority harbour areas. Transfer of revenue and management (other than mechanisms to maximise community ownership, operational control and management of foreshore assets) did not form part of the UK Government's response. Neither of these proposals matched OIOF aspirations.

4.6 Post Referendum a Commission led by Lord Smith of Kelvin was established to seek agreement on a package of powers to be devolved to strengthen the Scottish Parliament within the UK. The Smith Commission Agreement was published in November 2014. In respect of the Crown Estate in Scotland it recommended transfer of the responsibility for the management of the Scottish assets, and the revenues generated from these, to the Scottish Parliament. In line with a submission from the OIOF Campaign, Smith additionally recommended that this responsibility be further devolved to local authority areas who seek it and specifically mentioned Orkney, Shetland and Comhairle nan Eilean Siar.

4.7 The Scotland Act 2016 inserts new provisions into the Scotland Act 1998 to enable the UK Treasury to make a transfer scheme that passes the management functions and revenues of the CEC to Scottish Ministers. From the point of transfer, anticipated in April 2017, Ministers decided that the Scottish assets should meantime be managed as a single entity under a new management body known as Crown Estate Scotland (Interim Management). The Order in Council establishing this new body was approved by the Privy Council on 15 February 2017 and recruitment to board positions is underway.

4.8 Post transfer the Scottish Parliament will have the power to legislate on a new framework for managing Scottish assets including the ability to depart from the Crown Estate Act 1961. The consultation on the long term management of Scottish assets seeks views on management options and what reforms are needed and these will shape the legal framework for future management.

4.9 The consultation document is split into four sections:

- 1: Vision – covers possible departures from the 1961 Act including whether to retain or modify the commercial duty and alignment with national policies;
- 2: Managing Assets for Scotland and Communities – sets out three management options: national, local or a hybrid of the first two;
- 3: Securing Benefits for Scotland and Communities – discusses the operational, governance, revenue and other financial implications of the management proposals;
- 4: Assessing Impact – considers impacts on business, environment, equality and privacy.

4.10 In line with the OIOF campaign the proposed consultation response advocates full and faithful implementation of the Smith Commission principles with onward devolution of the management of the Scottish assets down to the local authority. Such further devolution recognises the principle of subsidiarity and local decision making which is supported by the Scottish Government as stated in the 2013 Lerwick Declaration. It also offers opportunities for further community empowerment, streamlining of consenting regimes and achieving best value use of public resources all of which contribute to economic sustainability.

4.11 Over the past two years the three island's Councils have been advocating the need for a pilot to inform the long term management of marine assets and in doing so also inform the terms of a legislative framework to implement future changes. It is fair to say that the response from Government officials to this proposal has been lukewarm at best. Indeed the three Council Convenors wrote to the Islands Minister to express their disappointment in the way the questions in the consultation referencing a pilot are worded (Q33 – Q35). The questions appear to be consulting on whether or not there should be a pilot and what its value would be and also the purpose behind it despite numerous face to face meetings with SG officials over the past two years.

4.12 In formulating the consultation response Council Members and officers met with local marine stakeholders to discuss some of the issues around the future management of Crown assets. Overall they considered that there was value in a pilot being run to inform future management possibilities and it also presented an opportunity for joined up management at the local level. Like the Council it was felt that the consultation paper was lacking in a number of important areas such as what is 'net' revenues, how these would be dispensed once passed down to the

	local level and the matter of liabilities. 4.13 The closing date for responding to the consultation is 29 March 2017. Subject to the legislative programme the Scottish Parliament could potentially consider a Scottish Bill on the Crown Estate in 2019 with provisions commencing in 2019/2020.
5.0	**Exempt and/or Confidential Information:**
5.1	None.
6.0	**Implications :**
6.1 Service Users, Patients and Communities:	Further devolution to the local authority level would further certainty amongst service users when bringing development proposals forward.
6.2 Human Resources and Organisational Development:	None.
6.3 Equality, Diversity and Human Rights:	None.
6.4 Legal:	None at this time.
6.5 Finance:	None.
6.6 Assets and Property:	None.
6.7 ICT and New Technologies:	None.
6.8 Environmental:	Environmental benefit likely to accrue through local management of Crown Estate marine assets as proposed.
6.9 Risk Management:	By not providing a response the Council would miss out on the opportunity to promote further effective control of marine developments through local decision making and good governance and ensure community empowerment.
6.10 Policy and Delegated Authority:	This matter has not been referred to another committee of the Council, therefore a response from the Council is required.
6.11 Previously Considered by:	None.

Contact Details:
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3 March 2017

Appendices:
Appendix 1: Draft Response to 'A Consultation on the Long Term Management of the Crown Estate in Scotland'.

Background Documents:
The full consultation document can be viewed at:
http://www.gov.scot/Publications/2017/01/8661/downloads

END

Shetland Islands Council

A CONSULTATION ON THE LONG TERM MANAGEMENT OF THE CROWN ESTATE IN SCOTLAND

Shetland Islands Council (SIC) welcomes the opportunity to comment on the proposals for the long term management of Crown Estate assets in Scotland.

Overview

Being an island community Shetland has a high level of economic and social dependence on maritime industries and a healthy marine environment. As one of the most fisheries dependent areas of the UK and with aquaculture being the major component of the local economy, the Islands have had a long term interest in sustainable marine management and protection of the marine environment. In line with the Scottish Government's prospectus 'Empowering Scotland's Islands Communities, the SIC contends that it is vital that island communities acting through and with their Councils and Community Planning Partnerships take the lead role in the sustainable management, development and exploitation of marine resources with any revenues from such activities being reinvested into the communities affected by them.

The SIC recognised the need to establish an 'interim body' (Crown Estate Scotland Interim Management) to have initial responsibility for the management of Crown Estate Commissioners (CEC) functions for the Scottish assets. This recognition was based on the fact that the Scottish Government required full legislative competency in order for it to further devolve these functions as set out in clause 33 of the 2014 Smith Commission report. Scottish Government has confirmed on a number of occasions that it is committed to "full and faithful implementation" of the Smith Commission recommendations including further devolving the management of CEC assets to local authority areas such as Orkney, Shetland, Na-h-Eilean Siar or other areas who seek such responsibilities (clause 33). Scottish Ministers have also committed through the Prospectus 'Empowering Scotland's Islands Communities' to provide to island and coastal local authorities net income from the islands' Crown Estate seabed leasing revenues out to 12 nautical miles following devolution. The same document also proposes a framework that will provide for wider socio-economic and community benefit.

Political commitment to explore a pilot scheme as to how local management of marine assets can be taken forward has been given by both the previous and current Scottish administrations. The SIC contends that this is essential in order to inform new long term management frameworks as currently being consulted on. Shetland, along with Orkney and the Western Isles, are best placed to undertake this given their 40 years of experience and expertise in the field of marine management, marine planning and consenting. A pilot scheme could be subsequently adapted for any other local authority that seeks the same level of community management. It remains unclear as to how the interim body will provide for the community and local input that could be achieved through devolution to the local level.

In looking to the future long term management, there is merit in considering aligning the management of Crown assets with local aspirations. Given that these assets fall into one of two areas (marine or terrestrial), benefit could be better achieved by separating out management of the marine assets from those of the rural and urban estate. These two areas are vastly different in terms of their geography, functionality, use and benefit to local communities. Separate management regimes would also allow a closer fit with the 'Empowering Scotland's Island

Communities' prospectus as these communities will have a greater vested interest in the foreshore and sea bed assets than rural/urban assets.

Throughout the consultation document there are a number of references to the possibility of local management leading to fragmentation of the 'estate' and realisation of net revenues from it. As the assets will be protected as an estate in land in perpetuity, it is difficult to see how the estate could be fragmented and the Council further considers that devolution to local authorities would prevent this from occurring through greater community empowerment, transparency and accountability.

Response to Consultation Questions

It should be noted that the responses below are all given from consideration of the management of the marine assets of the Scottish Estate. A number of the consultation questions could be answered differently depending on whether marine or land based assets were being considered. The consultation document is also somewhat confusing with its mix of both open and closed questions. The Council has included further comment to some closed questions where further clarification is deemed appropriate.

Q1: Should the future approach be changed from the duty to manage the assets on a commercial basis?

YES X
NO □
Don't know □

Q2: If YES, should there be a power to take account of wider socioeconomic or other benefits?

YES X
NO □
Don't know □

Q3: If YES, which assets should be managed on a commercial basis and which should be managed differently? (Please provide details in the space below)

The Council consider that a move away from 'good management' meaning 'good financial management' in isolation is essential and there is a need to take account of wider socio-economic and environmental benefits. It would be more appropriate to consider what approach to take on a case by case basis. Some aspects of the estate, e.g. the sea bed, have no commercial value (other than being ascribed a 'land valuation' for accounting purposes) until something is developed on or over it. However non-development of the asset may have wider socio-economic and/or environmental benefits, such as fishing stock or wider conservation protection, when it's not being used to generate a profit.

Q4: Should the requirement on 'good management' be retained?

YES X
NO □
Don't know □

Provided it does not mean good ‘financial’ management in isolation.

Q5: Should the requirement on ‘good management’ be amended to take account of environmental implications in relation to the management functions?
YES X
NO □
Don’t know □

Q6: Should the existing Crown Estate portfolio in Scotland be preserved in its current form?
YES □
NO X
Don’t know □

It should be for Scottish managers to determine how Scottish assets are dealt with, particularly if moving away from managing them on a purely commercial/profit basis, and as such it is unlikely that the portfolio could be maintained in its current form. The Council highlighted in its response to the Interim arrangements consultation that the opportunity to divide the estate into marine and land based assets was missed and continue to advocate that this should be considered as a way forward in managing the Scottish portfolio.

Q7: Should Scottish Ministers’ approval be required for sizeable sales?
YES X
NO □
Don’t know □

Q8: Should the existing policy - the general presumption against selling the seabed - be maintained?
YES □
NO X
Don’t know □

Maintaining the presumption against selling the sea bed on the assumption that this leads to fragmentation of this asset is not supported. Managers should be able to sell parts of the sea bed where it is reasonable, sensible and pragmatic to do so, e.g. where land is being reclaimed from the sea to support land based infrastructure. Clearly this would have to be determined on a case by case basis. Such an approach would not result in fragmentation of the marine estate – indeed the CEC has previously sold sections of the sea bed (for example to Lerwick Port Authority) so a precedent has been established.

Although alienation of the sea bed in certain circumstances, as envisaged above, would be supported, judicious care would be necessary to avoid situations where protection of established public interests might be impacted such as fishing rights and public rights of navigation.

As indicated in the response to Q7 above agreement of Scottish Ministers may be appropriate where the area being sought for purchase is ‘sizeable’ and further discussions would be required to define sizeable and the criteria on which a definition would be based.

Q9: Do you have any other views on how the management of the Crown Estate in Scotland can ensure delivery of the duties in the Scotland Acts 1998 and 2016? (Please provide details in the space below)

Further devolution to local authorities, in line with the Smith Commission report, would ensure and enable delivery of the duties in the Scotland Acts 1998 and 2016. This would also provide wider community benefit as set out in the ESIC Prospectus.

Q10: How can transparency on the sale and management of the Crown Estate assets be enhanced? (Please provide details in the space below)

Further devolution to local authorities would achieve this as they are required to operate in an open, accountable and transparent manner. Local Authorities are a legitimate tier of government with a democratic mandate to represent their communities. Shetland Islands Council has a long experience of dealing with additional powers and responsibilities for wider community benefit through the Zetland County Council Act 1974 which provided the means to establish a community fund and invest in local infrastructure. This necessitated robust governance and financial management arrangements which can readily be transferred to devolution of other functions such as management of Crown Estate assets and the revenue generated from them.

Q11: How can the devolution of the management of the Crown Estate contribute to community empowerment? (Please provide details in the space below)

Devolution to local authorities would achieve this as they are subject to the Community Empowerment (Scotland) Act 2015, the Procurement Reform (Scotland) Act 2014 and the forthcoming socioeconomic duty within the Equality Act 2010. It is noted that the CESIM body is not subject to these Act provisions. Further devolution would also recognise the principle of subsidiarity and local decision making which the Scottish Government signified their support for at the Lerwick Declaration in June 2013.

It is also worth noting that the majority of respondents to the consultation on Provisions for a Future Islands Bill considered that Islands Councils do not currently have sufficient powers to deliver positive outcomes for communities. Many suggested that control of coastal waters and the sea bed should be passed to local authorities and any revenue accruing be reinvested locally for wider socio-economic benefit.

Q12: How can the devolution of the management of the Crown Estate contribute to land reform? (Please provide details in the space below)

Given that the purpose behind land reform is, *inter alia*, to increase transparency and boost community ownership devolution to Scotland and then to the local authorities will support this.

Q13: How can we further improve alignment with Scottish Ministers' objectives to deliver on the national outcomes? (Please provide details in the space below)

National outcomes are already embedded in local Community Plans, Local Outcomes Improvement Plans and Corporate Plans and as such provide the reassurance that these would be furthered through devolution of management of Crown assets to local authorities for wider community benefit.

It is encouraging to note that the consultation document acknowledges that robust management of Crown marine assets is important in the context of regional marine planning. Shetland has been leading the way in this field and was the first local authority to receive a direction from Ministers to develop a Regional Marine Plan. Local management of the sea bed will ensure that these Marine Plans are developed in a holistic way and can take better account of community aspirations with regard to marine developments.

Q14: Do you have any views on the proposed application of the above principles to guide the long term framework for managing Crown Estate assets?

YES	**X**
NO	□
Don't know	□

Comment:

The second principle is welcome as it recognises that one size does not fit all and would be appropriate in putting effective islands proofing into practice.

In contrast the third principle raises concerns through the references to 'value for money' and 'for Scotland as a whole'. The latter would suggest centralisation rather than decentralisation with no devolution of long term management beyond Edinburgh. This would be at odds with a community empowerment and socio-economic approach and could mean removal of revenue before it is passed onwards to the local level.

That arrangements should represent 'value for money' is somewhat incongruous as this implies that management continue for purely financial gain. It should perhaps be the case that arrangements represent 'best value' at the local level and, by association, at the national level. This would be easily achieved by devolution to local authorities as they must comply with the duty of Best Value placed upon them. The Best Value approach allows for wider socio-economic aspects to be taken into account in any decision making process and furthers community empowerment. Such an approach would be subject to scrutiny by Audit Scotland and ensure that arrangements are efficient, effective and sustainable.

Q15: Which of the three proposed options for managing Crown Estate assets in Scotland do you prefer?

Option 1 (national) □
Option 2 (local) □
Option 3 (hybrid) □
Don't know □
OTHER **X**

Q16: If OTHER what approach to management do you propose?

The Council proposes a hybrid of national (12 -200nm) and local (0 – 12nm) in respect of management of marine assets.

Shetland has the necessary skills and expertise to take on management functions of Crown Estate marine assets within territorial waters. Most local authorities already deal with land management issues of varying scale and some deal with marine issues through involvement with the aquaculture sector and marine planning as it comes on stream. The latter will become more relevant as Regional Marine Planning is rolled out across Scotland with local authorities being integral to this process. The outcomes of a pilot project on local management would address what skills base is required so that other local authorities can plan accordingly.

This option ensures full implementation of the Smith recommendations in regard to further devolution and allows for a case by case approach by referencing those areas 'wishing to take responsibility for management of Crown Estate assets' – this individual approach is not restricted to the 'hybrid' Option 3. The proposed option also allows for a degree of flexibility in that it is not a one size fits all option and additionally fits with the second principle in exploring decentralisation of management. As previously indicated it is not considered that devolution to local authorities will result in fragmentation and the Council would argue that Option 3 could result in the greatest level of fragmentation due to a much greater number of managing agents.

Q17: Should a geographic or a functional approach guide the reform of the management of the Crown Estate in Scotland?

Geographic **X**
Functional □
Don't know □
Other □ **Please Specify:**

A geographic approach provides for a better fit with marine planning. In most instances management would likely cover both functions – for example a single geographic local authority will be dealing with a single function such as marine assets and the same functionality applies irrespective of the type of development in terms of sea bed leasing.

Q18: Do you have a preference for management on a geographic basis being led by either local authorities or communities?
Local authorities X
Communities □
Don't know □

The Council does not see the necessity to draw a distinction between local authorities and communities. The purpose of the local authority is to represent and provide services to their communities – the SIC does not see the two as separate and onward devolution would involve engagement with communities and other stakeholders. Devolution to communities was not included in the Smith Commission recommendations.

Q19: Should Scottish Ministers have the power to hand responsibility for management of the estate, or parts of it, to a particular person or persons?
YES x
NO □
Don't know □

As recommended by the Smith Commission this should be to local authorities.

Q20: Should Scottish Ministers have a power to vary management arrangements held by other parties over time?
YES □
NO □
Don't know X

It is unclear as to why such a power is proposed and the reasons for it. Is it to maintain the estate as an estate in land or remove management responsibility from poor performers or some other reason? If a national framework is in place that sets out how managers should operate then such a power would be unnecessary. An analogous situation is that of the land based planning system.

Q21: Should Scottish Ministers have the power to extinguish rights currently held in the Crown Estate where management of the asset can be adequately covered by other legislation?
YES □
NO □
Don't know X

Again it is unclear what the thinking is behind this question and insufficient detail is available to answer this.

Q22: Do you have any views on which assets should be managed at the (i) national level (ii) by local authorities or (iii) by communities? (Please provide details in the space below)

Shetland Islands Council strongly advocate marine assets within territorial waters (out to 12 nm) being managed by local authorities, as set out in the Smith Commission recommendations, with national management in the 12 – 200nm zone. This mirrors the existing consenting regime for all marine developments around Shetland and for some developments elsewhere in Scotland (e.g. aquaculture) and would also enable a more holistic approach to regional marine planning. The means of achieving this have been clearly set out in the proposals for a pilot project to inform long term management submitted by SIC, OIC and CNeS.

Should Ministers undertake sea bed management for strategic national infrastructure in the 12 – 200 nm zone, as set out on page 33, would they also assume the responsibility for managing the total liabilities for these developments even where some part of the development crosses territorial waters?

The third paragraph on page 33 hints at splitting the Scottish portfolio into land and marine based assets although this does not come through elsewhere in the document. Is this approach being considered as the SIC has put this forward as part of the solution to long term management and further devolution in previous consultation responses?

It is unclear as to what conflicts of interest are being referenced within Box 10 (Furthe Devolution Opportunites) in respect of aquaculture under the 'functions that need more consideration' heading. This Council is not aware of any such conflicts of interest and all Councils are more than capable of dealing with such issues, perceived or real, should they arise through rigid governance processes.

Q23: Should local authorities or communities be expected to make a case for further devolution?

YES □
NO **X**
Don't know □

The case for further devolution to local authorities is clearly set out in the Smith Commission recommendations.

Q24: If YES, should they demonstrate the capability to ensure appropriate management, to maintain service delivery and to deliver increased benefits?

YES □
NO □
Don't know □

Q25: Replicating functions in each area is likely to lead to fragmentation of the estate which would pose significant risk to realisation of new revenue – how can these risks be avoided? (Please provide details in the space below)

A management system operating under a national framework would resolve/avoid the risks to realising revenue, whether existing or new. The land based planning system is an example of how this could be achieved through the setting of national charges for an activity thereby avoiding local 'issues'. It is also unclear from the document how replication of functions at a local level would result in fragmentation of the estate or result in a significant risk to revenue streams.

Q26: Should shared services be a requirement of devolution to the local level of decision-making on property, rights and interests of the Crown Estate? (Please provide details in the space below)

NO. It is not a requirement for other aspects of local authority work so why should it be for management of Crown Estate assets? Collaboration is to be encouraged not prescribed and occurs already albeit on a 'as required basis'.

Q27: What are the opportunities, if any, of further devolution? (Please provide details in the space below)

Shetland Islands Council consider that the opportunities of further devolution would be:

- Subsidiarity and local decision making
- Further community empowerment
- Streamlining of consenting regimes
- Achieving best value in the use of public resources
- Stimulating economic sustainability and revenue

Q28: What are the challenges, if any, of further devolution? (Please provide details in the space below)

Further devolution clearly brings challenges with it – witness the process of getting management of Scottish assets devolved to the Scottish Government. The main challenge at present is not being able to determine the level of liability that may arise on devolution to local level. However local authorities, as consenting bodies, already have a degree of liability imposed upon them and are more than capable of taking on such responsibilities.

Q29: Is there a need for strategic planning and a long term investment strategy, in order to co-ordinate work to enhance the value of the estate?
YES **X**
NO □
Don't know □

To some extent the majority of strategic planning and policy is in place to undertake management of Crown estate assets as set out in NPF, NMP, SPP etc. although these were not developed to enhance the value of the estate *per se*. However all consenting and managing authorities are required to take decisions in line with these strategic documents and this would apply to further devolution to the local level. These national framework documents provide the necessary co-ordination across Scotland to promote and support sustainable development of existing and new industries thereby enhancing the value of the estate.

Q30: Do you have any views on the value of a national framework to guide local decision-making? (Please provide details in the space below)

The Council's response to Q29 above suggests that a national framework already exists albeit spread across a number of separate documents. With regard to the suggestions that could be included in a national framework set out in the consultation document it is unclear as to the need for targets (penultimate bullet point). The establishment of targets could result in poor decision making occurring just to ensure the target is met.

It is assumed that the third paragraph on page 38 should read assets should be returned 'if they are not put…'. In regard to sea bed leases, Shetland Islands Council proposed that tying these directly in to the development consent, which requires commencement within a specified time period, would ensure return of the sea bed if development did not occur.

Q31: Should there be consistent charging approaches between areas to avoid competition between different parts of Scotland?
YES **X**
NO □
Don't know □

Discussions are required to determine the level of any charges and on what basis the charge should be levied for each sector or whether the same charge should apply to all sectors using the same asset. There is a need to ensure that no sector ends up worse than at present.

Q32: Are there any other issues that should be covered by a national framework for management of Crown Estate assets in Scotland? (Please provide details in the space below)

Q33: Should the future arrangements in Orkney, Shetland and the Western Isles be considered first?

YES X
NO □
Don't know □

The following is the Council's response to Q33 – 35 which appear to effectively be consulting on whether or not there should be a pilot scheme as proposed by SIC, Orkney Islands and the Western Isles:

The purpose of the proposed pilot is to try out one discrete legislative option and therefore inform the terms of the legislation and long term management of marine assets from an evidential base. It is therefore disappointing that Q35 invites comment on whether there is value in a pilot scheme. Similarly there appears to be a fundamental misunderstanding as to the nature of pilot arrangements in Q33 in regard to future arrangements in the 3 island's areas being considered first. The position has always been and remains that the "future arrangements" will be those outlined in the Act for any area which wishes to be involved in management in terms of the previous commitment to "full and faithful" implementation of the Smith Commission recommendations. Agreement and implementation of a pilot scheme does not amount to the "future arrangements for the 3 island's areas being considered first", nor should a pilot be seen as a phased approach to the introduction of reform as stated in Q34.

The Council does recognise that out with the 3 Island Authorities a phased approach to further devolution may be appropriate to enable those bodies who wish to take on this responsibility the time to prepare for doing so. Clearly the outcomes of a pilot would inform the decision making process for any such body.

Q34: Is a phased approach needed to introduce reforms to the management of Crown Estate assets across Scotland?

YES X
NO □
Don't know □

Q35: Is there value in a pilot scheme prior to implementing reforms?

YES X
NO □
Don't know □

Q36: How can people influence decisions in relation to the management of the Crown Estate assets? (Please provide details in the space below)

Devolution to local authorities will allow individuals and communities to influence decisions on management of assets through the democratic process and the rights within the Community Empowerment (Scotland) Act 2015. Linking the sea bed lease for marine developments with the consenting regime as advocated by the SIC will further this ability. To-date this has not been possible under the existing management regime operated by the CEC and it remains unclear how it will operate once transferred to CESIM.

Q37: How should the long term governance arrangements differ from the interim arrangements? (Please provide details in the space below)

The interim arrangements should not continue indefinitely and further devolution should occur as quickly as legislative processes allow so that full implementation of the Smith Commission is achieved. Long term governance needs to incorporate full community involvement which won't happen under the interim arrangements. A pilot scheme as proposed by the Councils in Shetland, Orkney and the Western Isles would inform long term governance arrangements.

Q38: Should the future framework include flexibility for Scottish Ministers to vary the proportion of revenue retained by the manager?

YES □
NO **x**
Don't know □

Question is somewhat ambiguous and a definitive answer would depend to some extent on the asset and who the manager is. Based on the requirement for further devolution (to local authorities) the answer is NO.

The Scottish Government has stated their intent to pass on the net revenue from assets to those areas where the revenue is generated. This intent is clearly stated in the *Empowering Scotland's Island Communities* Prospectus where it says: *"The marine assets of island communities are key to their future and the wealth that is generated should be reinvested to safeguard that future. The Scottish Government will therefore ensure that 100 per cent of the net income from the islands seabed is passed to island communities."* In the Lerwick Declaration of June 2013 the First Minister stated: "*It seems obvious that a government that believes in the people who live and work in Scotland running the country also believes in subsidiarity and local decision-making*."

It is also contended that the totality of the revenue going to local authorities following devolution would reflect the greater management burden. If this were to be top sliced in any form this would leave local authorities with a greater burden.

Q39: Should the arrangement where the capital value of one part of the estate can be used to enhance opportunities elsewhere in the estate be continued?
YES □
NO x
Don't know □

To-date management of the estate as a single entity has required any capital value to be re-invested back into that single estate. Devolution to Scotland means that any capital value from a Scottish asset will not be used to enhance any part of the rest of the UK estate. On this basis the same precedent should apply to capital value in different areas of Scotland. Thus marine capital in one area should not be invested in other marine areas or in management of land based assets. The whole question of whether cross-subsidy across the Scottish assets should continue requires addressing. It could be argued that if an asset continues to require subsidy it is not sustainable in itself and its only value is a paper one.

Q40: Should the current duty of maintaining the value of the estate and the return obtained from it be continued or amended for the investment of capital proceeds?
Continue □
Amend x
Don't know □

Q41: Should capital proceeds from a sale in one area be invested in the same area, or should there be discretion to invest anywhere in Scotland?
Invest in same area x
Discretion to invest anywhere □
Don't know □

Q42: Should it be possible for the capital or maintenance requirements for an individual asset to be funded from another part of the estate, even if management of the assets are devolved to the local level?
YES □
NO x
Don't know □

Q43: Should funding of strategic activities from Crown Estate resources continue?
YES x
NO □
Don't know □

The strategic activities funded to-date have been undertaken to further the profitability of some sectors to ensure a greater return to the Estate. As such it is unclear whether this could be considered strategic. It could be argued that national strategic activities, as with policy, should be driven and funded by the relevant Government departments of the development agencies that currently exist.

Q44: If YES, should these strategic activities be managed at the national level?
YES X
NO □
Don't know □

Also see answer above.

Q45: Should the person taking on the responsibility for management of an asset normally take on the responsibility for managing the associated liabilities?
YES x
NO □
Don't know □

There is a requirement to know exactly what the liabilities associated with any particular asset are – this has not been forthcoming to-date. Where the manager, such as a local authority, is also a consenting authority it will already have a liability risk against a development should the developer renege on any obligations set out in their consent for whatever reason.

Q46: Should the liabilities for land restoration and residual liabilities after decommissioning of marine infrastructure be managed:
Locally x
Nationally x
Don't know □

To some extent the response to this will be depend on the location of the infrastructure – beyond 12nm it should be managed nationally and within 12nm it would be locally managed (and in some instances there could be joint responsibility) to reflect the level of devolution. Something similar to s75 planning obligations could be introduced so that a developer accepts their responsibility up front.

Q47: Should the costs associated with management of liabilities be included in the overheads for estate management?
YES □
NO x
Don't know □

To do so could result in little cash left in the pot for passing onto the local level. It should be possible through discussion to develop a scheme, on a case by case basis if required, that assesses the risk for very large developments and come up with innovative solutions. An example of a similar scenario is that of the Total gas plant in Shetland where liabilities were huge in terms of potential environmental impact. Scottish Government were involved in developing imaginative ideas about spreading risk and the local authority was held harmless as a re-evaluation of risk was written in and the developer picked up liability.

Q48: Do you have any other views on the devolution of the management or revenue of the Crown Estate? (Please provide details in the space below)

A clear definition of what is meant by 'net revenue' would be helpful – this has not been clarified since it first appeared in the ESIC Prospectus. If net means net of admin costs, R&D investment, liability insurance, etc. there will be very little left to pass down to local authorities and their communities, particularly as the starting cash pot is not massive.

Q49: Please tell us about any potential costs or savings that may occur as a result of the proposals, and any increase or reduction in the burden of regulation for any sector. Please be as specific as possible. (Please provide details in the space below)

Linking the consenting regime to the sea bed lease at the local authority level will offer an effective streamlined 'one stop shop' approach to marine development with the following benefits:

Scottish Government:

- Better integration between national and regional planning arrangements and seabed leasing process;
- The stimuli for economic development;
- Optimal use of public assets;
- Subsidiarity.

Local Authority:

- Subsidiarity and decision making at local level;
- Harnessing new economic developments and sustaining a vibrant local economy;
- Achieving best value in the use of public resources;
- Maximising the income achievable from effective management of land and sea based resources with contribution to community wellbeing;
- Embracing the potential for community use of public assets as envisaged in the Community Empowerment (Scotland) Act 2015;
- Fair and comprehensive regulatory roles which cover the whole extent of the existing and potentially extended local government area, including territorial waters.

Communities:

All of the above; and

- The ability to see local planning and regulation for use of marine assets;
- The capacity to engage in such use;
- The right to be consulted on matters having effect on their localities and for Islands the means to challenge the use of the marine environment by early engagement in the grant or refusal of consents, licences and leases;
- The holding to account of those responsible for decisions taken at local level;

- Gaming the benefit from sound local decision making, seeking considered, sensitive outcomes focused on community benefit, including the realisation of a long held objective to share the wealth generated from local developments;
- Decisions taken with good local governance arrangements in an open transparent and accountable manner, potentially with rights of appeal, to Scottish Ministers, or the supervisory jurisdiction of the Courts.

Developers / Investors:
- A structured, speedy process for securing all consents, permissions and occupancy rights, ideally from a single authority operating a one-stop-shop approach.
- A comprehensive source of advice on existing/neighbouring land use both onshore and marine with contact names of a range of pre-application consultees who may be affected by local based developments
- A platform for local stakeholder engagement to win broad support for proposals and / or alleviate concerns
- Local revenues can be reinvested in initiatives to support the sustainable management of the seabed as an asset, such as regional marine planning. This investment could enhance the revenue derived by reducing conflicts with other users and maximising spatial opportunities for development.
- The relative certainty that on achieving appropriate permission that the ancillary components of the development will fall into place, enabling developers to give assurances to investors when establishing a business case for development.

Q50: Please tell us about any potential impacts, either positive or negative, you feel any of the proposals contained in this consultation may have on the environment. Please be as specific as possible. (Please provide details in the space below)

Consider that environmental impact associated with further devolution to local authorities will have no greater environmental risk than at present – indeed local management and control should enable greater environmental improvement.

Q51: Are there any likely impacts the proposals contained in this consultation may have on particular groups of people, with reference to the 'protected characteristics' listed above? Please be as specific as possible. (Please provide details in the space below)
None identified.

Q52: Please tell us about any potential impacts upon the privacy of individuals that may arise as a result of any of the proposals contained in this consultation. Please be as specific as possible. (Please provide details in the space below)

Shetland Islands Council	Agenda Item 6

Meeting(s):	Policy and Resources Committee Shetland Islands Council	7 March 2017 8 March 2017
Report Title:	Asset Investment Plan, Gateway Process – Business Cases	
Reference Number:	CPS-02-17-F	
Author / Job Title:	Robert Sinclair - Executive Manager Capital Programme	

1.0 Decisions / Action required:

1.1 That the Policy and Resources Committee RECOMMENDS that the Council resolves to approve the projects as described in Section 4.0 of this report for implementation.

2.0 High Level Summary:

2.1 This report presents two projects that have been considered by the Council's Asset Investment Group (AIG) based on the submission of Business Case documentation. The projects already sit provisionally within the Council's Asset Investment Plan (AIP) 2017-22, subject to Business Justification Cases being approved in line with the Council's Gateway Process for the Management of Capital Projects.

3.0 Corporate Priorities and Joint Working:

3.1 The Gateway Process contributes to maintaining a 5-year Asset Investment Plan that is financially sustainable. The projects and budgets proposed in this report will maintain existing services and assets and are therefore in line with the Council's Medium Term Financial Plan.

4.0 Key Issues:

4.1 On 29 June 2016 the Council adopted a new Gateway Process for the Management of Capital Projects, drawing on national and best practice guidance, to ensure the robustness of all capital projects.

4.2 This revised process is based on the process developed by the Office of Government Commerce (OGC) and is in common use throughout the public sector. It applies 'Prince 2' principles to the process and is aligned with the '5-Case Model' that has been promoted to both Officers and Members through recent 'Building Better Business Case' training. A key principle in that procedure is that the Council's AIP is re-prioritised on an annual basis, however Business Cases can be processed at any time. By approving a Full Business Case or Business Justification Case, Members are agreeing that the project should progress to the implementation stage, subject to being prioritised and included in the Council's Asset Investment Plan.

4.3 The Business Justification Case documents under consideration are attached as appendices to this report and are summarised below, along with any comments and/ or recommendations from the AIG.

4.3.1 Appendix A - Business Justification Case – Leirna Life Extension

4.3.1.1 Replating, inspection and repainting to hull

4.3.1.2 Renewal of electrical and hydraulic systems

4.3.1.3 £800k requested in 2017/18

4.3.1.4 Works planned to align with planned drydocking programme

4.3.2 Appendix B - Business Justification Case – Terminal Linkspans Life Extension

4.3.2.1 Replacement of Hydraulic and electrical systems

4.3.2.2 Inspection, repair and repainting of steelwork

4.3.2.3 £2m requested over period 2017-20. This is split as £600k in 2017/18, £700k in 2018/19 and £700k in 2019/20. Note: the 5-year AIP 2017-22 only provides for provisional funding of £1.55m over this period

4.3.2.4 Background information relating to this appendix has been provided in the Members room in Lystina.

4.4 Approval of the Business Justification Cases set out at 4.3.1 and 4.3.2 above constitutes a policy decision to progress to the implementation stage on the basis that these projects have been prioritised and provisionally included in the 5-year Asset Investment Plan for 2017-22 as approved by the Council on 15 February 2017.

5.0 Exempt and/or confidential information:

None.

6.0 Implications : *Identify any issues or aspects of the report that have implications under the following headings*

6.1 Service Users, Patients and Communities:	The projects referred to in this report are essential in order to maintain existing services to those communities served by the council's ferry fleet, in line with the legislative environment governing those activities.
6.2 Human Resources and Organisational Development:	None
6.3 Equality, Diversity and Human Rights:	None
6.4 Legal:	Governance and Law provide advice and assistance on the full range of Council services, duties and functions including those included in this report.

6.5 Finance:	6.5.1 The projects in this report have been assessed against the objectives of the Medium Term Financial Plan. 6.5.2 The total capital cost of the projects included in this report is £2.8m. 6.5.3 As referred to at 4.3.2.3 above, the funding requested for the Terminal Linkspans Life Extension exceeds the provisional budget in the currently approved AIP. The figure requested for 2017/18 is in line with the budget provisionally set for that year, but funding for years 2018/19 and 2019/20 will need to be addressed as part of the re-prioritisation of the 5-year Asset Investment Plan for 2018/19 and beyond. Any additional funding will have to be funded by the Harbour Account in future years.	
6.6 Assets and Property:	None	
6.7 ICT and new technologies:	None.	
6.8 Environmental:	None	
6.9 Risk Management:	The projects described in this report contribute to mitigating against the risks of service disruption, increased costs due to emergency dry docking and the implications of failing to maintain these assets in line with current legislation. As referred to in section 3 of Appendix B, the Council is not currently required to operate in accordance with Machinery Directive 2006/42/EC as there is no requirement to retrospectively apply this directive to the current linkspans. However, in the event of a linkspan failure, requiring major works, we would have to ensure that the works were compliant with the Directive.	
6.10 Policy and Delegated Authority:	Approval of the financial strategy and budget framework is a matter reserved for the Council.	
6.11 Previously considered by:	N/A	

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Appendices:
Appendix A - Business Justification Case: Leirna Life Extension
Appendix B - Business Justification Case: Terminal Linkspans Life Extension background information relating to this appendix has been provided in the Members room in Lystina)

Background Documents: None.

Project Title:

Leirna Life Extension

Business Justification Case

Version no: Draft 1.0

Issue date: 16/02/2017

VERSION HISTORY

Version	Date Issued	Brief Summary of Change	Owner's Name
Draft 1.0	16.02.17	First draft version	L. Coutts
Draft 1.1	28.02.17	Second Draft	C.Robertson

CONTENTS – BUSINESS JUSTIFCATION CASE

BUSINESS JUSTIFCATION CASE

1. Purpose

The purpose of this is to seek approval of Capital Funding of £800,000 (eight hundred thousand pounds) to allow for life extension of the Bressay ferry M.V. Leirna.

2. Strategic Context

M.V. Leirna is 24 years old, built in 1992 at Fersuson, Port Glasgow. M.V Leirna currently operates on Bressay Sound, providing a Ro-Ro vehicle and passenger service between Lerwick and Bressay.

M.V. Leirna has previously had the main engines replaced, 2013, however much of the rest of the vessel key components and equipment is nearing the end of its life expectancy, is no longer supported by the manufacturer (therefore it is difficult to source replacement parts or is obsolete).

It has been identified during routine maintenance works that steel frames and plating in both the Forward and Aft Ballast tanks require extensive and costly – due the works required and the nature of the steel repairs, this will also allow for shot blasting and re-coating of the Ballast tanks – this work has never previously been carried out and is long overdue.

Further Inspection of the steelwork throughout the rest vessel both internal and external is required, by way of shot blasting and removal of flooring and linings, to identify any further repairs that may be required.

This will result in the requirement to replace linings, finishing and seating in areas of the vessel.

Replace key component items with modern, readily available replacements for the aid of safe navigation and safety on board the vessel, which comply with current regulations.

3. Case for Change

A. Business needs

The objective of this project is to maintain the operation of M.V. Leirna, extend the life expectancy for the next 15 years, replace life expired and unsupported equipment, ensure continued compliance with the MCA regulations and Lloyds Classification , and improve the overall safety, reliability, and efficiency of the vessel.

All equipment must comply with MCA, Lloyds Register Classification Society and the Marine Equipment Directive 2014/90/EU

B. Benefits

The benefits would include continued operation of M.V. Leirna, without restriction to the service and inter-island ferry network as a whole for the next 15 years.

The ferry link between the Shetland Mainland and islands must be maintained for the Social and Economic well-being of the islands and mainland Shetland.

This would meet the objectives of the Corporate Plan:

"Provide quality transport services within Shetland"

"The transport services we provide are the lifeblood of these islands. They allow us all to go about our daily business and take part in community life."

"Lack of access contributes to people in remote areas feeling excluded from Shetland society."

C. Risks

The 'high level' risks, if this work is not completed, are the reduction and/or disruption in ferry service to the Islands of Shetland.

The substantial increase in costs and disruption, due to a need to carry out any of the above works under emergency dry docking - Ref Geira 2016

Failure to procure and secure the necessary replacement steel in early March 2017, could result in significant delays to the overall project

MCA can instruct work to be completed immediately following a routine visit during dry docking

4. Available Options

Option 1 - Do Nothing: Continue to operate vessel, risk of larger cost and emergency dry docking later on. MCA may instruct work to be completed. The Vessel could be tied up or restricted by the MCA during this time

Option 2 - Do Minimum: This would only put off the period in which work would have to be done to keep this vessel operational – Ref: Geira 2016

Option 3 - Life Extension: Continue with life extension programme for M.V. Leirna in order to keep her operating into the future.

Option 4 - New build / replacement vessel: This option would be very expensive and finance would have to be found from some source to fund this, it would take time to finalise a plan for a new vessel and put tenders out for a new build vessel, looking for a replacement vessel on the open market would also be expensive and finance sourced from somewhere to cover this cost and any modifications to suit infrastructure and operations.

5. Preferred Option

Option 3 - Life Extension

Preference of this option allows M.V. Leirna to remain operational for a longer time and to fit within the proposals set out in the current Shetland Inter Island Transport study documents.

Statutory and essential works to be completed:

1. Renew forward and aft ballast tanks hull plating and frames, including steel preparation and coatings.
2. Shot blast, inspect, repair and apply coatings to the steel plating and/or frames, casings inboard, bulwarks forward and aft, bridge deck and boat deck.
3. Upgrade/renew electrical systems on board.
4. Replace worn out galley linings, deck head panelling, appliances and fittings.
5. Renew galley floor coverings.
6. Renew passenger saloon deck head linings.
7. Renew passenger saloon flooring.
8. Renew Passenger saloon seating.
9. Vehicle loading ramp hydraulic ram replacement.
10. Vehicle loading ramp steelwork repairs.
11. Renew internal and external lighting with LED, including navigation lights.
12. Upgrade/renew navigation equipment.

6. Procurement Route

The works will be tendered as per the Councils contract standing orders with respect of The Public Contracts (Scotland) Regulations 2015 and Procurement Reform (Scotland) Act 2014.

7. Funding and Affordability

The Councils Capital Programme is the appropriate source of funding. The total estimated funding required is £800,000 (eight hundred thousand pounds) in financial year 2017/18.

8. Management Arrangements

The project will be project managed by Ferry Operations
Consultation will be conducted with vessel crews
All work done will be considered to minimise disruptions to ferry services.
Risk assessments and method statements will be required by contractors and accepted by Shetland Islands Council before work commences.

Project Title:

Terminal Linkspans Life Extension

Business Justification Case

Version no: Draft 1.0

Issue date: 25/01/2017

VERSION HISTORY

Version	**Date Issued**	**Brief Summary of Change**	**Owner's Name**
Draft 1.0	25.01.17	First draft version	L. Coutts
Draft 1.1	28.02.17	Second Draft	C.Robertson

CONTENTS – BUSINESS JUSTIFCATION CASE

BUSINESS JUSTIFCATION CASE

1. Purpose

The purpose of this is to seek approval of Capital Funding of £2,000,000 (two million pounds) to allow for life extension works to be completed on the Terminal Linkspans for the Inter Island Ferry Network.

2. Strategic Context

Shetland Islands council operate a fleet of 11 ferries, providing Ro-Ro vehicle, passenger and cargo operations between the Shetland Mainland, Unst, Fetlar, Yell, Whalsay, Skerries, Bressay, Fair Isle and Papa Stour.

At several of the ferry terminals, Shetland Island Council currently have a number of "Norwegian" style systems of drive on – drive off linkspans operated with hydraulics. The linkspan systems were first introduced in the 1970's and have been relatively unchanged in function since. Three new systems were introduced to the network in the early 2000's.

In addition, as part of the Shetland Island Transport Study research undertaken by an external maritime team has noted that the current 'Norwegian' system of drive through ferries and automated locking type linkspans (on the main routes) represents Global best practice and should be continued and should continue to be developed where possible.

In that appraisal, it is therefore assumed that, where this operating system is currently in place, it will be carried forward for the next 30 years and no other alternative system is considered.

With this in mind, in 2016 the terminal linkspans and hydraulics had a full conditional survey inspection by Ocean Kinetics and John Henderson UK Ltd, respectively. The purpose of these inspections is to identify the current condition and to identify any works required to maintain the linkspans in a serviceable and safe condition for the next 30 years.

A summary of the findings are as follows:

Over recent years the steelwork and paintwork have deteriorated. The hydraulics associated electrical systems and ship to shore telemetry systems are outdated technology and are no longer fully compliant with new current regulations.

The linkspans will require to be removed from service to allow for a thorough inspection, repair and new coatings applied to extend the life of the steel structure and components of the linkspan. This will also allow for a new coating system to be applied to the linkspan deck plates, appropriate to the number of vehicles traveling over the linkspan and to minimise future maintenance requirements.

The hydraulic systems require to be replaced to ensure compliance with current legislation. Stand-by generators with auto start and change over facilities are required to be introduced at each of the sites, where there is currently no stand-by generator, to improve redundancy at each terminal and to minimise the requirement of ferry crew to disembark the vessel in a breakdown situation to start the stand-by engines for the hydraulic pumps.

Current ship to shore telemetry systems have been in place for several years but no longer are compliant with current regulations, replacing the equipment is the only method to ensure compliance with the new regulations and to ensure the longevity and reliability of the linkspans.

As well as the proposed works there is also an opportunity to change all lubricants used at all linkspans to environmentally acceptable, biodegradable fluids. This change in fluids can also result in cost savings, subject to proper maintenance, as there will not be a need to change the fluid for the life of the machinery.

3. Case for Change

A. Business needs

The objective of this project is to maintain the operation of the linkspans, extend the life expectancy for the next 30 years, ensure compliance with current regulations, and improve the overall safety, reliability and environmental risks associated with the current linkspan systems.

All equipment must comply with Machinery Directive 2006/42/EC

"Manufacturers of new machinery (and other products in scope) to be placed onto the European-wide market of the European Economic Area (EEA) must design, construct and supply safe products that comply with Machinery Directive 2006/42/EC. **It also applies to those who modify existing machinery to such an extent it must be considered a new machine**

Do to the level of refurbishment works and replacement parts to extend the lifespan to 30 years, each linkspan would be considered as a new machine.

http://www.hse.gov.uk

B. Benefits

The benefits would include, the life extension of a key component of the inter-island ferry system, continued operation and reliability of the linkspans, without restriction to the inter-island ferry network, compliance with current regulations, and improved safety for crew members and reduction of environmental risks.

The ferry link between the Shetland Mainland and islands must be maintained for the Social and Economic well-being of the islands and mainland Shetland.

This would meet the objectives of the Corporate Plan:

"Provide quality transport services within Shetland"

"The transport services we provide are the lifeblood of these islands. They allow us all to go about our daily business and take part in community life."

"Lack of access contributes to people in remote areas feeling excluded from Shetland society."

C. Risks

The 'high level' risks, if this work is not planned and completed in a timely manner, there significant risks to the daily operation of the ferry service to the Islands of Shetland or prolonged suspension of service due to a complete failure of a linkspan. There are also limited or no other means of access to the islands for the provision of a Ro-Ro vehicle service.

The costs associated with "Emergency" works would far outweigh the costs of properly planned and procured "goods and services"

We are currently not operating in accordance with Machinery Directive 2006/42/EC – there is no requirement to retrospectively apply this directive to the current linkspans. We will have to comply with the Directive if any major works are carried out due to a linkspan failure

Failure to comply with Machinery Directive 2006/42/EC when carrying out major repair works, may compromise our insurance cover Shetland Islands Council may be liable in the event of accident or incident.

4. Available Options

Option 1 - Do Nothing: There is a significant risk of a complete failure of a linkspan. Resulting in substantial delays to the ferry operations

Option 2 - Do Minimum: This option would require work to be completed to become compliant with regulations. This would cover replacing the ship to shore telemetry system, the non-compliant elements of the hydraulics system and any other essential elements identified in the survey reports. The work required by the 'do minimum' option is not hugely different to the life extension work and has the potential to cause as much disruption to the ferry service.

Option 3 - Life Extension: Replace telemetry systems and hydraulics with compliant systems. Remove linkspans for thorough inspection and repair and also replace coating system, whilst utilising spare linkspan(s) to minimise disruptions to the ferry service. Change oils to environmentally acceptable / biodegradable type. This option also encompasses elements of the 'do minimum' option as terminals/linkspans at Symbister, Laxo and Vidlin are due to be replaced/upgraded under plans already underway through the Shetland Inter Island Transport study and Asset Investment plan; if this is delayed further work will be required at these locations.

Option 4 - New build linkspan/terminal: This option would be very expensive and untimely, this would not allow for the immediate requirement of compliance with regulations. Finance would have to be sought to fund this option. It would take time to finalise a plan for a new terminal/linkspan.

5. Preferred Option

Option 3 - Life Extension

This option allows the most thorough and comprehensive inspection of the linkspan steel and any remedial repairs in the most acceptable environment, including the replacement of coatings in the prescribed conditions set out in manufacturers guidelines. We will be extending the life of the assets, alongside planned preventative maintenance and regular checks, for a further 30 years.
This option also ensures compliance with current regulations, regards the hydraulics and telemetry systems.
All machinery lubricants will be changed to environmentally acceptable / biodegradable products, significantly reducing the risk to the environment.

6. Procurement Route

As the work required consists of two elements, the linkspan steelwork and hydraulics/telemetry systems. The work will be tendered as per the Councils contract standing orders with respect of The Public Contracts (Scotland) Regulations 2015 and Procurement Reform (Scotland) Act 2014.

7. Funding and Affordability

The Councils Capital Programme is the appropriate source of funding. The total estimated funding required is £2,000,000 (two million pounds) profiled as follows:

- 2017-18 £600,000
- 2018-19 £700,000
- 2019-20 £700,000

8. Management Arrangements

The project will be project managed by Ferry Operations
Initial site surveys have been completed.
After each stage of the project, ie work at each site, a review will be conducted to evaluate progress.
Consultation will be conducted with relevant stakeholders/communities/departments to raise awareness of disruption and alternative arrangements where required.
All work done will be considered to minimise disruptions to ferry services.
Risk assessments and method statements will be required by contractors and accepted by Shetland Islands Council before work commences.

9. Appendices

This report needs to be read in conjunction with the attached conditional survey reports

Shetland Islands Council

Agenda Item

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Meeting(s):	Policy & Resources Committee Shetland Islands Council	7 March 2017 8 March 2017
Report Title:	SIC Overall Management Accounts 2016/17 Projected Outturn at Quarter 3	
Reference Number:	F-028-F	
Author / Job Title:	Jonathan Belford Executive Manager - Finance	

1.0 Decisions / Action required:

1.1 The Policy & Resources Committee RECOMMENDS that the Council RESOLVE to review the Management Accounts showing the projected outturn position at quarter 3.

2.0 High Level Summary:

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

2.2 The revenue outturn position for the combined General Fund (including Spend to Save), Harbour Account and Housing Revenue Account is projected to be under budget by £5.254m, of which £1.457m has been classified as recurring savings (Appendix 1).

2.3 The capital outturn position for the combined General Fund (including Spend to Save), Harbour Account and Housing Revenue Account is projected to be under budget by £8.754m, of which, £8.335m has been identified as being required in future years to deliver projects (Appendix 2).

2.4 From the cost pressures and contingency items budget, £1.529m has been applied to meet projected overspends in directorates (Appendix 3).

2.5 The projected draw from reserves of £9.534m is sustainable (equates to a daily draw on reserves of £26k). This is a decrease of £7.266m against the revised budget of £16.800m (Appendix 4).

2.6 Appendices 1-4 set out this information in detail.

3.0 Corporate Priorities and Joint Working:

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

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

4.0 Key Issues:

4.1 At quarter 3 the revenue projections suggest that the Council will be within budget at the year-end by £5.254m and capital by £8.754m. Services are expecting to spend less than they had estimated in the second quarter where the projected under spend overall was estimated at £2.556m less than budget on revenue and £6.889m on capital.

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

5.0 Exempt and/or confidential information:

5.1 None.

6.0 Implications :

6.1 Service Users, Patients and Communities:	There are no implications arising from this report.
6.2 Human Resources and Organisational Development:	There are no implications arising from this report.
6.3 Equality, Diversity and Human Rights:	There are no implications arising from this report.
6.4 Legal:	There are no implications arising from this report.
6.5 Finance:	Overall the Council is projected to be within the budget set for 2016/17. The draw on reserves remains affordable.
6.6 Assets and Property:	There are no implications arising from this report.
6.7 ICT and new technologies:	There are no implications arising from this report.
6.8 Environmental:	There are no implications arising from this report.
6.9 Risk Management:	There are numerous risks involved in the delivery of services and the awareness of these risks is critical to successful

	financial management. From a financial perspective, risks are an integral part of planning for the future, as assumptions are required to be made. These assumptions can be affected by many internal and external factors, such as supply and demand, which may have a detrimental financial impact. The main variable assumptions are around anticipated income levels, returns on investments and cost pressures and demands. This report is part of the framework that provides assurance, or recognition of any deviation from the budget that may place the Council in a financially challenging position and requires remedial action. The Council makes provision within its budget for cost pressures that may arise. This approach provides additional confidence for the Council to be able to mitigate any adverse financial circumstances.	
6.10 **Policy and Delegated Authority:**	Section 2.1.2(3) of the Council's Scheme of Administration and Delegations states that the Committee may exercise and perform all powers and duties of the Council in relation to any function, matter, service or undertaking delegated to it by the Council. The Council approved both revenue and capital budgets for the 2016/17 financial year. The Policy & Resources Committee has delegated authority for securing the co-ordination, control and proper management of the financial affairs of the Council, and has referred authority to make recommendations to the Council as to the level of any expenditure not provided for in the annual budgets.	
6.11 **Previously considered by:**	Not Applicable	

Contact Details:
Hazel Tait, Team Leader Accountancy, Hazel.Tait@Shetland.gov,uk, 22 November 2016

Appendices:
Appendix 1 - Overall SIC Projected Revenue Outturn Position for 2016/17
Appendix 2 - Overall SIC Projected Capital Outturn Position for 2016/17
Appendix 3 - Contingency and Cost Pressure Budget 2016/17
Appendix 4 - Use of Reserves 2016/17

Background Documents:
SIC Budget Book 2016-17, SIC 10 February 2016
http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=18870

1. Revenue - Projected Outturn Position for 2016-17

Budget v Projected Outturn Variance Qtr 2 £000	General/Support/Recharged	2016/17 Revised Budget Qtr 3 £000	2016/17 Projected Outturn Qtr 3 £000	2016/17 Projected Variance Qtr 3 £000
15	Chief Executive	1,756	1,740	17
0	Children's Services	39,530	39,363	167
284	Community Care	18,584	18,142	442
6	Corporate Services	7,229	7,015	215
284	Development	14,710	14,080	631
9	Infrastructure	19,900	19,858	43
(67)	Fund Managers Fees	875	910	(36)
(17)	Energy	2,440	2,449	(10)
(3)	Water	223	219	4
91	Building Maintenance	2,023	2,022	2
0	Grass Cutting	146	146	0
38	Fleet Management Unit	752	703	49
0	Insurance	879	879	0
0	Training	656	611	45
0	Office Building Charge	2,003	2,003	0
2,159	Contingencies & Cost Pressures	3,406	1,405	2,001
0	Economic Development Investment Income	(800)	(800)	0
0	Interest on Revenue Balances	(26)	(26)	0
500	Spend to Save (Unallocated)	1,000	100	900
0	Net Recharges to Other Fund	(1,723)	(1,723)	0
3,298	**Total Net Expenditure/(Income)**	**113,564**	**109,095**	**4,469**
	Funded by:			
	Government Grants	(82,639)	(82,639)	0
	Council Tax	(8,505)	(8,505)	0
(3,298)	Contribution from General Fund Reserve	(22,420)	(17,951)	(4,469)
(3,298)	**Total Funding/Contribution**	**(113,564)**	**(109,095)**	**(4,469)**
0	**Balanced Budget**	**0**	**0**	**0**

1. Revenue - Projected Outturn Position for 2016/17

Budget v Projected Outturn Variance Qtr 2 £000	Harbour Account	2016/17 Revised Budget Qtr 3 £000	2016/17 Projected Outturn Qtr 3 £000	2016/17 Projected Variance Qtr 3 £000
(214)	Sullom Voe	(8,948)	(8,208)	(739)
(158)	Scalloway	145	247	(102)
61	Other Piers	527	381	147
505	Terminals	(2,055)	(2,433)	378
194	**Total Net Expenditure/(Income)**	**(10,330)**	**(10,013)**	**(317)**
(143)	Shetland Gas Plant	(693)	(753)	60
(143)	**Other Income**	**(693)**	**(753)**	**60**
(51)	Contribution to Reserve Fund	11,024	10,766	258
(51)	**Total Contribution**	**11,024**	**10,766**	**258**
0	**Balanced Budget**	**0**	**0**	**0**

Budget v Projected Outturn Variance Qtr 2 2016-17 £000	Housing Revenue Account	2016/17 Revised Budget Qtr 3 2016-17 £000	2016/17 Projected Outturn Qtr 3 2016-17 £000	2016/17 Projected Variance Qtr 3 2016-17 £000
688	Expenditure	6,042	4,873	1,169
3	Income	(6,946)	(6,819)	(127)
691	**Total Net Expenditure/(Income)**	**(904)**	**(1,946)**	**1,042**
(691)	Contribution to HRA R&R Fund	904	1,946	(1,042)
(691)	**Total Contribution**	**904**	**1,946**	**(1,042)**
0	**Balanced Budget**	**0**	**0**	**0**

2. Capital - Projected Outturn Position for 2016-17

Budget v Projected Outturn Variance Qtr 2 £000	Service Area	2016/17 Revised Budget Qtr 3 £000	2016/17 Projected Outturn Qtr 3 £000	2016/17 Projected Variance Qtr 3 £000	Slippage Required in Qtr 3 £000	Overall Projected Outturn Variance Qtr 3 £000
3,761	Children's Services	15,052	11,088	3,963	3,969	(6)
1,843	Community Care	3,322	1,516	1,806	1,923	(117)
575	Corporate Services	2,858	2,283	575	575	0
154	Development (GF)	225	107	118	94	24
556	Infrastructure (including Harbour Account)	9,337	7,146	2,191	1,674	517
0	Development (HRA)	2,573	2,473	100	100	0
6,889	**Total Costs**	**33,367**	**24,613**	**8,754**	**8,335**	**418**
	Funded by:					
0	General Capital Grant	(5,753)	(5,753)	0	0	0
0	Capital Grants Unapplied (General Fund)	(8)	(8)	0	0	0
(20)	External Grants	(767)	(729)	(38)	0	(38)
(5,257)	External Borrowing	(14,362)	(9,242)	(5,121)	(5,892)	772
115	Spend to Save Reserve	(383)	(715)	333	(305)	638
(160)	Council Tax Second Homes Reserve	(160)	(66)	(94)	(94)	0
(1,110)	Capital Fund Reserve	(3,838)	(2,233)	(1,605)	(478)	(1,127)
0	Capital Receipts Reserve (General Fund)	(1,443)	(1,443)	0	0	0
0	General Fund Capital Receipts	(350)	(371)	21	0	21
0	CFCR (General Fund)	(688)	(466)	(222)	0	(222)
0	Capital Energy Efficiency Fund	(34)	(34)	0	0	0
0	Capital Receipts Reserve (HRA)	(118)	(118)	0	0	0
0	Other Government Grants (HRA)	(160)	(160)	0	0	0
698	Capital Receipts (HRA)	(612)	(1,615)	1,003	0	1,003
(698)	CFCR (HRA)	(1,682)	(580)	(1,103)	(100)	(1,003)
0	Capital Receipts Reserve (Harbour Account)	(323)	323	(646)	0	(646)
2	Capital Receipts (Harbour)	0	0	0	0	0
(439)	CFCR (Harbour Account)	(2,665)	(1,384)	(1,281)	(1,466)	185
(20)	Harbour Account External Grants	(20)	(20)	0	0	0
(6,889)	**Total Funding & Financing**	**(33,367)**	**(24,613)**	**(8,754)**	**(8,335)**	**(418)**
0	**Balanced Budget**	**0**	**0**	**0**	**0**	**0**

3. Cost Pressure and Contingency Budget for 2016/17

Service Area	2016/17 Original Budget 2016/17 Qtr 3 £000	2016/17 Budget Allocated 2016/17 Qtr 3 £000	2016/17 Revised Budget 2016/17 Qtr 3 £000
Cost Pressures:			
Living Wage	74	115	-41
Holiday Pay	300	111	189
Sleep-Over Payments/Teacher Pay Award	365	340	25
Health & Social Care Integration	15	0	15
Free School Meals	32	0	32
Free Nursery Meals	13	0	13
Fee Paid Carers	94	0	94
Kinship Allowances	31	0	31
Windybrae	88	88	0
External Audit Fees	20	0	20
Air/Bus/School Transport Inflation	81	0	81
TOTAL COST PRESSURES:	**1,113**	**654**	**459**
Contingency:			
Off-Island Placements (Comm Care / Child Svs)	1,052	498	554
Children's Resources	292	60	232
Schools/Quality Improvement	354	0	354
Supply Teachers / Reliefs in Schools	258	0	258
Disabled Adaptions	250	0	250
Ferry Vessel & Other Fuel	274	0	274
Ferry Staff Shortages	210	0	210
Ferry Staff Revalidation Cover	115	0	115
Infrastructure Equipment Failure	350	250	100
Winter Maintenance	110	0	110
Bitument Supplies	102	0	102
Extreme Weather Events	100	0	100
CIPFA Trainee Programme	70	0	70
Valuation Joint Board	50	0	50
Funding for Change	500	20	480
External Recruitment for Senior Officers	124	47	77
Payroll Officer	27	0	27
Homeless Accommodation Costs Inflation	60	0	60
Foula Ferry Contract Increase	60	0	60
Reduction based on risk of events occurring (41%)	**-1793**	**0**	**-1,793**
TOTAL CONTINGENCIES:	**2,565**	**875**	**1,690**

TOTAL COST PRESSURES AND CONTINGENCIES	**3,678**	**1,529**	**2,149**
Borrowing Support Costs (AHS funded centrally)	1,256	0	1,256
OVERALL TOTAL	**4,934**	**1,529**	**3,405**

4. Use of Reserves for 2016/17
(included General Fund/Harbour Account/Housing Revenue Account/Spend to Save reserves)

2016/17 Total Draw 2016/17 Qtr 2 £000	Service Area	2016/17 Revenue Draw 2016/17 Qtr 3 £000	2016/17 Capital Draw 2016/17 Qtr 3 £000	2016/17 Total Draw 2016/17 Qtr 3 £000	2016/17 Daily Draw 2016/17 Qtr 3 £000
8,105	**Original Budgeted Draw on Reserves**	**7,954**	**151**	**8,105**	**22**
8,110	Carry forwards from 2015/16	2,339	5,771	8,110	
200	Additional Budget - Scalloway Fishmarket	200	0	200	
574	Revisions to Funding of the Capital Programme	0	385	385	
16,989	**Revised Budgeted Draw on Reserves**	**10,493**	**6307**	**16,800**	**46**
11,794	Projected Outturn Draw on Reserves	5,239	4,295	9,534	26
5,195	**Projected Variance on Draw on Reserves**	**5,254**	**2,012**	**7,266**	**20**

Shetland Islands Council

Agenda Item

8

Meeting(s):	Harbour Board Policy and Resources Shetland Islands Council	6 March 2017 7 March 2017 8 March 2017
Report Title:	Fresh/Caught Shellfish Landing Dues 2017/18	
Reference Number:	PH-04-17F	
Author / Job Title:	John Smith, Acting Executive Manager Ports & Harbours Jonathan Belford, Executive Manager - Finance	

1.0 Decisions / Action required:

1.1 That the Harbour Board:

1.1.1 consider the arrangements for live caught shellfish landing charges detailed in Appendix 1 and RECOMMEND its preferred approach to Policy Resources Committee and Council to set the charges for 2017/18.

1.1.2 RECOMMEND removal of the Live Fish/Fish Feed x 40 trip charges to provide clarity for aquaculture vessel charging as set out in 2.4.

2.0 High Level Summary:

2.1 A number of recent attempts have been made to design and implement satisfactory arrangements for declarations and charges relating to live caught shellfish landed at Council piers.

2.2 Considerable consultation has been carried out with the industry but none of the previous charging structures have proved effective for information gathering or income collection.

2.3 This is an unsatisfactory situation as income which the Council is entitled to may not be fully recovered and spending decisions relating to the maintenance and investment in marine infrastructure may be very difficult to evaluate on an objective basis.

2.4 In addition, clarification was sought at the Harbour Board meeting on the 10th February 2017 (min. ref. 01/17) about the difference between live fish carrier charges and aquaculture vessel charges. This will be addressed by removing the Live Fish/Fish Feed x 40 trip charges and will be covered under the charges for Aquaculture Vessels in the 2017/18 table of dues.

3.0 Corporate Priorities and Joint Working:

3.1 Shetland is a group of islands and Our Plan identifies transport links to and from, and within, the islands as our life blood. Shetland's Ports and Harbours are the conduit for much of that activity. People, products, goods and supplies go in and out of Shetland and move around the islands by sea. If we do not have the right Ports & Harbours infrastructure in place that cannot happen and new business opportunities and wealth creation cannot take place.

3.2 If we are to enjoy a strong economy with well-paid jobs we have to make sure that we have the Port infrastructure required to support key business sectors, especially those depending on the utilisation of local resources, meet individual and business needs and deliver economic growth.

4.0 Key Issues:

4.1 Appendix 1 to this report sets out the proposals which have emerged from the latest discussions held with industry representatives at the request of the Harbour Board before setting the 2017/18 dues.

4.2 The Harbour Board is asked to consider which way forward is preferred and what level of charge is deemed appropriate to be recommended for approval.

5.0 Exempt and/or confidential information:

None

6.0 Implications :	
6.1 **Service Users, Patients and Communities:**	Considerable consultation has been carried out with the industry but none of the schemes set out in recent Table of Dues have proved effective for information gathering or income collection.
6.2 **Human Resources and Organisational Development:**	None
6.3 **Equality, Diversity and Human Rights:**	None
6.4 **Legal:**	Harbour charges are levied by the Council under the provisions of the 1964 Harbour Act. Failure to pay the relevant charges is an offence with a range of provisions for resolution.
6.5 **Finance:**	The Council's approved Charging Framework states that the Council has a central objective to deliver Best Value services to the Shetland community. A key element of this is that the Council should set equitable prices for chargeable services, which support the Council and service priorities, whilst promoting social inclusion. The charges set for 2015/16 for caught shellfish were: £0.025 per £1.00 value ad valorem; or fishing vessels less than 15gt engaged in inshore fishing will be required to purchase a Landing Disc for 6 or 12 months as below: (a) 6 month disc (April to Sept) £76.88 (b) 12 month disc (April to March) £140.27 If no landing disc purchased in advance of landings, ad valorem rate will apply. It is estimated that £2m of caught shellfish was landed at Council piers in 2015/16 and that the value of landings in 2016/17 are even higher. This should have resulted in income of up to £50k for landing fees reduced by the number of boats under 15gt who purchased landing discs. The income received for shellfish landings in 2015/16 was £3k at Scalloway and £2k at all other Council piers and no discs were purchased. The charges set for 2016/17 for caught shellfish are: £0.025 per £1.00 value ad valorem; or fishing vessels less than 5gt engaged in inshore fishing will be required to purchase a Landing Disc for 6 or 12 months, as below: (a) 6 month disc (April to Sept) £79.19

	(b) 12 month disc (April to March) £144.48 To date landing fees of £16k have been received in Scalloway and £2k at all other Council piers, and 9 landing discs have been purchased for £1.3k in 2016/17. Proposal 1 in Appendix 1 would set the charge for 2017/18 in the range of 1% to 2.5% of caught shellfish landings at Council piers would result in income of £20k to £50k per annum. Proposal 2 in Appendix 1 would set the charge for 2017/18 of a flat fee in the range of £150 to £250 per annum per shellfish boat using Council piers would result in income of £7,500 to £12,500 per annum. Full details of the background financial information and levels of charging are included in Appendix 1 at section 5 for consideration.
6.6 **Assets and Property:**	No direct issues however landing information and income from usage charges forms part of the business case for maintenance and investment in port infrastructure.
6.7 **ICT and new technologies:**	
6.8 **Environmental:**	
6.9 **Risk Management:**	The Port Marine Safety Code requires that all marine risks are formally assessed and are eliminated or reduced to as low as reasonably practicable in accordance with good practice.
6.10 **Policy and Delegated Authority:**	The Harbour Board has delegated authority under section 2.7.3 of the Council's Scheme of Administration and Delegations to consider all development proposals and changes of service level within the harbour undertaking, including dues and charges, and make appropriate recommendation to Policy and Resources Committee and the Council. Approval of the revenue budget requires a decision of the Council, in terms of Section 2.1.3 of the Council's Scheme of Delegations.
6.11 **Previously considered by:**	The 2017-18 Budget & Charging Proposals for the Harbour was considered by: Harbour Board - 10 February 2017 – Min. Ref. 01/17; and through the Shetland Islands Council's Budget Book 2017/18 presented to: Policy and Resources Committee - 13 February 2017 – Min. Ref. 07/17 and Shetland Islands Council - 15 February 2017 – Min. Ref. 07/17.

Contact Details: John Smith, Acting Executive Manager – Ports & Harbours, jrsmith@shetland.gov.uk

Appendices:
Appendix 1 – Live Caught Shellfish Landing Charges 2017/18

Background Documents:

Caught Shellfish Landing Charges **20th Feb 2017**

1. Introduction

A number of recent attempts have been made to design and implement satisfactory arrangements for declarations and charges relating to caught shellfish landed at Council piers.

Considerable consultation has been carried out with the industry but none of the charging schemes in recent Tables of Dues have proved effective for information gathering or income collection.

When considering the most recent proposals for 2017/18 dues, the Harbour Board asked that further discussions were held with the industry to seek further information and consult further on their proposals on the most effective way forward.

2. Background

Arrangements for the operation of piers and harbours include charges levied on users in various forms for their use of facilities and services. In the main these are commercial arrangements for the provision of non statutory services and are at the discretion of the Harbour operator.

Charges are subject to regular review and there is an obligation on the Council, as a harbour operator, to consult with harbour users where representations about the nature and level of charges applied in the various sectors are made and proposals discussed.

In most areas of operation and for most sectors the charges are complied with and collected in line with their structure.

The collection of charges for caught shellfish have proved problematical for Shetland Islands Council for a number of years. Fundamentally this would seem to have stemmed from reluctance by shell fishermen to make the arrangements necessary to comply with the collection of those charges.

The reasons for this compliance difficulty offered by the industry have included:

- their level being felt unfair when compared with other sectors e.g. whitefish boats enjoy better services, fish market etc, aquaculture charges are at a lower % level of market value than for caught shellfish;
- a flat rate charge is not fair between shell fishermen as this does not reflect the differences between individual boats income levels;
- a banded charge is not being fair between shell fishermen as banding levels on vessel size do not always reflect a boat's income;
- a token level annual landing charge is not worth paying as the total income generated is insufficient;
- landing level related charges should not be levied as the cost and complexity of collection is not worthwhile for the income that would be obtained; and

- it is not fair of the Council to expect fishermen to declare landings and therefore acknowledge liability to charges on an “honesty” basis as this allows some fishermen to avoid paying by not declaring all of their landings.

3. Overall Council Charging Policy Framework

All charges levied by the Council must comply with the requirements of the Council's 2016 Charging Framework, That Framework says the following principles apply to the setting of fees and charges by the Council:

3.1 All services must adhere to this framework and the principles outlined here, any exceptions must have Council approval.

3.2 The Council’s charging framework is designed to create a consistent approach to charging across the Council and each Director is responsible for ensuring its application.

3.3 Fees and charges can have a positive impact on service delivery and therefore should not automatically be considered detrimental or controversial.

3.4 The reason for levying a charge and the basis on which the charge will be levied should be transparent and must be considered against the Council’s objectives. Charges should first and foremost be in accordance with legislative or regulatory requirements and be set to deliver policy objectives. Where appropriate it may also be used as a means to generate income.

The Council's main objectives in terms of principle 3.4 above, are for charges to help identify usage and generate reasonable income for the provision of a non-statutory service.

Without reliable information on landings it is very difficult to be clear about the need for services and to evaluate either Council or wider benefits of the business case for any proposed investment.

4. Proposals

The Council has recently tried charging schemes based on landing values, the “ad-valorem” approach and schemes based on a flat fee, the “landing disc” and combinations of the two, so far none of these arrangements have worked very well.

Any further proposals will still have to be constructed around one of these approaches. The opportunity for a more effective outcome from any future arrangement will be a combination of industry acceptance and the Council’s appetite for the enforcement of any regime.

Two alternatives have emerged from analysis of data and consultation with the industry. Both allow for discounts from standard charges for the Shetland inshore shellfish fleet.

Charges applied to larger offshore shellfish fishing vessels are levied at 2.5% of the value of landings. Landings by these vessels appear to be declared consistently and all charges collected via agents.

The two main proposals which have been discussed with industry representatives are:

Proposal 1 - Caught Shellfish - discounted ad valorem rate. Vessels under 15 metres who undertake to provide weekly details of the weight/value of their caught shellfish landings directly to the Council, including place of landing, or who provide the Council with authorisation to access their landing information from the relevant agent /buyer will qualify for a reduced ad valorem rate.	Range discussed between 1% to 2% - Standard rate 2.5%
Proposal 2 – Caught Shellfish - discounted annual landing charge. Vessels under 15 metres can qualify for a discounted annual charge to cover all caught shellfish landings at Council piers on application.	Range discussed between £150 - £250 per vessel.

Proposal 1 would associate charges with the value of activity, it would require some administrative effort by all parties but would generate information on landings at individual Council piers.

Industry representatives are of the opinion that charging 2.5% of value is “unfair” to shell fishermen when compared with other sectors and indicated that acceptance and compliance would be better if the level of charge was lower.

Proposal 2 would be the same charge for all vessels regardless of size or amount of landings; this would be administratively simple but not would generate any information on landings at individual Council piers.

Industry representatives believe a flat rate charge at a low level would now be complied with by all vessels and would at least represent progress on the acceptance of some charge being applied for the use of landing facilities. This flat rate charge at a low level was their preferred arrangement.

5. Financial Information

5.1 £3.84 million of caught Shellfish were landed in Shetland in 2015, it is estimated that the value of landings in 2016 have been somewhat higher.

5.2 Those landings are split between Council piers (50%), Lerwick Harbour (25%) and other community and private piers (25%).

5.3 That would indicate an estimated value of some £2 million of caught shellfish landed at Council piers in 2015.

(Figures from Shetland Fisheries Statistics 2015 and Marine Management Organisation - Monthly Sea Fisheries Statistics.)

5.4 A little over 100 vessels have SSMO shellfish licences. It is estimated half of these are active and land at Council piers in any year, approximately 50 vessels.

5.5 Earnings of individual vessels are not generally available but it is estimated that the best performing inshore shellfish vessels gross around £250,000 per annum.

5.6 In 2015/16 an annual “landing disc” scheme covering all landings was available to all vessels under 15 gross tonnes at a cost of £140 per annum, vessels without an annual disc were expected to pay 2.5% ad valorem charges.

Total 2015/16 caught shellfish landing income was £5k - no boats bought landing discs.

5.7 In 2016/17 The “landing disc” scheme was only available to boats under 5 gross tonnes, again at a cost of £145 per annum. Vessels without an annual disc were expected to pay 2.5% ad valorem charges.

Total 2016/17 caught shellfish landing income so far is £16k – 9 boats have bought landing discs resulting in income of £1.3k.

5.8 In relation to Proposal 1:

2.5% of estimated caught shellfish landings at Council piers would result in approximately £50,000 of charges if fully collected;

2% of estimated caught shellfish landings at Council piers would result in approximately £40,000 of charges if fully collected: and

1% of estimated caught shellfish landings at Council piers would result in approximately £20,000 of charges if fully collected.

5.9 In relation to Proposal 2:

A flat fee of £250 per annum for each shellfish boat using any Council pier would result in approximately £12,500 of charges if fully collected;

A flat fee of £200 per annum for each shellfish boat using any Council pier would result in approximately £10,000 of charges if fully collected; and

A flat fee of £150 per annum for each shellfish boat using any Council pier would result in approximately £7,500 of charges if fully collected.

6. Further Background Information

6.1 Council landing charges for other sectors.

Fresh Fish/ Caught Fish – No Change Proposed – level of dues considered in detail as part of the Scalloway Fishmarket business case and found to be in line with other ports landing costs. Landings for this sector are declared and paid in a satisfactory manner, typically through agents.

Farmed Fish / Farmed Shellfish – Inflation only increase proposed for this year. Charges for both industries will be re-evaluated in detail as the Strategic Outline Cases for the piers and harbours most used by these sectors are done during 2017/18.

Charges for non declared landings – A table of rates for landings across all seafood sectors which have not been declared based on estimated volumes and values and the application of a higher rate (approximately double standard rate).

6.2 Other sources of Shellfish landing data

Commercial shellfish landings are highly regulated at both national and local level. All commercial fishermen, including shell fishermen have to complete weekly “Fish1” forms which include species, volume and place of landing for Marine Scotland / Marine Management Agency which are then cross referenced to returns made by agents and fish buyers.

That data is eventually published in aggregated form by Marine Scotland with a several month time lag, the published aggregate data does identify place of landing but does not identify individual vessels. Marine Scotland say they are unable to supply that data to the Council at a more detailed level due to data protection.

Shetland Shellfish Management Organisation also gathers returns data from their members which includes place of landing and volume. That data is not published and returns are thought to be patchy.

Agents and Buyers hold information on landings and values for their vessels but cannot supply that data to the Council without the permission of individual vessels owners.

The Council has recently overhauled its arrangements for the local collection of data by pier assistants which will provide more detailed information on vessels general usage of piers but cannot always be precise about landing volumes.

Efforts continue to combine these various sources of data to best effect. This will mean the Council is much better placed to pursue estimated landings going forward than it has been previously and therefore be more proactive around charging.

6.3 Charges for Shellfish landed in Shetland at non Council piers;

A 2.5% value charge is charged at Lerwick Harbour for caught shellfish and would appear to be generally complied with. Landings on LPA piers are declared on behalf of vessels by their agents and payments made accordingly.

Landings of caught shellfish are also made at various community and private piers and marinas such as Lerwick Marina, Skeld, Voe, Ronas Voe, Bridge End, Aiths Voe and Hamnavoe, Eshaness. The basis of any charging for these landings is a matter for the individual pier/ marina owner and is not known.

6.4 Charges for Shellfish landed in other Scottish Ports;

Aberdeenshire Council, Moray Council, Fife Council, Highland Council, Argyle and Bute Council and Western Isles Council all charge ad valorem dues for caught shellfish of between 1.5% and 4%, as do the ports of Scrabster, Fraserburgh and Peterhead. These dues are collected direct, through boats agents or through buyers.

Orkney Islands Council currently levies no landing charges for caught shellfish, whitefish, farmed salmon or farmed shellfish.

....Ends

John Smith
Acting Executive Manager Ports & Harbours
Shetland Islands Council

20th February 2017

Shetland Islands Council

Agenda Item

9

Meeting(s):	Shetland Islands Council	8 March 2017
Report Title:	Corrections to Ferry Operations Income Charges 2017/18	
Reference Number:	F-037-F	
Author / Job Title:	Jonathan Belford, Executive Manager - Finance	

1.0 Decisions / Action required:

1.1 That the Council RESOLVES to approve the corrections to the Ferry Operations income charges for 2017-18 which are detailed on Appendix 1 under column headed ‘Revised 2017/18 Charge (VAT Exclusive)’.

2.0 High Level Summary:

2.1 The Ferry Operations income charges for 2017-18 were approved as part of the 2017/18 Budget and Charging Proposals – Environment & Transport Committee, 7 February 2017 (Min.Ref.06/17).

2.2 Following approval of the Income Charges, it was subsequently notified by the Executive Manager – Ferry Operations that several of the Ferry Operations Income Charges which had been provided were incorrect. These charges included VAT when the charges should have been presented exclusive of VAT.

2.3 Appendix 1 of this report details the amended Ferry Operations Income Charges that are affected by the error, to show these exclusive of VAT.

2.4 In addition to the VAT error detailed at section 2.2, it was notified by the Executive Manager – Transport Planning that 2 further charges were incorrect.

2.5 As part of the Inter Islands Ferry Fares Review, the following was approved by Shetland Islands Council, 30 June 2015 (Min Ref: SIC-43/15).

2.5.1 the fare for a standard vehicle journey to Fair Isle or Foula is reduced from £25.30 each way to £6.80 each way (zero rated VAT), in line with prices in Skerries and Papa Stour.

2.5.2 the fare for a commercial vehicle journey to Fair Isle or Foula is reduced from £100 each way to £13.80 (inclusive of VAT) each way, in line with prices in Skerries and Papa Stour.

2.6 Although these charges were detailed correctly on the 2016/17 Ferry Operations Income Charges which were part of the 2016/17 Budget and Charging Proposals, proposed at the Environment & Transport Committee, 24 November 2015 and approved as part of the Shetland Islands Council Budget Book 2016/17 by

	Council,10 February 2016, they were not adjusted in the ferry ticketing machines and have therefore not been implemented in practice. These charges were not adjusted on the ferry ticketing machines due to an administrative error. 2.7 It was subsequently identified that the information provided for these 2 charges to be included in the 2017/18 Income Charges was incorrect. Appendix 1 of this report details the correct charges which include an increase in the fare (with effect from 1 April 2017), which was applied across all the ferry charges for 2017/18.
3.0 Corporate Priorities and Joint Working:	
	3.1 There is a specific objective in the Corporate Plan that the Council will have excellent financial management arrangements to ensure that it continues to keep a balanced and sustainable budget, and is living within its means; and that the Council continues to pursue a range of measures which will enable effective and successful management of its finances over the medium to long term. This involves correct alignment of the Council's resources with its priorities and expected outcomes, and maintaining a strong and resilient balance sheet.
4.0 Key Issues:	
	4.1 On 15 February 2017 the Shetland Islands Council approved the 2017-18 charging proposals (Min.Ref.07/17). 4.2 The charges detailed in section 2.5 were changed when the Council considered the Ferry Fares Review in 2015 on the basis that ferry fares to the Outer Islands should be uniform across these islands. 4.3 Unless the Income Charges are corrected, this would result in users of the Ferry Service paying a higher charge than the increase intended across all the ferry charges.
5.0 Exempt and/or confidential information:	
	5.1 None
6.0 Implications :	
6.1 **Service Users, Patients and Communities:**	Unless the Income Charges are corrected, this will result in users of the Ferry Service paying a higher ferry fare. Due to the error as detailed at section 2.6, the users of these ferry services have paid a higher ferry fare than the fares which were approved by Council and implemented from 30 June 2015. The Council is unable to identify individual customers that may have paid the incorrect (higher) charge since 30 June 2015. Any customer that has evidence that they have been over charged should contact the Ferry Operations service on 01595 744208.
6.2 **Human Resources**	None arising from this report.

and Organisational Development:	
6.3 **Equality, Diversity and Human Rights:**	None arising from this report.
6.4 **Legal:**	Due to the error as detailed at section 2.6, users of the ferry service who have been incorrectly charged may have a legal entitlement to reclaim any overpayments.
6.5 **Finance:**	There are no financial implications arising from the VAT error as the 2017/18 budget was set using the ferry fare charge exclusive of VAT. Due to the error as detailed at section 2.6, there may be a requirement to refund ferry users who have overpaid. The estimated total overpayment is £2k.
6.6 **Assets and Property:**	None arising from this report.
6.7 **ICT and new technologies:**	None arising from this report.
6.8 **Environmental:**	None arising from this report.
6.9 **Risk Management:**	There is a risk that if the Income Charges are not corrected, this could result in usage levels reducing which could impact on the 2017/18 budget.
6.10 **Policy and Delegated Authority:**	The decision required in this report may only be determined by the Council, in accordance with Section 2.1.3 of the Council's Scheme of Administration and Delegations.
6.11 **Previously considered by:**	The 2017-18 Budget & Charging Proposals for Environment and Transport Committee was considered by: Environment and Transport Committee – 7 February 2017 – Min.Ref.06/17; and through the Shetland Islands Council's Budget Book 2017/18 presented to: Policy and Resources Committee – 13 February 2017 – Min.Ref.07/17 and Shetland Islands Council – 15 February 2017 – Min.Ref.07/17.

Contact Details:
Kara Collins, Senior Assistant Accountant, 744609, kara.collins@shetland.gov.uk, 27 February 2017

Appendices:
Appendix 1 – Corrections to 2017/18 Ferry Operations Income Charges

Background Documents:
2017-18 Budget & Charging Proposals, Environment & Transport Committee, 7 February 2017
http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=20447

SIC Budget Book 2017/18, SIC 15 February 2017 –
http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=20520

SIC Budget Book 2017/18, Policy & Resources Committee, 13 February –
http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=20507

Directorate	Service	Director or Executive Manager	Activity	Charge	2017/18 Charge (VAT Inclusive) £	REVISED 2017/18 Charge (VAT Exclusive) £
Infrastructure	Ferry Operations	Craig Robertson	**Return Fare Mainland to Bressay/Whalsay/Yell, Yell to Unst/Fetlar**	Commercial Vehicles & Driver (incl. coaches without passengers) 5.01m - 8.00m	28.50	**23.75**
Infrastructure	Ferry Operations	Craig Robertson		Commercial Vehicles & Driver (incl. coaches without passengers) 8.01m - 12.00m	54.50	**45.42**
Infrastructure	Ferry Operations	Craig Robertson		Commercial Vehicles & Driver (incl. coaches without passengers) 12.01m - 18.00m	76.30	**63.58**
Infrastructure	Ferry Operations	Craig Robertson		Commercial Vehicles & Driver (incl. coaches without passengers) 18.00m plus - prior arrangement only	222.40	**185.33**
Infrastructure	Ferry Operations	Craig Robertson		Commercial Vehicles & Driver - If a load is wider than 2.6m	222.50	**185.33**
Infrastructure	Ferry Operations	Craig Robertson		Tankers - up to 7.50m	51.30	**42.75**
Infrastructure	Ferry Operations	Craig Robertson		Tankers - 7.51m - 10.00m	93.10	**77.58**
Infrastructure	Ferry Operations	Craig Robertson		Tankers - 10.01m - 16.00m	121.60	**101.33**
Infrastructure	Ferry Operations	Craig Robertson		Plant - up to 7.50m	72.60	**60.50**
Infrastructure	Ferry Operations	Craig Robertson		Plant - 7.51m - 10.00m	129.80	**108.17**
Infrastructure	Ferry Operations	Craig Robertson		Plant - 10.01m - 16.00m	177.50	**147.92**
Infrastructure	Ferry Operations	Craig Robertson	**Single Fare Mainland to Skerries/ Papa Stour, Skerries/Papa Stour to Mainland**	Commercial Vehicles & Driver (incl. coaches without passengers) - 5.01m - 8.00m	14.20	**11.83**
Infrastructure	Ferry Operations	Craig Robertson		Commercial Vehicles & Driver (incl. coaches without passengers) - 8.01m - 12.00m	27.30	**22.75**
Infrastructure	Ferry Operations	Craig Robertson		Commercial Vehicles & Driver (incl. coaches without passengers) - 12.01m - 18.00m	38.10	**31.75**
Infrastructure	Ferry Operations	Craig Robertson		Commercial Vehicles & Driver (incl. coaches without passengers) - 18.00m plus - prior arrangement only	111.30	**92.75**
Infrastructure	Ferry Operations	Craig Robertson		Tankers - up to 7.50m	25.60	**21.33**
Infrastructure	Ferry Operations	Craig Robertson		Tankers - 7.51m - 10.00m	46.50	**38.75**
Infrastructure	Ferry Operations	Craig Robertson		Tankers - 10.01m - 16.00m	60.70	**50.58**
Infrastructure	Ferry Operations	Craig Robertson		Plant - up to 7.50m	36.30	**30.25**
Infrastructure	Ferry Operations	Craig Robertson		Plant - 7.51m - 10.00m	65.00	**54.17**

Infrastructure	Ferry Operations	Craig Robertson		Plant - 10.01m - 16.00m	88.80	**74.00**

Directorate	Service	Director or Executive Manager	Activity	Charge	2017/18 Charge (VAT Exclusive) £	REVISED 2017/18 Charge (VAT Exclusive) £
Infrastructure	Ferry Operations	Craig Robertson	**Single Fare Mainland to Fair Isle/Foula, Foula/Fair Isle to Mainland**	Cars & Other Vehicles & Driver - Single (per cars & other vehicles not exceeding 5.5m in length)	25.90	**7.00**
Infrastructure	Ferry Operations	Craig Robertson		Commercial Vehicles & Driver (incl. Coaches without passengers) Fair Isle CV (Single)	89.70	**11.83**

Shetland Islands Council

Agenda Item

10

Meeting(s):	Policy and Resources Committee Shetland Islands Council	7 March 2017 8 March 2017
Report Title:	Annual Investment and Treasury Strategy for 2017/18	
Reference Number:	F-032-F	
Author / Job Title:	Report Presented by Executive Manager - Finance	

1.0 Decisions / Action required:

1.1 The purpose of this report is to propose an Annual Investment and Treasury Strategy for the Council for the financial year 2017/18.

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

a) Approve the Annual Investment Strategy Statement to be followed for the financial year 2017/18, as set out in Appendix 1 section 2.

b) Approve the Treasury Management Strategy to be followed for the financial year 2017/18, as set out in Appendix 1 section 3.

c) Review the Borrowing Policy to be followed for the financial year 2017/18, as set out in Appendix 1 section 4.

d) Approve the Treasury Management Prudential Indicators for 2016/17 to 2019/20, as set out in Appendix 1 section 5.

e) Review the four clauses within the CIPFA Code of Practice as set out in Appendix 1 section 6.

f) Review the Treasury Management Policy Statement as set out in Appendix 1 section 7, and

g) Review the Statement of Treasury Management Practices as set out in Appendix 1 section 8.

2.0 High Level Summary:

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

2.2 One of the reporting requirements of the consent is to produce an Annual

Investment Strategy Statement. The annual investment strategy is designed to give an integrated local authority strategy within which both its borrowing and investments are considered. As such the Scottish Ministers recommended that there be a single strategy covering capital, treasury management, the setting of prudential indicators and the requirements of the investment regulations and consent. This strategy is in Appendix 1 at sections 2, 3, 4 and 5.

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

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

2.5 In line with this principle, the CIPFA Code recommends the adoption of the CIPFA Code itself, adopted by the Council on 21 March 2012 (Min Ref 25/12), along with:

- an annual review of the four clauses within the CIPFA Code, that are seen as essential for the effective management and control of treasury management activities

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

- and a Treasury Management Practices Statement, which covers twelve specific areas that are relevant to the scope and powers of treasury management activities. They define and set out the general approach to be followed in treasury management.

The schedules complying with the clauses and the statements are covered in Appendix 1 to this report at sections 6, 7 and 8.

3.0 Corporate Priorities and Joint Working:

3.1 The Council's overall investment strategy is important to the Council's Investments, which play a key role in helping the Council deliver its corporate objectives, as described in the Community Plan, the Corporate Plan and other strategic documents.

4.0 Key Issues:

4.1 This report includes at Appendix 1 the Annual Investment and Treasury Strategy for the Shetland Islands Council to be followed for the financial year 2017/18.

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

4.3 The CIPFA Code also suggests that the Council should review its approved

	clauses, its Treasury Management Policy Statement and its Treasury Management Practices Statement which are included in Appendix 1.
5.0	**Exempt and/or confidential information:**
5.1	*None*

6.0 Implications :	
6.1 **Service Users, Patients and Communities:**	*None*
6.2 **Human Resources and Organisational Development:**	*None*
6.3 **Equality, Diversity and Human Rights:**	*None*
6.4 **Legal:**	As required by the consent issued by the Scottish Ministers under the Local Government Investments (Scotland) Regulations 2010 the investment strategy should be approved by the local authority (i.e. full Council or Board).
6.5 **Finance:**	It is recognised that the actual investment performance each year will be different to what is expected or required however over the long term this will be monitored and reviewed to ensure that the Council is working towards meeting its long term objectives. It is not likely that the Council can expect a positive investment return from its investments every year but having robust governance and monitoring in place mitigates the financial risks and enables the Council to take action at appropriate times to address poor performance by the fund managers. This report is part of that governance and monitoring framework, and compliments the reporting requirements of the CIPFA Code of Treasury Management that requires a Mid Year Review report and an Annual Year End Performance Review Report.
6.6 **Assets and Property:**	Long term investments are assets of the Council and represent money given to fund managers to manage on its behalf for long term benefit. The Council relies upon each fund manager's fiduciary duty and to buy and sell appropriate assets in accordance with the mandate awarded to them and to report regularly on the value and performance of the fund in which Council money is invested. The value of long term investments under these mandates can go down as well as up.

6.7 **ICT and new technologies:**	*None*
6.8 **Environmental:**	Whilst the fund managers have delegated powers for the acquisition and realisation of investments, fund managers will be expected as part of their investment process to consider all factors, including the social, environmental and ethical policies of companies in which they may invest, to the extent that these may materially affect the long term prospects of such companies. The fund managers will also be expected to enter into dialogue with companies in which they invest, in relation to the pursuance of socially responsible business practices, and report on these activities. Corporate Governance is a key responsibility for institutional shareholders and as a matter of principle the Council will seek to exercise all of its voting rights in respect of its shareholdings. It is recognised however that in practical terms this may not always be possible for overseas holdings. However for UK stocks all voting rights will be exercised in a positive fashion, i.e. no abstentions. The fund managers, who will act in accordance with this policy, will exercise voting. All of the Council Fund Managers have signed up to the United Nations Principles on Responsible Investment. The principles reflect the view that environmental, social and corporate governance (ESG) issues can affect the performance of investment portfolios, and therefore must be given appropriate consideration by investors, if they are to fulfil their fiduciary (or equivalent) duty. The Principles provide a voluntary framework by which all investors can incorporate ESG issues into their decision-making and ownership practices, and so better align their objectives with those of society at large.
6.9 **Risk Management:**	The annual investment strategy employed by the Council will impact on the long-term projected investment returns of the Council's reserves, and have consequences for the daily operating cash capabilities of the Council. All investments carry some degree of investment risk but these risks are actively managed and minimised through diversification of fund managers, assets, benchmarks, markets, size of holdings etc.
6.10 **Policy and Delegated Authority:**	In accordance with Section 2.2.1(7) of the Council's Scheme of Administration and Delegations, the Policy and Resources Committee has delegated authority to secure the coordination, control and proper management of the financial affairs of the

	Council. The Annual Investment Strategy is a specific plan contained within the Council's Policy Framework set out in the Council's constitution (Part A – 3(2)) to be prepared and performance managed by the Policy and Resources Committee. Approving, adapting or amending any plan within the policy framework is reserved to the Council (Part A – 3(1)), taking advice from the Policy and Resources Committee, in accordance with Section 2.2.1 of the Council's Scheme of Administration and Delegations.	
6.11 Previously considered by:	*None*	

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Appendices:
Appendix 1 - Annual Investment and Treasury Strategy for 2017/18

Background Documents:
None

Shetland Islands Council

Annual Investment & Treasury Strategy

2017-18

Securing the best for Shetland

Contents

Introduction

Regulatory requirements

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

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

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

Investment and Treasury Management Strategies

1.04 The Council adopted a strategic 5-year Investment Strategy for the Council's reserves in June 2013. This annual report compliments that overarching strategy and sets out the Council's approach during 2017-18 that will contribute towards the overall 5 year strategy.

1.05 In addition, this report sets out the wider Treasury Management Strategy for 2017-18 which also includes the management of cash and borrowing. The parameters around the Council's borrowing activity are set out in the Borrowing Policy and the Prudential Indicators sections of this report.

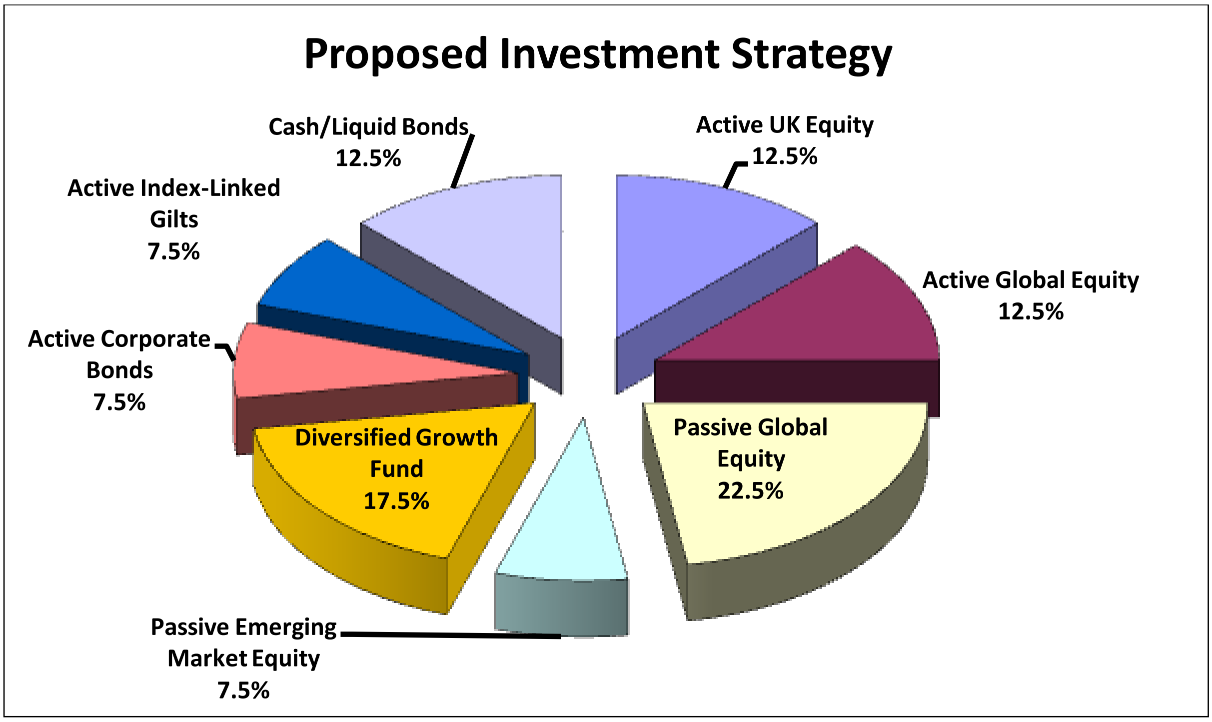
Annual Investment Strategy Statement 2017-18

Long-Term Investments

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

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

2.03 The Investment Strategy continues to follow the asset allocation agreed in June 2013, with the following asset allocation:



2.04 The percentages above are the initial benchmark percentages agreed after the reorganisation in October 2013. Throughout 2016/17 these percentages varied depending on withdrawals, market movements and investment returns. These fluctuations are expected over the short term.

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

2.06 In addition, it should be noted that the cash/liquid bond allocation was designed as the asset class that would be targeted for withdrawals when cash was needed to meet current council expenditure. This is because it is guaranteed not to lose its capital value, thus eradicating the risk of incurring losses when selling investments to meet current expenditure needs. This asset allocation has shrunk as an overall percentage of the portfolio over the past few years, and during 2016/17 the cash/liquid bond came to an end.

2.07 Investment consultants KPMG have been approached to conduct a new investment strategy review. Given that it is almost 4 years since the last strategy review KPMG were asked to review the current strategy and propose any required changes to ensure the investment strategy remains fit for purpose over the next few years. It is envisaged that the investment review and any required changes will be concluded during 2017/18.

2.08 The current percentage of funds under management for each fund manager at 31 December 2016 was:

General Fund	**%**
Active UK Equities – Baillie Gifford	13.7
Active Global Equities – Baillie Gifford	16.3
Passive Emerging Market Equities – BlackRock	9.4
Passive Global Equities - BlackRock	28.7
Diversified Growth Fund – Baillie Gifford	19.3
Active Bonds – Insight	12.6
TOTAL	100

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

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

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

- The loan will generate the Council a rate of return at least equal to the 20 year average fund manager investment returns (net of fees and inflation) in which the Council currently invests. and
- Due diligence work has been undertaken to ensure that any loan granted is at an acceptable risk level to the Council.

2.12 The proposed investment strategy for 2017-18 proposes to continue to adhere to the principles of the Medium Term Financial Plan, with a minimum interest rate set at 5.2% for the forthcoming financial year, which is equal to the 20 year average fund manager returns (net of fees and inflation).

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

Short-Term Investments

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

Permitted Investments

2.15 Every mandate the Council awards to a fund manager is finalised by both the Council and the fund manager entering into an Investment Management Agreement. This agreement covers all aspects of the mandate, including the type of investments to be held and the minimum and maximum investment levels allowed. Any breach of these set levels must be reported immediately by the fund manager and rectified as soon as practical. No rebasing of the asset class allocation split shall take place during 2017/18 unless with the approval of the Council.

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

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

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

Responsible Investment

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

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

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

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

Risk Management

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

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

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

Credit Risk

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

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

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

2.27 In addition the following guidelines will apply:

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

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

2.28 At the 31 December 2016 the Council had deposits and short-term loans with the Council's own bank, amounting to £5.9 million. The Council's exposure to credit risk on these current deposits is very low based on the last five financial year's experience, where no default or loss has occurred.

Liquidity Risk

2.29 The authority has external investments with fund managers amounting to £317 million at the 31 December 2016. The authority has ready access to these funds, so there is no significant risk that it will be unable to meet its daily operating commitments.

Market Risk

2.30 The authority is exposed to significant risk in terms of its exposure to cash interest rates, the bond market and the equity markets. Movements in interest rates, bond values and share prices have a complex impact on the authority's investments. To limit the effect of these movements the investment portfolio is diversified to reduce exposure to any one market. The investment portfolio at the 31 December 2016 was diversified between the following main markets:

UK Equities

Overseas Equities

Index Linked Gilts

Corporate Bonds

Cash

The Diversified Growth Fund with Baillie Gifford was invested in 15 different asset classes at 31 December 2016.

2.31 The largest investment is in the Equity markets, about 68% of the Council's Reserves.

Foreign Exchange Risk

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

Treasury Management Strategy 2017-18

Treasury Management

3.01 Treasury Management is defined as the management of an organisation's investments, cash flows, banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

3.02 The Treasury Management Strategy details the activities and guidelines to be followed by the Treasury Section for all areas of cash management in the forthcoming financial year 2017/18. Its production and submission to the Shetland Islands Council is a requirement of the CIPFA Code of Practice for Treasury Management in the Public services.

Cash and Bank

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

3.04 The Treasury Section of Finance Services seeks to retain a daily working cash balance in order to ensure that there is sufficient cash available to meet all liabilities as they fall due. The balances on the Council's current account earn an annual return currently 0.20%, and as such it is important to ensure that no excess balances are held in the Council's current account as the returns are far lower than those that can be earned with fund managers.

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

Debt Management

3.06 Debt Management is also carried out within the Treasury Section, and this will be undertaken in line with the Borrowing Policy as set out in section 4, and the Prudential Indictors as set out in Section 5 of this report.

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

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

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

Shetland Islands Council Borrowing Policy

Treasury Management

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

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

Internal Borrowing versus External Borrowing

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

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

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

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

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

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

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

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

The Cost of Borrowing

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

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

Shetland Islands Council Borrowing Policy

The Council's borrowing policy will be as follows:

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

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

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

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

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

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

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

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

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

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

Treasury Management Prudential Indicators 2016/17 to 2019/20

Prudential Framework

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

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

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

- Affordability
- Prudence
- Sustainability

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

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

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

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

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

Prudential Indicators

5.08 It is proposed that the Prudential Indicators for Shetland Islands Council for 2016-17 to 2019-20 should be as follows:

1. Ratio of Financing Costs to Net Revenue Stream

Definition

General Fund - The proportion of the General Fund income from the Council's General Revenue Grant (including NNDR), Council Tax income and sustainable contribution from Reserves and Harbour Account to fund the debt financing costs (interest and principal repayments) of the planned capital expenditure programme.

Housing Revenue Account - The proportion of income to the HRA (substantially housing rents) to fund the debt financing costs (interest and principal repayments) of the planned capital expenditure programme.

Harbour Account - The proportion of Harbour Account income (mainly fees & charges) reduced by the planned sustainable contribution to underpin General Fund services, to fund the debt financing costs (interest and principal repayments) of the planned capital expenditure programme.

Ratio of Financing Costs to Net Revenue Stream					
	2015/16 Actual	**2016/17 Estimate**	**2017/18 Estimate**	**2018/19 Estimate**	**2019/20 Estimate**
General Fund	1.3%	1.9%	2.1%	2.2%	2.3%
HRA	25.4%	23.5%	24%	23.8%	23.9%
Harbour Account	0%	0%	0.4%	0.4%	0.4%

2. Capital Expenditure

Definition
Actual capital expenditure for 2015/16 and estimated capital expenditure for the current year and the next three years, as set out in the Council's Asset Investment Plan 2017-22.

Capital Expenditure					
	2015/16 Actual £000	**2016/17 Estimate £000**	**2017/18 Estimate £000**	**2018/19 Estimate £000**	**2019/20 Estimate £000**
General Fund	12,570	27,786	9,097	9,215	11,804
HRA	1,558	2,573	2,913	2,883	2,869
Harbour Account	317	3,008	3,521	2,404	4,690
Total	**14,445**	**33,367**	**15,531**	**14,502**	**19,363**

3. Gross Borrowing and the Capital Financing Requirement

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

Capital Financing Requirement					
	2015/16 Actual £000	**2016/17 Estimate £000**	**2017/18 Estimate £000**	**2018/19 Estimate £000**	**2019/20 Estimate £000**
General Fund	12,665	26,131	27,335	26,805	25,833
HRA	13,828	12,742	11,656	10,570	9,484
Harbour Account	15	13	944	1,328	1,279
Total	**26,508**	**38,886**	**39,935**	**38,703**	**36,596**

4. Authorised Limit for External Debt

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

Authorised Limit for External Debt					
	2015/16	**2016/17**	**2017/18**	**2018/19**	**2019/20**
	£000	**£000**	**£000**	**£000**	**£000**
Operational Boundary	24,051	36,481	36,744	36,162	33,934
10% Margin	2,405	3,648	3,674	3,616	3,393
Total	**26,456**	**40,129**	**40,418**	**39,778**	**37,328**

5. Operational Boundary for External Debt

Definition

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

Operational Boundary for External Debt					
	2015/16	**2016/17**	**2017/18**	**2018/19**	**2019/20**
	£000	**£000**	**£000**	**£000**	**£000**
Borrowing	18,051	30,574	30,937	30,460	28,345
Other Long Term Liabilities	6,000	5,906	5,807	5,702	5,590
Total	**24,051**	**36,481**	**36,744**	**36,162**	**33,934**

6. Actual External Debt at 31 March 2016

Definition

The actual external debt taken from the Balance Sheet as at 31st March 2016.

Actual External Debt	
	31 March 2016
	£000
Borrowing	31,110
Other Long Term Liabilities	5,906
Total	**37,016**

7. Upper limit on Interest Rate Exposures

Definition

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

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

	2015/16 Estimate £'000	2016/17 Indicative £'000	2017/18 Indicative £'000	2018/19 Indicative £'000	2019/20 Indicative £'000
Fixed interest rate exposures	100%	100%	100%	100%	100%
Variable interest rate exposures	40%	40%	40%	40%	40%

8. Maturity Structure of Borrowing

Definition

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

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

CIPFA Code of Practice

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

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

Clauses

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

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

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

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

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

Treasury Management Policy Statement

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

7.02 The Shetland Islands Council defines its treasury activities as:

> "The management of the authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".

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

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

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

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

Statement of Treasury Management Practices

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

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

TMP1 Treasury Risk Management

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

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

1. Credit and Counterparty Risk Management

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

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

2. Liquidity Risk Management

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

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

3. Interest Rate Risk Management

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

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

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

4. Exchange Rate Risk Management

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

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

5. Legal and Regulatory Risk Management

The risk that the Council itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the Council suffers losses accordingly.

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

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

6. Fraud, Error and Corruption and Contingency Management

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

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

7. Market Risk Management

The risk that, through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.

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

TMP2 Performance Measurement

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

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

TMP3 Decision-Making and Analysis

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

TMP4 Approved Instruments, Methods and Techniques

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

TMP5 Organisation, Clarity and Segregation of Responsibilities and Dealing Arrangements

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

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

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

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

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

TMP6 Reporting Requirements and Management Information Arrangements

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

As a minimum the Executive Committee will receive:

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

TMP7 Budgeting, Accounting and Audit Arrangements

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

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

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

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

TMP8 Cash and Cash Flow Management

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

TMP9 Money Laundering

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

TMP10 Staff Training and Qualifications

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

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

TMP11 Use of External Service Providers

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

TMP12 Corporate Governance

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

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

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

Shetland Islands Council

Agenda Item

11

Meeting(s):	Policy & Resources Committee Shetland Islands Council	7 March 2017 8 March 2017
Report Title:	Shetland Islands Council Medium Term Financial Plan 2016/17 - 2021/22	
Reference Number:	F-036-17-F	
Author / Job Title:	Jonathan Belford, Executive Manager - Finance	

1.0 Decisions / Action required:

1.1 That the Policy and Resources Committee RECOMMEND that the Council RESOLVES to adopt the Medium Term Financial Plan by:

1.1.1 approving the principles of the Plan set out in section 2.2 of the Medium Term Financial Plan;

1.1.2 approving the assumptions on income and expenditure which underpin the Plan set out in sections 4, 5, 6 and 7 of the Plan;

1.1.3 approving the Financial Strategy set out in Section 13 of the Plan; and

1.1.4 approving the Financial Targets as detailed in Appendix B.

2.0 High Level Summary:

2.1 The purpose of the Medium Term Financial Plan (MTFP) is to set out the financial framework within which Shetland Islands Council is expected to operate over the next 5 years and to present a financial strategy that will help the Council to deliver its services within the financial constraints that have been forecast.

2.2 Within the framework of this MTFP, rising cost and reducing income does not make this task any easier. However it is recommended that the work is put into defining the allocation of resources to support the strategic objectives and outcomes and to set a Council-wide recurring savings target of 4.5% per annum, a sum of approximately £5 million.

2.3 Furthermore the Plan recognises the Council's clear commitment to its medium term objectives and outcomes. The Plan makes a clear case for the need to bring about change, to transform the approach the Council takes to the ways in which it delivers services and to focus on Service redesign and for urgent action to be taken on this by all Council Services.

2.4 In the absence of that strategic work being completed then the MTFP recommends an alternative 'salami slicing' approach. A Service focused financial target that essentially looks for each Directorate to deliver their budget proposals with no growth and set an efficiency target that requires to be delivered beyond that. The figures are indicated in Appendix B.

2.5 This will not actually deliver the outcomes for the citizens of Shetland and will potentially target activities/Services that are needed in the medium to long term for the ultimate achievement of what is important. It does however ensure there is clarity in what is expected in event of a void of information.

2.6 The Plan allows the Council to continue the progress already made towards reducing the underlying cost base of Council services and indentifying and maximising income opportunities. By agreeing the recommendations and financial strategy contained within the MTFP it will allow the Council to ensure it makes best use of all of its resources and reserves.

3.0 Corporate Priorities and Joint Working:

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

3.2 Despite the work done so far, sustainability in particular is extremely challenging at this time with reducing Scottish Government funding being the trend since 2011/12. It is expected that this will continue while the UK and Scottish Governments seek to balance their budgets and prioritise their spending. In order to take action on improving the Council’s approach to identifying and implementing sustainable solutions for the future; Directorate plans identify core priority areas for action between now and 2020 as set out in Appendix D.

4.0 Key Issues:

4.1 The Medium Term Financial Plan sets out the action that needs to be taken in order to ensure that the Council acts now to address the gap between income and expenditure from 2018/19 onwards that is forecast. In acting to address the forecast gap it will provide the Council with the best possible opportunity to prepare and approve a balanced budget in future.

4.2 The Council will require to change and adapt to the financial climate it faces. It will have to identify and deliver on a number of transformational changes that not only deliver savings but focus attention on the Council’s objectives and outcomes.

4.3 The medium term of UK Public Finance remains bleak with no foreseeable upturn in cash available to the UK public sector.

4.4 The forecasts and projections incorporated into the Plan have been based on the latest data that is available and from examination of expert and independent opinion to ensure that a reasonable and prudent approach has been taken.

4.5 It is clear, as with all Plans, that the MTFP will require to be reviewed on an annual basis in order to maintain its relevance and integrity in relation to the information available and internal and external factors that impact upon it.

4.6 The financial constraints that are presented by the Plan remain very challenging but are achievable as the Council is well placed to move forward with a recent history of delivering on its budget, being able to implement change, to take appropriate decisions and act responsibly.

4.7 In summary, the Plan is based on the following building blocks:

- Risk aware projections in relation to income;
- Continuing a long-term approach to drawing sustained financial benefit from investments;
- A commitment to reduced costs through various means;
- Allocation of resources, cost reduction and income generation will be strategically focused and prioritised in the line with the Corporate Plan;
- The need to bring about change, to transform the approach the Council takes to the ways in which it delivers services and to focus on Service redesign and for urgent action to be taken on this by all Council Services; and
- Recognising the potential benefits that will arise from pro-actively engaging with the Scottish Government to ensure a fair share of financial resources is received by Shetland for the Services delivered.

5.0 Exempt and/or confidential information:

5.1 None

6.0 Implications :

6.1 Service Users, Patients and Communities:	Section 3 of the Medium Term Financial Plan covers the planning process and incorporates Community Choices.
6.2 Human Resources and Organisational Development:	There are no direct implications arising from the Plan. In developing the actions and implementation of those in order to address the financial strategy human resource implications may arise, which will be detailed at such times.
6.3 Equality, Diversity and Human Rights:	There are no direct implications arising from the Plan. In developing the actions and implementation of those in order to address the financial strategy equality, diversity and human rights issues that may arise, which will be detailed at such times.
6.4 Legal:	Under Section 95 of the Local Government (Scotland) Act 1973, there is a requirement for each local authority to make arrangements for the proper administration of their financial affairs and that the chief financial officer/Section 95 officer has responsibility for the administration of those affairs. The Plan recommends a financial strategy that may lead to implications for the Legal Service, an example being that the Council should capture savings from improved and robust procurement and commissioning processes, including the re-negotiation of contracts.
6.5 Finance:	The Plan sets out the resources available to the Council over the next five financial years. The Plan also proposes how these resources should be allocated between revenue and capital, and between directorates, with the overall aim of ensuring the Council continues to be financially sustainable.

	The Plan recommends maintaining usable reserves around current levels in order to deliver year on year income from investments to support the revenue costs of Council Services.
6.6 **Assets and Property:**	The Plan recommends that the Council services operates as efficiently and effectively as is possible which will include reviewing the use of assets and property.
6.7 **ICT and new technologies:**	The Plan recommends that the Council focus on developing an effective use of ICT and new technologies as part of business transformation.
6.8 **Environmental:**	The Plan recommends that the Council services operates as efficiently and effectively as is possible which will include continuing work on reducing carbon emissions to support the Council's duty under the Climate Change (Scotland) Act 2009.
6.9 **Risk Management:**	There are a number of assumptions within the budget model that are based on the best information available to date. These assumptions are largely around anticipated income levels (sections 4 and 5), returns on investments (section 6) and cost pressures and demands (section 7). In reality the actual figures will vary from the forecast figures and therefore on an annual basis the Medium Term Financial Plan will be reviewed so that assumptions can be updated. A financial risk still exists in relation to the income projections from the Harbour Account and from the Shetland Gas Plant as a result of the volatility around levels of throughput and the price of oil and gas. The Plan has been improved by reducing the value of income utilised in the Plan to that which has already been achieved in the previous year. The Plan estimates a net 5.2% return on reserves annually which results in an estimated return of approximately £12m. Taking a long term view of investment returns is vital to providing assurance that this level of return can be achieved as markets and the value of investments will go down as well as up. A net 5.2% return has been based upon a gross return of 7.3% per annum, and is at the upper end of the range over the last 20 years that has seen longer term rates of between 3.56% and 8.19% per annum. Managing the Council's investments through a diversified investment strategy and monitoring performance ensures the Council remain in a position to achieve this level of investment return over the longer term.
6.10 **Policy and Delegated Authority:**	The Policy and Resources Committee has delegated authority to secure the co-ordination, control and proper management of the financial affairs of the Council. The determination of new strategies requires a decision of Council, in terms of Section 2.1.3 of the Council's Scheme of

	Administration and Delegations.	
6.11 Previously considered by:	n/a	n/a

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27 February 2017

Appendices:
Appendix 1 – Medium Term Financial Plan 2016/17 – 2021/22

Shetland Islands Council

MEDIUM TERM FINANCIAL PLAN

2016/17 – 2021/22

Corporate Plan Vision:

By the end of this plan (2020), we want to be known as an excellent organisation that works well with our partners to deliver sustainable services for the people of Shetland.

Contents

1. Foreword by the Executive Manager - Finance

The Medium Term Financial Plan (the MTFP) is a crucial strategic document that provides the financial framework for the delivery of Council services to the citizens of Shetland. The MTFP captures data from across the various Council accounts and presents an overall projected funding position and financial strategy for the next five years that is based on:

- Risk aware projections in relation to income;
- Continuing a long-term approach to drawing sustained financial benefit from investments;
- A commitment to reduced costs through various means;
- Allocation of resources, cost reduction and income generation will be strategically focused and prioritised in the line with the Corporate Plan;
- The need to bring about change, to transform the approach the Council takes to the ways in which it delivers services and to focus on Service redesign and for urgent action to be taken on this by all Council Services; and
- Recognising the potential benefits that will arise from pro-actively engaging with the Scottish Government to ensure a fair share of financial resources is received by Shetland for the Services delivered.

The data upon which income projections have been modelled takes into account the views, observations and conclusions of expert external parties. Finance and Service staff has provided cost information to provide robust projections. Councillor input has come from the seminars and work conducted in preparing the 2017/18 annual budget.

Public engagement is a crucial element of financial planning and the Council has approached this to date through range of different events. This will be developed further to achieve a long term aim of having at least 1% of the budget being decided by communities through participation. This work is being conducted under the banner of “Community Choices”, and one of the objectives is to find a way of mainstreaming this as part of the budget setting process.

Risk management has been an increasingly important aspect of Council governance and the MTFP sets out financial risks associated with delivering Council Services and the means through which these are managed.

The Council has a Corporate Plan and the emphasis on the achievement of the defined outcomes cannot be understated. The MTFP recognises that those outcomes are delivered through the range of Council Services and that all will play their part in adding to that achievement. Equally all must contribute to the effective and efficient delivery of Services.

Maintaining a balanced budget in times of continuing austerity, significant public sector change and volatile external market conditions is extremely challenging.

Should nothing change then future Service demands and cost pressures will significantly outstrip the resources available. The Council will need to continue to improve its productivity and efficiency in order to maintain and improve the Services provided, as well as continue to prioritise its spending. Decisions will have to be taken that will lead to funding reductions in lower priority areas to enable funding to be maintained elsewhere.

The MTFP emphasises that action needs to be taken now to achieve future savings and that changes that are proposed and implemented move the Council towards the achievement of the Corporate Plan outcomes.

Its conclusions and the financial strategy for the period of the MTFP are shown in section 13.

The MTFP will be reviewed on an annual basis to maintain its relevance and integrity in relation to the information available and the internal and external factors that impact upon it.

Jonathan Belford

Executive Manager – Finance

28 February 2017

2. Medium Term Financial Plan and Financial Strategy 2016/17 – 2021/22

2.1 Introduction

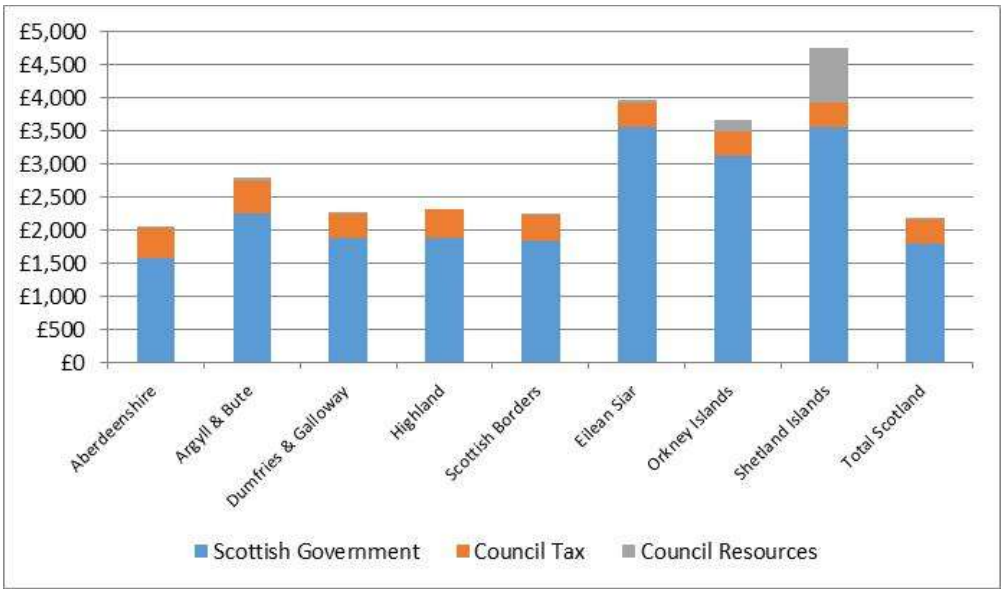
2.1.1 The MTFP provides the financial planning framework for the delivery of services to the population of Shetland. It sets the financial context from which the forecasting of our resources is derived and sets out the financial strategy that provides the framework for planning Council services.

2.1.2 The MTFP integrates with other strategic documents, fundamentally referring to the Corporate Plan and the Local Outcomes Improvement Plan, the achievements of which will be measured in the medium to long term.

2.1.3 Acting as a tool for financial planning the MTFP considers income and expenditure across the range of Council service areas including the Council housing stock (Housing Revenue Account) and the harbours (Harbour Account). It addresses both the need for revenue and capital expenditure and how these will be funded.

2.1.4 For Shetland Islands the long-term benefits of having retained a proportion of the money generated from oil and gas since the 1970's is a luxury that most local authorities would be envious of. With careful and balanced strategic investment this money enables the Council to top-up its Government funding to enhance and extend its service delivery across the Islands see Chart 1 below for evidence of the impact it has compared to the funding of other Councils. These long-term investments are managed in accordance with the Annual Investment and Treasury Strategy. That strategy doesn't determine the application of investment returns, this is addressed within this Plan ensuring that the use of all Council resources are included within a single document.

Chart 1: Revenue funding per head of population, comparison with Councils with the most highly dispersed populations.



2.1.5 The economic environment within which the Council operates remains extremely uncertain, not least because of the unknown impact of Brexit. The MTFP makes use of many assumptions based upon the information that was available at the time of writing this report. UK and Scottish government policy changes and funding decisions have a significant impact on the Council requiring the MTFP to be reviewed on an annual basis. It is clear that the financial positon for local government in Scotland is significantly worse than when the MTFP was last prepared.

2.1.6 The Plan outlines the Medium Term Financial Plan for the period 2016/17 to 2021/22 and details the strategy that the Council intends to follow in planning its service delivery and against which it will set detailed balanced budgets on an annual basis.

2.2 Principles of the Medium Term Financial Plan

2.2.1 The MTFP is based on the following principles:

- The Council will live within its means, and in doing so approve an annual budget that is balanced and affordable.
- The Council has agreed to use its long-term investments as an investment fund and draw a sustainable amount of the long-term anticipated return from those investments each year to support Services.
- The cost of capital will be recognised by the Council, and the cost of any borrowing undertaken will be borne by the revenue budget and met by the relevant Service that will benefit from the capital investment.
- The Executive Manager – Finance will determine the costs associated with the management of significant corporate cost pressures, such as pay, pension and tax implications of national and local conditions of service. Where these cannot be applied to service budgets a central contingency will be retained and allocated to service budgets when required.
- A risk based approach will be taken to areas of the budget that Services identify are uncertain in any single year and a central contingency will be retained and allocated to service budgets if required.
- The Plan will identify the level of funding that can be made available for the delivery of services and estimate the gap between income and expenditure for which income generation, savings options and further efficiencies will have to be implemented.

2.3 Benefits of the Medium Term Financial Plan

2.3.1 The Accounts Commission, in their Financial Overview 2015/16[1] report, identified the need for financial scenario planning:

> *"Long-term financial strategies must be in place to ensure council spending is aligned with priorities, and supported by medium-term financial plans and budget forecasts. Even where the Scottish Government only provides councils with one-year financial settlements, this does not diminish the importance of medium and longer-term financial planning. This is necessary to allow councillors and officers to assess and scrutinise the impact of approved spending on future budgets and the sustainability of their council's financial position."*

2.3.2 Forecasting the future is crucial to understanding what the Council may have to address, particularly in an environment where the demands and expectations of the Shetland public are continually changing. Add to this the duties and responsibilities placed on the Council by UK and Scottish Government policies that continue to evolve and respond to the economic and social environment within which we live. Predicting the impact of macro-economic issues, such as Brexit, is naturally fraught with difficulty.

2.3.3 In such an environment, where our customer's desire to maintain service levels and quality exceeds the capacity of the resources the Council has , there is a need for a clear view on what the limitations are, and how service delivery can be maximised within those resource limitations.

2.3.4 The MTFP enables Councillors to understand the constraints within which each annual budget setting process takes place and the overall principle of living within its means and maintaining service costs that are affordable.

2.3.5 Through adopting the MTFP the financial planning and financial management of the Council's revenue and capital resources are improved. This provides the targets that have to be achieved over a five year timeline in which to implement and deliver the change and improvement needed.

2.3.6 The MTFP allows for the alignment of resources to the Council's spending priorities. The priorities of the Council relate to the outcomes that it aspires to achieve. The recommendation in the MTFP is that decisions are taken and actions are put in place to focus on the priorities and outcomes set out in the Corporate Plan, which are more specifically referenced in the directorate plans (see Appendix D).

[1] Local Government in Scotland: Financial Overview 2015/16, published November 2016 http://www.audit-scotland.gov.uk/report/local-government-in-scotland-financial-overview-201516

3. The Medium Term Financial Planning Process

3.1 Introduction

3.1.1 Planning for the allocation of resources over the medium term is a cyclical process, with the MTFP updated annually. The primary focus is to establish the financial environment within which the Council is expected to deliver Services to the Shetland public over the coming years. It is not exact but takes account of the corporate priorities and vision, outlined within the Corporate Plan, the latest economic, political policy and social data that is available and a review of known cost and demand pressures.

3.2 The Corporate Plan

3.2.1 The Corporate Plan sets out the Council's priorities and identifies how these priorities will contribute to the achievement of the Council's medium term outcomes as well as ensure the Council delivers on its responsibilities to the wider Shetland Partnership[2]. The Partnership oversees the delivery of the Local Outcomes Improvement Plan, which establishes the long-term vision for Shetland.

3.2.2 The Council, in defining its Corporate Plan should be clear about its ambitions and as such this should inform the allocation of resources to ensure those ambitions are achieved. There is a need for further work to be completed to recognise the limitations that the Council has in terms of resource availability and to develop the way it will ensure that those priorities are suitably funded by transferring funding away from other services.

3.2.3 This will lead to Services no longer existing and no longer being a priority. At the same time there is a continuing need to be as efficient and effective as possible, and as such using different ways of providing Services will also have to be feature. It is vital that the Council recognise that its outcomes have not been achieved by doing what its being doing, therefore something different needs to be done that makes the difference.

3.2.4 The answer is not simply spending more on more of the same.

3.2.5 The MTFP considers the financial context for the Corporate Plan prioritisation and must inform the Council's decisions.

3.3 Developing the Medium Term Financial Plan

3.3.1 The initial MTFP was developed in 2012 and forecast the financial position of the Council through to 2017/18; this MTFP therefore represents a refresh of the original MTFP, starting from a balanced budget having been set for 2017/18. The Council has therefore addressed all that it faced in 2012 and has done more than

[2] The name given to the Shetland Community Planning Partnership, made up of representatives from the public, private and voluntary sectors, the community council's and the Shetland Charitable Trust.

that, facing significantly larger reductions in grant funding from the Scottish Government during that time than had been predicted.

3.3.2 The MTFP throughout has considered both revenue and capital alongside each other to ensure that decisions and debate are about the Council's total financial position.

3.3.3 The challenge for the MTFP is not necessarily in defining the financial parameters but in describing the approach to be taken to achieve balanced budgets in the future.

3.3.4 There is strategic work needed to deliver future financial sustainability. Unlike the last MTFP, the national context has changed and this MTFP indicates no 'silver bullet' or 'magic wand' that enables future resources to be identified as the means of smoothing out the challenges ahead.

3.3.5 There is an urgent need to deliver the prioritised strategic work (see Appendix D) that will define what Services exist and how they will be delivered. The Council is working towards implementing a business transformation framework that will only achieve its objectives if it goes hand in hand with Service redesign work.

3.3.6 In being clear in the priorities then the Council will need to avoid the pitfall of trying to continue to do all that it currently does in the same ways, just simply with less money. The fact is that while the Council enjoys the highest level of funding per head of population, and it can sustain that position, the national context is that the core funder of Services is the Scottish Government and its funding is continuing to fall.

3.3.7 To have an effective MTFP is to be clear on what is going to be done and when and it is imperative that the detail of the actions to be taken, the commitment to the priorities and communication of those with the Shetland public is a key next step during 2017/18 to ensure that in the years ahead there is not simply 'salami slicing' budgets in an attempt to keep everything as it currently is. There are undoubtedly activities and Services that are of greater value than others, these need to be defined, articulated and stuck to.

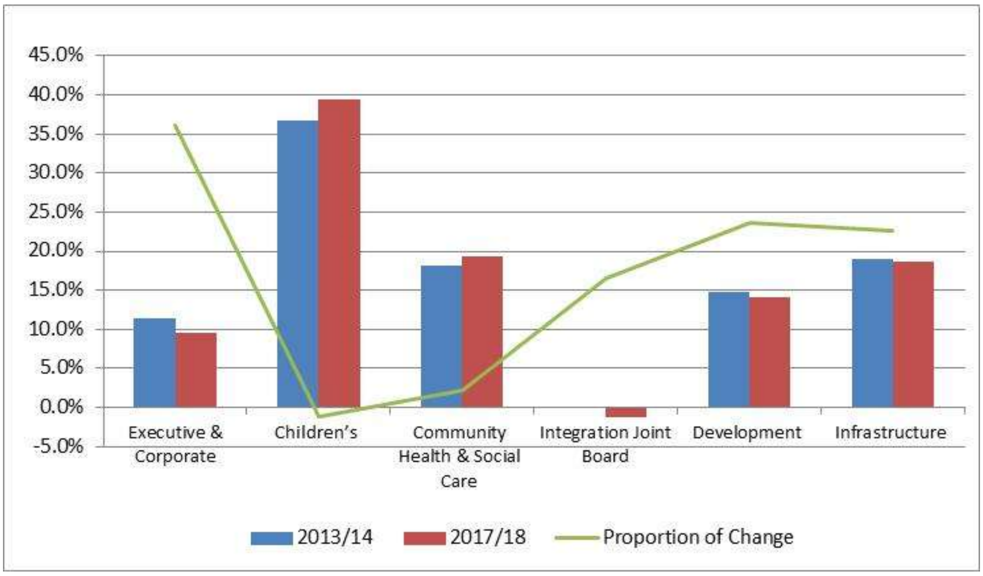
3.4 Community Choices

3.4.1 In 2014 and 2015 'Building Budget' exercises were undertaken, where members of the public were presented information on the Council's current financial position. Systems were developed that allowed an individual or group to build their own budget, within the parameters set by the system.

3.4.2 This system allowed people to determine which activities should be reduced or stopped in order to meet the savings requirements of the MTFP.

3.4.3 The information gathered from these exercises informed budget setting and local priorities, with both Children's Services and Community Care Services being highlighted in Chart 2.

Chart 2: The proportion of the Council Budget spent by Directorate, 2013/14 compared to 2017/18.



3.4.4 As demonstrated in Chart 2 the Council is able to show that these two services have faced lower funding reductions than other Council services.

3.4.5 During 2016 the Council undertook a consultation on the "Shetland Place Standard" and this included feedback to community forums that were put in place to better understand the results of that consultation. The opportunity was taken to again share financial information about the Council in those forums. Gathering data from those events was difficult to evaluate given the limited information.

3.4.6 The Council also supported Community Councils to undertake participatory budgeting projects, providing match funding. These were hugely successful and engaged a large number of people three local communities. There will be more of these events in 2017 to support other Community Councils and develop the skills and techniques of actively and successfully engaging communities.

3.4.7 Additional funding has been awarded by the Scottish Government to undertake the development of the community engagement and decision making; this is under the banner of "Community Choices". The Council is working on a larger scale event in which the public will participate directly in the debate and decision making.

3.4.8 Another piece of work under this heading is exploring how these techniques are made part of the normal process of budget setting. This will definitely be an evolving aspect of financial planning but one that has many opportunities for getting a greater understanding of local priorities and decisions being made closer to where the impact is felt.

3.4.9 This sits in the context of an objective in the long term to have at least 1% of the Council's budget decided by a participatory method and for increased involvement community involvement to be a more routine way of working.

3.5 Financial Decision Making

3.5.1 The responsibility lies with Councillors for making the decisions on setting and delivering balanced revenue and capital budgets. The decision making and budget setting process required to deliver the MTFP is supported by a wide range of officers.

3.5.2 The Corporate Management Team (CMT) oversees and directs the process, Directors leading and having responsibility for:

- Identification and management of future pressures in service delivery within their areas;
- Identification and delivery of efficiencies and savings options;
- Leading change that delivers benefits for Council customers, staff and in the use of our resources;
- Effective use of external sources of funding such as specific grants and fees and charges; and
- Management of reductions in the use of resources.

3.5.3 Directors are, in addition to their Service finance staff, supported by an accounting team that provide data and analysis to assist with decision making and options appraisal, in addition to providing a professional financial perspective to generate and develop ideas and provide independent challenge to discussions.

3.5.4 The Community Planning team also provide support to the Directors to ensure timely and relevant consideration by Councillors is given to the potential impacts of proposed decisions, both individually and cumulatively, on the Shetland public and specifically those with protected characteristics as set out in The Equality Act 2010.

4. The National and Local Context

4.1 The UK Context

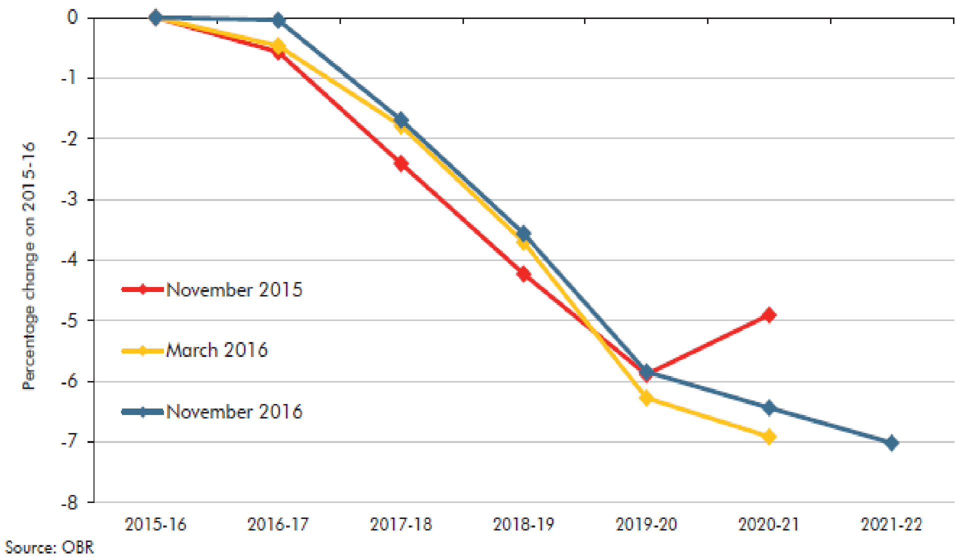
4.1.1 According to the Office for Budget Responsibility[3] (OBR) the national picture for public sector spending, compared to when the last MTFP was being prepared, is distinctly different now.

4.1.2 The last MTFP relied upon the upturn in funding expectation in order smooth the action to be taken and this has now been removed and in its place is a continuing downward trend. A trend that can be summed up as one that will go farther for longer.

4.1.3 This sits in the context of the "[UK] Government is no longer on course to balance the budget during the current Parliament and has formally dropped this ambition in a significant loosening of its fiscal targets"[4]. They continue by setting the scene for more Government borrowing into the future. "Confronted by a near-term economic slowdown and a structural deterioration in the public finances, the Government has opted neither for a large near-term fiscal stimulus nor for more austerity over the medium term. Instead the Chancellor has proposed a much looser 'fiscal mandate' that gives him scope for almost 2½ per cent of GDP (£56 billion) more structural borrowing in 2020-21 than his predecessor was aiming for in March"[4].

4.1.4 Chart 3 is produced by the OBR[4] and shows the latest forecasts for Resource Departmental Expenditure Limits (RDEL)[4]. The implication for public sector spending is continued austerity.

Chart 3: OBR Change in real RDEL per capita from 2015/16.



[3] Office for Budget Responsibility Economic and Fiscal Outlook, November 2016

[4] RDEL – day to day central government spending on public services, grants and administration.

4.2 The Scottish Context

4.2.1 The primary source of funding for the delivery of Council Services is the Scottish Government through the allocation of general revenue and capital grants, and the distribution of national non-domestic rates. With three quarters of the Council's revenue funding being received in this way it is simple to see how UK and Scottish Government policies and economic forecasts impact on the level of Council funding.

4.2.2 No funding announcements have been made by the Scottish Government beyond 2107/18.

4.2.3 In order to project forward five years a combination of known historic data and current forecasts, such as those provided by the OBR and the Scottish Government, have to be used to estimate what may happen. This work is supported through information commissioned by the CIPFA Directors of Finance group. This represents the best information available at the time of writing.

4.2.4 A range of scenarios are shown for Scottish Government funding of Local Government (section 4.3) that represent different assumptions in relation to what the Scottish Government may decide. This includes particular focus on prioritisation [specifically funding commitments to the NHS, Police and Education] as these are statements already announced in the SNP manifesto.

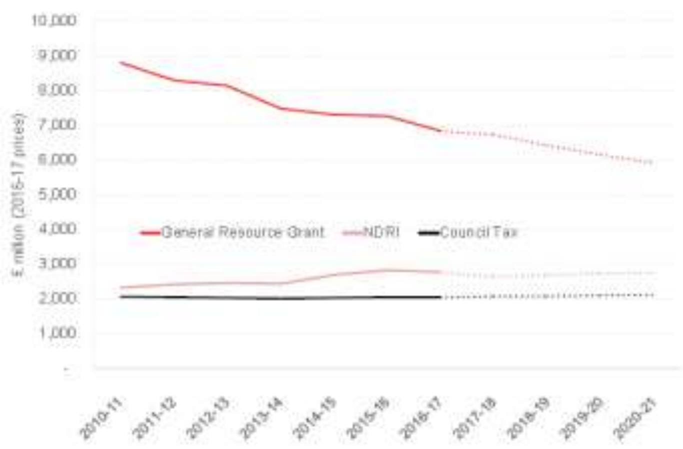
4.2.5 While it is unclear if these or if other priorities will prevail in future budgets of the Scottish Government, it is reasonable to predict that falling public sector funding overall will have an impact on the grant allocated to the Council.

4.2.6 In 2015/16 the total distributable revenue funding to Local Government was approximately £10 billion, however this has shrunk to £9.5 billion in 2017/18, a 5% reduction in two years.

4.2.7 The impact of falling funding to Local Government has recently been forecast and captured in work done by the Fraser of Allander Institute[5], part of the University of Strathclyde. Taking account of the protection offered to other parts of the Scottish public sector the decline in availability of funding matches the recent trend and the UK projections for funding. This is shown in Chart 4.

Chart 4: Fraser of Allander Institute forecast for Local Government Resources to 2020/21.

[5] Fraser of Allander Institute, Scotland's Budget – 2016, September 2016



Source: Local Government Finance Circulars, various years; GERS; FAI calculations

Note: the relatively large fall in the resource grant in 2013-14 was due to the transfer of police and fire services from local authorities to new national agencies

4.2.8 Shetland Islands Council receives a distribution based on the Grant Aided Expenditure (GAE) formula agreed by COSLA, this is a needs-based distribution methodology that takes into account nationally recognised indicators and weightings. The Council receives approximately 0.85% of the total distribution to local government, in 2017/18 a sum of £79.9 million, for 0.4% of the total estimated population of Scotland[6].

4.2.9 This may appear to be a positive proportion of Scotland's funding however the scale and remoteness of the population that the Council is delivering services to results in expensive service models. Add to this the minimum levels expected of any Local Authority and additional costs of transport and goods and services being simply more expensive then it is clear that the Council has a need for funding at this level.

4.2.10 Shetland also has transport requirements that others (with the exception of Orkney) do not have, the provision of inter-island transport, which is delivered by sea and air and is funded by the Council after a proportion of the costs are included in the grant funding received from the Scottish Government.

4.2.11 The Scottish Government has made a commitment to fair funding for inter-island transport and discussions have been ongoing for some time however as yet not announcement has been made on funding to meet that commitment. The MTFP therefore does not take into account an income stream in relation to this commitment.

4.2.12 Other transport costs, the buses, are also funded to a different level in Shetland because of they are on a scale and with a volume of customers that makes many, if not all, routes uneconomical to operate and therefore only exist due to Council

[6] National Records of Scotland, mid-year 2015 population estimates (23,200 people in Shetland out of 5,373,300 in Scotland)

subsidy. Other Councils do not have to provide significant levels of funding for the Services because the private sector fills that gap.

4.2.13 Island proofing provisions within the Islands Bill is an opportunity that cannot be missed by Shetland. The consultation refers to the concept of placing a duty on Scottish Ministers and other relevant public bodies to 'island proof' their functions and decisions, the financial implications of which for the Islands needs to be effectively communicated. The Council positively participated in responding to the early consultation.

4.2.14 It is recommended that the Council continues to seek all opportunities to enter into dialogue with the Scottish Government in relation to Services for which the Council does not receive its fair share of funding, or where inconsistency exists between Shetland and other Local Authorities.

4.3 The Shetland Context

4.3.1 Resources are used to fund revenue expenditure across the five Directorates: Children's Services, Community Health and Social Care, Development Services, Executive and Corporate Services, and Infrastructure Services.

4.3.2 Net Expenditure on Services delivered from the Council's General Fund is funded by Scottish Government General Revenue Grant (GRG), a distribution by the Scottish Government of the National Non-Domestic Rates (NNDR) pool, Council Tax and a draw from the returns achieved from the long-term investments (see section 6). The Council also operates a harbour account (see section 8), from which a surplus is generated and a proportion of this surplus is drawn annually from reserves to support Council Services.

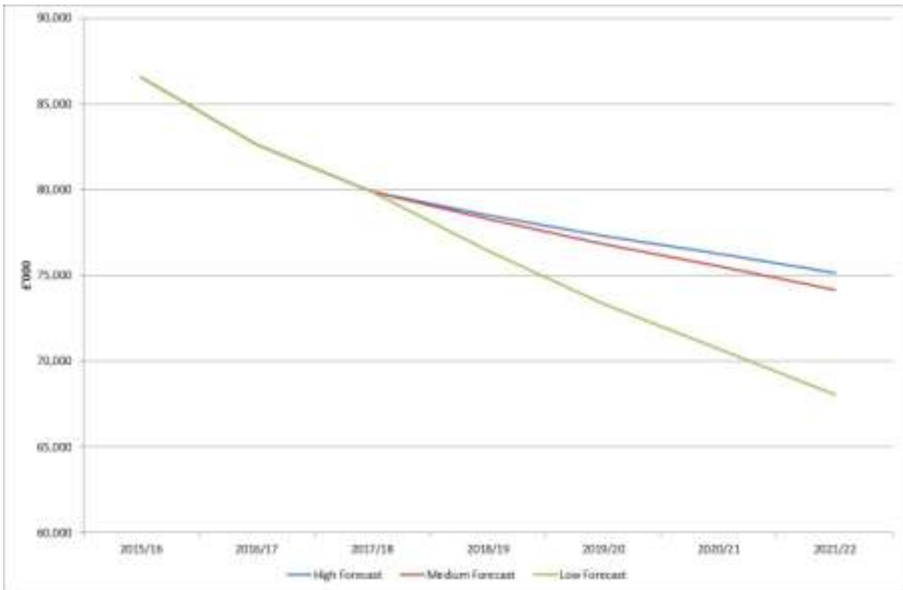
4.3.3 It is important to recognise that the Scottish Government is responsible for determining the overall funding available to the Council in terms of both the GRG and NNDR pool. Therefore if there were to be an increase in the level of Non-Domestic Rates collected locally by the Council, there would be a corresponding reduction in the level of General Revenue Grant to ensure the overall funding level didn't change. This reflects the fact that the Scottish Government hold the risk in terms of a shortfall in relation to the national collection of Non-Domestic Rates during the year, i.e. if there were to be an overall shortfall the Council still receives the same level of grant funding it has been basing the delivery of services on.

4.3.4 The introduction of the Business Rate Incentivisation Scheme (BRIS) may provide a sum that the Council can retain over and above the NNDR distribution however there has been no evidence of this to support a robust forecast.

4.3.5 In the absence of detailed information at a UK and Scottish Government level it is only possible to predict the future funding for the Council on the basis of publicly available information and by listening to relevant commentators. Using that approach a number of scenarios have been modelled and this has produced an array of possible funding levels for Shetland Islands Council.

4.3.6 In financial year 2016/17 the Council was allocated a sum of £82.3 million in GRG and NNDR distribution, and in approving the budget for 2017/18 funding of £79.9 million and this is the starting point for the projections shown in Chart 5.

Chart 5: Shetland Islands Council, Scottish Government Funding Forecast to 2021/22.



4.3.7 The projections in Chart 5 take into account different levels of protection offered to other parts of the public sector in Scotland, as referred to in section 4.2, and also the impact that there may be from UK decisions on Scotland. The MTFP makes use of the 'Medium' forecast.

4.3.8 This option assumes a 7.38% reduction in grant by year five.

4.3.9 It is highly unlikely that that there will be any increase in the Council's financial settlement over the course of the MTFP. The continued reduction in funding that is built into the GRG for Notional Loan Charge Support will undoubtedly offset any future upturn in grant funding levels. This element of GRG (£9.7 million in 2017/18) is falling at approximately £0.6 million per annum, and will continue to do so until it runs out in 2035/36.

4.3.10 These projections will be reassessed as actual settlement figures are announced by the Scottish Government.

4.3.11 The Public Bodies (Joint Working) (Scotland) Act 2014 allows Local Authorities and Health Services to integrate health and social care services in a way that best fits local needs. The Shetland Community Health and Social Care Partnership Integration Joint Board (IJB) became operational in November 2015 and is about to end its first full financial year. Local Government settlements have become more complicated since 2016/17 due to funding for Social Care being directed by the Scottish Government through the NHS to the IJB. A sum of approximately £1.3 million is expected through this route in 2017/18 and the MTFP assumes that small increases in funding will be channelled through this route in future years.

4.3.12 Through the adoption of the Strategic Plan the IJB can issue directions to both the Council and NHS Shetland in relation to how community health and social care services are delivered.

4.3.13 The Council has powers to operate ports and harbours and this makes a significant contribution to the availability of funding to deliver Council Services. Income is generated from the fees and charges raised on users of those ports and harbour areas and accounted for in the Harbour Account. See section 8 for further details.

4.3.14 The Council owns social housing and the allocation and management of the properties are kept separately from those of General Fund Services. The Council housing is accounted for in the Housing Revenue Account (HRA), which has its own HRA Business Plan, and is underpinned by a 30 year financial model. The HRA is funded from the rental income generated from the tenants. See section 9 for further details.

4.4 Shetland Performance

4.4.1 Useful websites to help understand the Shetland context are gathered by the Council's Economic Development Service and can be accessed at the following website:

http://www.shetland.gov.uk/economic_development/ShetlandinStatistics.asp

4.4.2 Performance information is vital to understanding and providing data that supports the priority given to Council Services currently being delivered and for the outcomes that are important to the Council over the medium term. Access to the Council's performance information is through the website, where the latest and historic information is available:

http://www.shetland.gov.uk/about_performance/PerformanceReports.asp

5. Future Revenue Resources

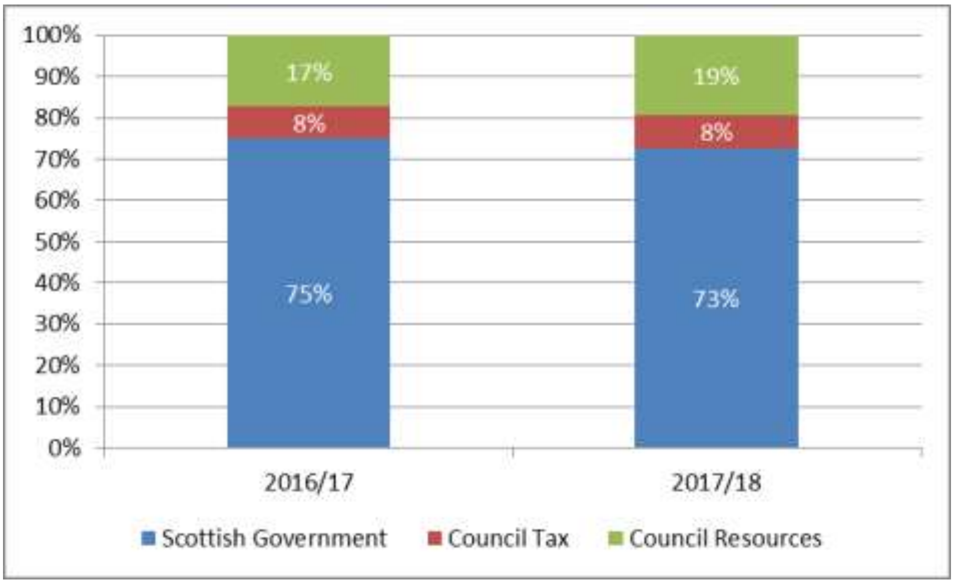
5.1 Introduction

5.1.1 The Council receives a number of funding streams that enable it to deliver its full range of services. These include Scottish Government grants, Council Tax, fees and charges and in certain circumstances external funding, which has been applied for.

5.1.2 The General Fund revenue budget is normally structured to take account of income from fees and charges and specific external funding grants deducted from the cost of Services expenditure, therefore leaving Net Revenue Expenditure that is funded by the other income streams – Scottish Government Grant, Council Tax and the Council's own resources.

5.1.3 In 2017/18 the Council will receive approximately 73% of its Net Revenue Expenditure funding from the Scottish Government.

Chart 6: Shetland Islands Council, Where Revenue Funding comes from 2016/17 and 2017/18.



5.1.4 The chart highlights the extent to which the General Fund requires its own resources to balance the budget. Those resources include, in 2017/18 Harbour Account surplus; Shetland Gas Plant income; investment returns; and one-off use of reserves.

5.2 Scottish Government Grant

5.2.1 The table below shows the projected future revenue resources available to the Council over the period of the MTFP.

Scottish Government (General Revenue Grant & National Non Domestic Rates)	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Best Case Scenario			78,531	77,318	76,275	75,141
Medium Term Financial Plan	82,639	79,886	78,291	76,847	75,542	74,154
Worst Case Scenario			76,454	73,361	70,721	68,078

5.2.2 The assumptions associated with this projection are:

- The starting point of 2017/18 is the actual value of revenue grant allocated, covering General Revenue Grant (GRG) and National Non-Domestic Rates (NNDR).
- The 2017/18 value is then modelled to take account of three scenarios that are based upon different levels of reduction in funding, recognising that Shetland has recently been hit more severely than some other Local Authorities.
- The values include the diminishing value of the Notional Loan Charge support provided by the Scottish Government, which is understood to continue at approximately £0.6 million per annum.
- Specific initiatives that may attract Scottish Government funding in the future have not been included in the projections as any specific initiative will undoubtedly generate a specific cost pressure of at least equal value.

5.2.3 The assumption used in the MTFP is the 'medium' estimate.

5.2.4 The year on year changes in grant funding available amount to a reduction 7.38% in cash for the next four years of 2.0%; 1.85%; 1.7%; and 1.84% respectively. This forecast has been made as it aligns with publicly available information and independent commentary on future public sector funding.

5.2.5 Included within the total Scottish Government Grant funding is the annual value of the National Non-Domestic Rates (NNDR) pool. The value in 2017/18 was £2.6 billion. The pooling arrangement means that risk of a shortfall rests with the Scottish Government, giving greater certainty to the receipt of that element of the grant.

5.2.6 The Scottish Government has created a Business Rates Incentivisation Scheme (BRIS) that provides an opportunity for local authorities to increase its NNDR income stream. The Scheme is based on targets.

5.2.7 Should the Council exceed its target NNDR, it would retain 50% of the additional rates income generated (where there was a corresponding increase in rateable value). The Scottish Government would retain the other 50%.

5.2.8 The assumption in the MTFP is that there will be limited opportunity for the Council to benefit from the scheme at present and as such no additional income has been assumed in any future years.

5.2.9 Specific grant funding to be received from the Scottish Government in 2017/18 includes Criminal Justice Social Work funding and attainment funding for schools. It has been assumed that that funding will be spent and no further subsidy will be provided by the Council so that it is cost neutral to the Council throughout the MTFP.

5.2.10 During any financial year the Scottish Government may issue revenue grants to Local Authorities for a particular purpose. In general these grants will be distributed for reasons described in a letter from the Government Department however will come with no specific criteria attached to incurring the expenditure. These are referred to as non-specific grants.

5.2.11 The number and value of these grants is not known in advance and as such has not been incorporated into the MTFP. Any receipt of non-specific grant funding will be accounted for in the year it arises.

5.2.12 Due to the non-specific nature these grants provide the Council with the opportunity to determine the exact nature of how it will respond to the particular purpose, and how it will make use of the funding. As the Council has met its budget targets in recent years Services have not required such funding to meet the particular purpose, resulting in the funding being treated as a corporate resource. It is recommended that this practice continues.

5.3 Council Tax

5.3.1 Council Tax is the local taxation element of the Council's funding and as shown in the chart at 5.1.3 represents 8% of the income the Council collects. Compared to other local authorities, with larger populations, this amounts to a relatively small share of the total required to fund services. This also reflects the high cost of service delivery in a remote and rural location, and the need for a higher proportion of Scottish Government grant funding.

5.3.2 Council Tax is expressed as a value per 'Band D' dwelling, this being the value charged against a dwelling that has been placed in that particular banding, on a scale of A to H. The value is calculated after converting all dwellings into Band D equivalents. All other dwellings are charged a proportion of that Band D value.

5.3.3 Through Council Tax reform in December 2016 the multiplier values for bands E-H were increased thereby increasing the value that will be charged. These new multipliers apply from 1 April 2017 and will generate approximately £0.15 million for the Council per annum. The MTFP assumes this will be continuing income.

5.3.4 The Band D value for Shetland was £1,053 per annum for nine years under the condition to freeze Council Tax however this condition has been altered and a cap has been placed on increases, 3%. A 3% increase generates approximately £0.25 million per annum.

5.3.5 In the budget for 2017/18 a 3% increase was approved and the new Band D value for Shetland is £1,084.59

5.3.6 The assumption in the MTFP is that the value will continue to increase by 3% per annum.

5.3.7 A year on year increase in the number of dwellings is also forecast, with the historic trend being for these to continue to increase as well as households forecast to increase year on year. The rate of increase has been assumed to be 1% per annum.

5.3.8 The table below shows the projected future Council Tax resources available to the Council over the period of the MTFP, the MTFP following the 'Best Case' scenario forecast.

Council Tax	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Best Case Scenario			9,363	9,735	10,119	10,515
Medium Term Financial Plan	8,505	9,003	9,363	9,735	10,119	10,515
Worst Case Scenario			9,093	9,184	9,276	9,369

5.4 Fees and Charges

5.4.1 The Council can raise income from charging fees for a wide range of services, ranging from fares on ferries and buses to adult social care, from libraries to quarry products.

5.4.2 Income generation is a key strategic priority for some Services, where it can offset all or a substantial proportion of the costs associated with it. However, in adult social care for example, the Council has a statutory duty to meet assessed needs and charges are means tested therefore income will only ever assist with recovering a proportion of the costs.

5.4.3 In 2017/18 the value to be generated is £26.0 million and therefore represents a significant and important element of the Council's funding strategy.

5.4.4 In general for every 1% increase in those charges it would have the impact of increasing income by £0.260 million. This helps to address the rising costs of pay and price inflation and the real cost of delivering Council services, as such it is essential that prices are reviewed regularly.

5.4.5 The Council approved a Charging Framework on 3 November 2016 and this provides the purpose and approaches that must be taken when considering how and why a charge is being applied.

5.4.6 Raising income through charging may be an option to ensure services continue to be delivered, however caution must be observed in ensuring that the Council's involvement in a Service is not simply on the basis that a charge can be applied.

5.5 External Funding

5.5.1 The Council has a partnership agreement with the Shetland Charitable Trust, whereby it provides funding to the Council to enable the delivery of the Rural Care Model. This is due to expire 31 March 2017 after which funding will be approved through grant application. The funding that the Council has secured from this source has been approximately £2.5 million per annum. In 2015/16 the Trust approved a reduction in income to the Council and has signalled the intention to reduce this further by approximately £0.5 million over the following four years, this reduction has been confirmed year on year to date. Further detail on the treatment of this in the MTFP is provided at section 7.3.

5.5.2 The Council has been lobbying for and working directly with Transport Scotland to secure a financial commitment for the inter-island transport services that the Council operates. The commitment by Scottish Ministers, referred to in sections 4.2.10 and 4.2.11 has not yet been backed with a funding agreement, and there is no funding allocated for 2017/18.

5.5.3 External funding in the immediate future is not going to be forthcoming but the work with Transport Scotland has not come to an end. The Council has made a strong case and will continue to press for a financial settlement in respect of the commitment. No funding has been built into the MTFP at this time.

5.5.4 Beyond these income streams for Shetland, limited opportunities exist for the Council to access external funding streams directly. The most significant area however is Europe, where various thematic Funds exist, offering opportunities to local authorities and partners to apply at various times and for different time periods.

5.5.5 Since the last MTFP the UK has voted to exit the European Union (Brexit) and as such this increases the uncertainty of funding from this source. Additionally there is no information on any replacement or alternative UK based funding that may become available.

5.5.6 The MTFP has not included specific external funding that may be applied for.

5.6 Shetland Gas Plant Income

5.6.1 The Shetland Gas Plant has been under construction since 2011 and the Council has agreements with the partners in the project that will generate long-term revenue income based upon a ground rent and pipeline throughput calculation based on gas and oil prices.

5.6.2 The Plant became operational in early 2016 and the ground rent became payable. The impact of much reduced gas and oil prices has meant that the Council has not forecast any throughput income for 2016/17 and taken it into account in setting its 2017/18 budget.

5.6.3 The gas and oil prices have been rising in recent months and as such the throughput criteria have been met and the Council will begin to receive funding from those agreements.

5.6.4 Initially projections had shown that anticipated income for the Council over 5 years could be as much as £12.6 million, however reflecting the experience of the last year and expectations for the 5 years ahead, a more modest forecast of £5.5 million has been included in the MTFP.

5.6.5 The table below shows that if the gas and oil prices rise further and throughput is good then up to £6.5 million could be generated, but if prices drop again and stagnate then limited additional income may be achieved.

Shetland Gas Plant	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Best Case Scenario			(1,121)	(1,601)	(1,774)	(2,050)
Medium Term Financial Plan	(693)	(550)	(850)	(1,150)	(1,450)	(1,550)
Worst Case Scenario			(750)	(950)	(1,150)	(1,150)

5.7 Economic Development Activities

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

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

5.7.3 Through the lending service and the management of the fishing quota the Council receives an income which has been included in the MTFP.

5.7.4 The returns that are received from these activities reflect the arrangements that are in place and the MTFP takes account of the financial impact of holding the assets. It is recognised that other benefits are generated by such assets and in working with Shetland businesses, however this has not been quantified for the purposes of this MTFP. Socio-economic and other benefits that Shetland derives from these assets would be reported on separately by the Development Directorate.

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

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

6. Reserves Policy and Investment Returns

6.1 Introduction

6.1.1 The value of long-term investments as at 31 March 2016 was £287 million of which the Council had Usable Reserves of £242 million. All of which have been invested in the financial markets for many years. The Council retains a working cash balance to finance day to day expenditure, which is supplemented by income received during the current financial year. If this Council is living within its means, and not drawing cash from the investments, the Council is able to operate effectively from the funding that it receives in a single year.

6.1.2 To maintain the value of the Usable Reserves the Council must live within its means, avoiding overspending on its budget, and also actively managing and understanding the impact of its decisions. For example there are a number of earmarked useable reserves that over time will inevitably be used to achieve strategic outcomes and objectives, such as the Housing Repairs and Renewals Fund; the Insurance Fund; and the Council Tax Second Homes Receipts Fund. Recognising the timing and value of the use of these earmarked reserves must therefore be taken into account when considering the long-term investment returns that aim to be achieved.

6.1.3 The Council, through adoption of the current MTFP and the recommendations in the Long Term Financial Plan[7], has agreed the objective of maintaining the value of the Usable Reserves as it provides the cash upon which the long-term investments are based. This in turn is assumed to provide a long-term recurring funding stream to support the costs of delivering Services. This approach achieves the greatest long-term benefit for the delivery of Services in Shetland.

6.1.4 The value of investments can go down as well as up and therefore there needs to be a risk based approach taken in relation to withdrawing funds and the method upon which investment returns should be calculated. This is explained in the withdrawal policy below.

6.2 Investment Objectives

6.2.1 It is important that the Council recognises its investment return objectives and the risks that are associated with the investment structure that is implemented to deliver those objectives.

6.2.2 The Council has the following investment return objectives:

- Achieve investment returns that are sufficient to enable an annual sum to be withdrawn, without putting the underlying capital value at risk;

[7] Long-Term Financial Plan: Council, 3 December 2014.

- Achieve investment returns that protect the capital value from the impact of inflation; and
- Investment risk is mitigated by the diversification of asset classes, global coverage and a number of fund managers.

6.2.3 Structuring the Council's investment in the financial markets will be carried out in accordance with the approved Annual Investment and Treasury Strategy[8].

6.2.4 The Annual Investment and Treasury Strategy sets out the risks associated with it and the mitigating actions and controls that are in place to reduce the impact and likelihood of those risks.

6.2.5 In following this approach the Council aims to deliver additional funding for Services over the long-term.

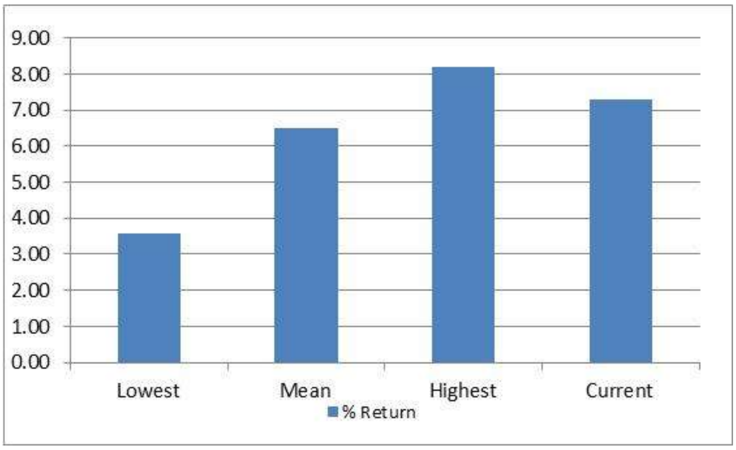
6.3 Withdrawal Policy

6.3.1 The Council has adopted an approach that the benefit that could be derived from the investments would be based on the long-term average performance of the investments and that the value of the investments would be protected from the impact of inflation. This is in line with the investment objectives set out in section 6.2 above.

6.3.2 The agreed sustainable withdrawal from the investments is 5.2%.

6.3.3 Reviewing the investment returns over the last 20 years reveals that a range of returns have been achieved and that within this the year to year performance has, not surprisingly, been volatile. Chart 7 shows that despite the future value of investments being unpredictable, the returns over time have been positive. The expectation is therefore that investment returns will continue to be positive, but should not be predicted to achieve the highest levels of return that have been achieved in the past.

Chart 7: Shetland Islands Council, Long-Term Investment Returns analysis.



[8] The latest Annual Investment and Treasury Strategy 2016/17: Council, 24 February 2016

6.3.4 The challenge that the Council has is predicting how healthy those investment returns will be in the future. The graph above shows four investment return averages, which have been taken from the last 20 years of data, collating all 10 year, 15 year and 20 year average returns. The lowest average annual investment return of those was calculated at 3.56%, while the highest was 8.19%. The mean was 6.49% and the Council currently adopts a 7.3% average annual investment return.

6.3.5 In reviewing the expectations of future returns it is recommended that 7.3% is retained.

6.3.6 An assumption as to the future value of inflation is available from government forecasts; although low in the recent past there have been rises, particularly on the back of rising fuel prices. The full effect of the falling value of sterling – increasing the price of imports – has not yet been seen.

6.3.7 The Office for Budget Responsibility shows government forecasts for CPI to return to 2% by 2020. Given the long-term nature of these assumptions, looking back over the last 20 years, UK CPI averaged 2.3% over the last 10 years, 2.1% over 15 years and 1.9% over 20 years.

6.3.8 Using all of this as a backdrop it is not unreasonable to forecast that CPI may exceed 2% in the long-term and as such to recommend using future inflation proofing of investments at 2.1%, the 15 year average.

6.3.9 This results in a withdrawal policy that equates to continuing affordable use of investment returns on annual basis of 5.2%.

6.3.10 The value upon which an affordable use of investment returns is calculated is vital and this should take into account the known withdrawal from investments of expected expenditure and known commitments. In doing this allows a degree of tolerance to be built into the calculations to mitigate the risk of investment fluctuations, such as those that were experienced in 2015/16, where investment values fell by 1.2%.

6.3.11 An investment returns base is therefore recommended to take account of the following items to ensure that the expectations of what can be affordably withdrawn from investment returns are prudent:

- Borrowing invested in the short-term ahead of its use on capital projects and the principal repayments made that have not yet been used to repay debt at maturity;
- Earmarked General Fund reserves, excluding the £15 million equalisation fund;
- Discretionary Spend to Save funds that expect to be used to deliver future savings.

- The cumulative sum that is equivalent to the value that the investment value is ahead of the returns forecast (commencing 2015/16). At 31 March 2016 this was nil.

6.3.12 Calculating the investment returns base as at 31 March 2016 results in a value of £236.6 million upon which investment returns are recommended to be based.

6.3.13 The forecast financial outturn for the various Council accounts for 2017/18, based on the December 2016 valuation, has been included to provide a revised base for the MTFP moving forward beyond 2017/18 and is estimated to be £252.4 million. This reflects the positive increase in valuation of investments during 2016/17 and provides the MTFP additional resources upon which to base its scenario planning.

6.4 Affordable Use of Investment Returns

6.4.1 Based on the withdrawals policy above, the value of affordable use of investment returns in 2017/18 will be £12.3 million.

6.4.2 This sum may be used to support revenue or capital; however, it can only be used once.

6.4.3 The challenges of rising costs, falling income and the time it takes to make structural changes to the delivery of Council Services means that maximising the level of income from the investment returns to support Services will help to avoid unnecessary savings proposals to balance the budget. This does place significant restrictions on the Asset Investment Plan however the flexibility and prioritisation of projects of a capital nature allows greater opportunity to adapt during the five year period to the changing public sector environment.

6.4.4 The affordable value across the period of the MTFP is subject to 2.1% inflationary increases, in line with the inflation proof approach being taken to the investment return base value.

6.4.5 It is recommended that the full value is allocated for use to support revenue service delivery costs throughout the life of the MTFP.

7. Future Revenue Resource Pressures and Demands

7.1 Introduction

7.1.1 The Council's financial and service environment is continually changing and therefore its priorities are updated regularly in response to levels of demand and emerging need.

7.1.2 A number of factors create a demand for resources. The most significant of these include:

- The cost of maintaining services at current levels in current form, i.e. pay and price inflation;
- External factors that impact on Council income levels;
- The cost of additional demand for services arising from increased need or changing populations; and
- Changes in government policy that have an impact on Council expenditure or income, e.g. apprenticeship levy, landfill tax, early years provision, the Community Empowerment Act.

7.1.3 Each of these is considered in more detail below.

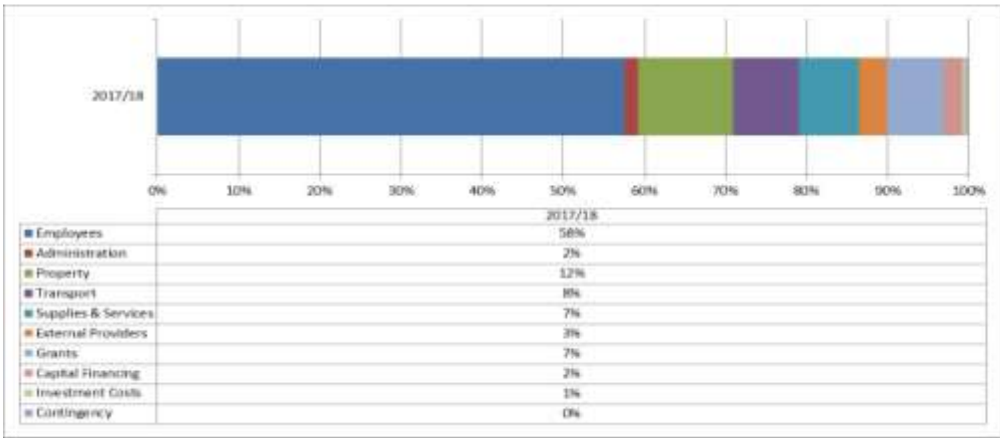
7.2 Pay and Price Inflation

7.2.1 One of the most significant factors creating a demand for extra resources is inflationary pressure – price rises caused by national macro-economic conditions.

7.2.2 Specific price inflation uplifts have been estimated on the basis of a scale of high, medium and low to refine the forecasting of costs that the Council will face. This will enable the projections in the MTFP to define the challenge that exists and not simply assume that these costs will be met from general efficiencies. There will be an expectation of savings being a contributory factor to closing the budget gap.

7.2.3 The Council budget is made up of different categories of cost and, as shown in Chart 8, the predominance of employee costs is clear.

Chart 8: Shetland Islands Council, Gross Revenue Expenditure 2017/18.



7.2.4 The most significant inflationary pressure is therefore pay-related inflation, which is agreed nationally between employee and employer organisations and applied across local government. The cost of pay related inflation has been included and forecast on a recurring basis. In years 2 to 4 an uplift of 2.25% has been used (and in year 5 1.5%) to take account of pay award itself, continued support of the national living wage, the potential impact of pension revaluations and for other costs that are not yet known.

7.2.5 This does lock in a cost burden of around £2 million per annum, which may appear high however in 2017/18 the sum set aside to address the range of pay related costs is £3.5 million. The MTFP takes reasonable account of these substantial costs.

7.3 External Factors Impacting on Additional Income

7.3.1 In 2017/18 £21.2 million (19%) of the Council's budget is based on the assumption that additional income will flow into the Council from its own resources, with £2.5 million being on the basis of one-off funding from reserves.

7.3.2 The receipt of the certain additional income is dependent upon global financial market conditions and commodity prices, volumes of production, tanker movements, and so on, all of which are outside the control of the Council.

7.3.3 While the MTFP has already described in detail the approach to long-term investments and the income that it will seek to achieve, these assumptions need to be constantly reviewed, fluctuation in Shetland Gas Plant income is clear example of this.

7.3.4 Low oil prices also has the potential to impact on the harbour operations, as media coverage of savings and cost cutting across the oil and gas sector strongly indicates the likely impact here in Shetland as well as elsewhere. The Council needs to seek ways to protect and maximise its return from the assets that it deploys to operate the harbour operation in an environment where the operator at the Sullom Voe Terminal is changing. The Council is heavily engaged in protecting its interests during this change. As discussions continue to establish a greater understanding of the various factors that exist it has been prudent to continue to forecast an income stream that reflects the current reliance on surpluses, £6 million per annum. Further detail is included in section 8.

7.3.5 The decision making of other external bodies is another factor that the Council requires to take into account as it places additional financial pressure on specific Service areas. Particularly significant is the Shetland Charitable Trust, and its financial contribution to the partnership agreement for the delivery of the Rural Care Model. The Trust signalled its intent to reduce funding by 20% over a five year period, commencing 2015/16.

7.3.6 While the Council seeks to secure the funding required for the delivery of the Rural Care Model it is prudent to take account of the intended funding reductions as ultimately the Council does not determine the value of funding it will actually receive. This amounts to a cost pressure of £0.5 million over the period to 2019/20.

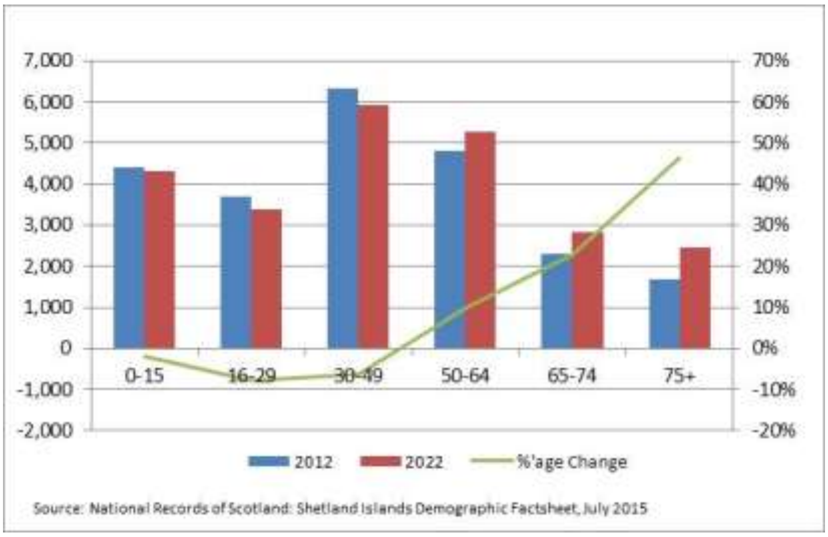
7.3.7 The overall uncertainty over the security of income that is expected from our investment, trading opportunities and external bodies has the potential to impact positively and negatively on the MTFP. It is therefore essential that the MTFP does not over commit the Council to income that it hopes to achieve simply to balance the budget. The evidence presented in this MTFP supports a prudent and appropriate approach to forecasting the income that can be achieved taking account of the appetite for risk that has been discussed with Councillors.

7.4 Increased Need and Changing Populations

7.4.1 Increases in the number of people using a Service creates demands for additional resources, and these must be planned appropriately to ensure that the needs of each group can continue to be catered for in line with corporate priorities.

7.4.2 The Council recognises the forecasts made for Shetland by the National Records of Scotland in relation to population, and during the life of this MTFP the projection is that a shift will occur in the population, from a base in 2012, towards an older overall population. This is reflected in Chart 9.

Chart 9: Demographic projections for Shetland 2012 – 2022.



7.4.3 The Council has made it clear in its Corporate Plan that while it is generally felt that higher demand will increase the total cost of providing care, the outcome that the Council is seeking is one where efforts are centred on encouraging healthy and active lifestyles that will help people to be independent and reduce the need for care as they get older. This promotes a positive way to approach the challenge of a changing population.

7.4.4 The Improvement Service has recognised the Council as a high quality and high cost provider of Services and therefore further opportunities exist to identify and implement alternative models of service delivery that reduce the individual / unit cost thereby allowing costs associated with rising numbers to be accommodated within the same total budget. These are actions that need to be considered, particularly when facing the added pressures from the intended reduction in income for social care services from SCT. It is essential when looking at alternative models that the longer term impacts of any change are considered; in particular, the lifetime costs of care for people rather than the traditional measure of service unit costs.

7.4.5 In comparison to other Local Authorities, Chart 10, Shetland has the greatest number of high cost services per head of population, which illustrates the point made by the Improvement Service.

Chart 10: Comparison of cost of services per head of population 2016/17 (budget) 1=Highest Cost; 32=Lowest Cost per capita.

	Authority							
Data	Aberdeenshire	Argyll & Bute	Dumfries & Galloway	Eilean Siar	Highland	Orkney	Scottish Borders	Shetland
Education	16	6	21	2	9	3	19	1
Social Work	28	6	16	2	19	3	10	1
Roads & Transport	12	4	15	3	7	2	5	1
Environmental Services	11	2	23	1	4	6	10	7
Planning & Development Services	28	11	15	4	30	2	32	1
Cultural & Related Services	29	19	26	6	25	2	13	1
Central Services to the Public	32	18	15	8	30	16	26	13
Housing (non-HRA)	15	6	8	3	12	1	28	2
General Fund Contributions to Trading Serv	6	1	10	2	4	10	10	10
Other Expenditure	26	2	10	1	6	30	17	32
Total Service Expenditure	**30**	**4**	**12**	**2**	**10**	**3**	**11**	**1**

7.4.6 The MTFP recognises that Services will need to change, to adapt and take appropriate action to enable the outcomes to be achieved and the Council is focused on business transformation and Service redesign to enable that change to take place.

7.5 UK and Scottish Government Policy Changes

7.5.1 Policy changes can arise from Europe, UK or Scottish parliamentary or regulatory changes and this can place new burdens on local government. Recent changes announced, in the process or being implemented or due to be implemented include European air quality standards, energy efficiency and working time directives; UK Treasury introduction of the apprenticeship levy; and Scottish Government Community Empowerment (Scotland) Act2015, Children and Young People (Scotland) Act 2014.

7.5.2 Financial pressures placed on the Council by these vary with funding being attached to some policy changes but for others the Council will have to address its responsibilities and find means of paying for them.

8. Harbours

8.1 Introduction

8.1.1 In 1974 the UK Parliament passed The Zetland County Council Act. This Act provided certain regulatory powers and placed duties of conservancy on the Council, over the seas around its coast line. The Act provides the Council certain financial powers to borrow, invest and participate in business.

8.1.2 Under the Act the Council now operates a number of harbours around Shetland, the primary operation taking place at Sella Ness (the Port). The levels of activity are entirely dependent on the tanker movements through the Sullom Voe Terminal (SVT).

8.1.3 All the harbour operations are accumulated and accounted for through the Harbour Account. All surpluses generated on the Harbour Account are transferred to the Reserve Fund – a specific Fund held within the Council's Usable Reserves.

8.1.4 The Act states the purposes of the Fund as:

- To cover losses on the Harbour Account;
- To meet any claim or demand against the Council arising from the Harbour Account;
- To meet any capital expenditure to maintain the Harbour Account;
- To meet any repairs and maintenance cost on the Harbour; and
- To be used for any other purpose which in the opinion of the Council is solely in the interests of the county or its inhabitants.

8.1.5 For many years the Council has drawn funds from the Reserve Fund to support the delivery of other Council Services, through a contribution equivalent to the annual surplus on the Harbour Account.

8.1.6 As a trading operation the Harbour Account is set up to make a return on the assets that are invested therein and to generate a surplus. It is recommended that the Council continue to adopt a robust pricing policy for the Port to ensure that a return on the investment made is achieved annually and that this surplus is used to deliver benefit to the Shetland public. This will be achieved by providing financial support to the Revenue Budget, thereby contributing to the delivery of Council Services.

8.2 Harbour Operations

8.2.1 Previously it was stated that that oil industry had announced its intention to remain at the SVT until around 2050.

8.2.2 As described in section 7.3 the impact of low oil and gas prices on the industry has resulted in significant uncertainty, with widely reported cost reduction initiatives, including capital investment delayed or cancelled, job losses and operational changes. The full impact on SVT remains unclear and discussions are continuing in relation to the position and plans of the Council's customer.

8.2.3 BP the current operator has recently announced its strategy in relation to the Terminal and is in the process of selling part of the business and transferring the operational management to EnQuest, with a view to maximising the economic life of the assets.

8.2.4 At present the financial modelling continues to be reviewed in light of the volatile market conditions however it remains important that certain principles are retained in terms of operating the Port for the benefit of the oil industry. These include:

- The oil industry will never be subsidised by Shetland Council Tax payers;
- The pricing policy adopted will be full cost recovery plus a surplus, that reflects a suitable rate of return on investments;
- The customer has defined the service level required at the Port as "24/7", which has been assumed as the continuing operating model;
- The surpluses generated by the Port over the period to 2050 will be at least equal to the average investment return that would be generated had the capital instead been invested with the Council's Fund Managers;
- The cost of capital investment, associated lifecycle replacement and maintenance and decommissioning will be built into the full cost of operations.
- Where tanker numbers are such that additional surpluses are generated then these should be set aside to address the future costs and in preparation for the decommissioning of the operation and income to the Council being fundamentally reduced.

8.2.5 The MTFP maintains a prudent approach to the surplus that can be used for supporting Service costs and that a constant surplus of approximately £6 million will be generated annually.

8.2.6 This will provide a continuing level of income to the General Fund Revenue Budget to support Services and provide time for a greater level of information and knowledge to be obtained to inform future financial modelling and pricing policy.

9. Housing Revenue Account

9.1 Introduction

9.1.1 The Council is the largest landlord in Shetland, responsible as at 31 March 2016, for the letting and management of 1,725 properties across Shetland.

9.2 Accounting Treatment

9.2.1 The Housing Revenue Account (HRA) is a statutory account that requires to be kept separate from the General Fund. As such, it has to be financially self-sustaining, drawing its income from rental income generated on the housing stock. All expenditure, revenue and capital, is funded from housing rents and the Housing Repairs and Renewals Fund. It is not possible for the General Fund to subsidise council house rents.

9.2.2 The Housing Repairs and Renewals Fund, which only the HRA can access is part of the Council's Useable Reserves. At as 31 March 2016 there was a balance of £13.1 million.

9.2.3 The Housing Repairs and Renewals Fund has been excluded from the Useable Reserves on which the investment returns are based upon, as from time to time expenditure will be incurred to support the Council's delivery of social housing.

9.3 Housing Capital Investment

9.3.1 For a number of years the HRA was overburdened by the unsustainable level of debt that it had to service. However following a tripartite agreement between the Council, the UK Government and the Scottish Government the issue of historic debt has been successfully addressed. The reduced debt level has resulted in lower annual costs for the HRA.

9.3.2 The HRA will only be able to fund capital expenditure in line with the Capital Funding Policy (see section 12.4) and the Prudential Code. The Council's Annual Investment and Treasury Strategy includes details of the overall capital financing requirement and other Prudential Indicators, which includes the HRA. This will ensure prudence, sustainability and affordability in all future capital investment decisions which will avoid the HRA becoming financially unsustainable in the future.

9.4 Housing Revenue Account Financial Policy

9.4.1 In producing the HRA Business Plan, the 30 year financial modelling that has been undertaken to inform it, provides a detailed level of data upon which future year HRA budgets should be set. The overall objective of the Business Plan is to fully cost the operational requirements of letting, maintaining and managing the Council housing stock. It is expected that the Business Plan will ensure:

- Annual HRA budgets are financially sustainable;

- There is a focus on housing rent levels being affordable;
- Capital investment is targeted at maintaining the existing housing stock, ensuring the quality standards set nationally are met and will be in line with the Capital Expenditure Policy (see section 12.3);
- Capital investment will be funded in line with the Capital Funding Policy (see section 12.4). This may include in-year revenue funding from housing rent income and where necessary borrowing, subject to complying with the Prudential Code; and
- The Housing Repair and Renewal Fund is managed effectively to have a long-term focus.

9.4.2 UK Government reform of welfare policy and specifically the change to Universal Credit alters the timing of payments and makes full payment of the housing related elements of benefits payable to the applicant. It is therefore their responsibility to pay their rent. The national and local position suggests that rent arrears have increased for the individuals that are receiving Universal Credit.

9.4.3 While this represents a very small number of people at present the position will have to be reviewed on a regular basis and where necessary incorporated within the modelling of the business plan.

9.5 Housing Activities Supported outwith the HRA

9.5.1 The Corporate Plan makes clear one of its top priorities is affordable housing. This in part is addressed through the proper and effective management of the Council's own HRA and housing stock, but is not the only mechanism that the Council has to achieve a better outcome in this area.

9.5.2 The HRA Business Plan states that the Housing Service operates within a strategic framework which links to local and national policies. These are contained in the Local Housing Strategy and underpinned by the evidence base presented in the Housing Need and Demand Assessment.

9.5.3 The five key themes of the Local Housing Strategy are Future housing supply; Homelessness; Housing Support/Housing needs of an aging population; Fuel poverty; and Private Sector.

9.5.4 These themes provide the framework for improving the housing outcomes. At the same time as seeking HRA solutions to support the Local Housing Strategy, the Council continues to work closely with Hjaltland Housing Association to increase the supply of houses, and access additional funding options, not readily available to the Council. Added to this are options in relation to mid-market rent properties, such as the National Housing Trust initiatives and working with developers to stimulate increased supply of affordable houses.

9.5.5 Income from the collection of Council Tax on 2nd homes, has, under legislation, had to be set aside for the purposes of delivering affordable housing solutions. The sum available in the Council's Usable Reserves as at 31 March 2016 was £1 million.

10. Risk Management and Financial Stability

10.1 Introduction

10.1.1 The MTFP process not only takes account of the resources available and cost pressures that arise from day-to-day activity, it also has to make provision for the unexpected. This helps protect services against short-term fluctuations in resources or demands, which would otherwise require changes to be made to on-going service provision.

10.1.2 The key mechanism for managing such uncertainty and delivering financial stability is having Cost Pressure and Contingency budgets and the availability of uncommitted General Reserves.

10.1.3 In the context of the MTFP, the financial risks can be broadly grouped into 3 categories:

1. Cost Pressures - Risks that can be identified with some certainty and for which a reasonable estimate of impact can be made, e.g. pay and price inflation. Where possible, key service base budgets have been adjusted to reflect the impacts as described in section 6, future revenue demands and pressures above;
2. Contingencies - Risks that can be identified that are more certain to materialise but for which the size and scale of the risk is subject to some unknowns e.g. the uncertainty of numbers of children requiring additional support outside Shetland or the frequency and scale of ferry repairs. As such it is difficult to justify full provision within service budgets;
3. Uncommitted General Reserves - Risks that can be identified, but for which the likelihood of occurrence, timing or impact are very uncertain. In these cases, the most appropriate means of delivering financial stability is through reserves and balances to ensure that significant in-year pressures do not destabilise ongoing services.

10.1.4 The level at which the Cost Pressure and Contingency Budgets and General Reserves should be set at needs to take account of the financial risks facing the Council. The greater the level of uncertainty and the higher the potential financial impact of risks, the greater the need for provisions and reserves. Ensuring that they are maintained at a healthy level in order to manage risks is therefore an important aspect of Medium Term Financial Planning.

10.2 General Revenue Contingency Budget

10.2.1 The Council will manage Category 1 and 2 risks through a Cost Pressure and Contingency Budget. In assessing the level of this, the key risks have been identified and estimated. Cost Pressures are recurring in nature and increase the base cost of the service being delivered (cumulative effect) whereas contingency items are deemed non-recurring and are likely to vary year on year. Items which have been taken account of are:

1. Cost pressures - This includes pay award, the implementation of holiday pay, the impact of employer pension contribution increases, the introduction of the apprenticeship levy and the potential for additional pension contributions arising from auto-enrolment. Policy changes that include the loss of income e.g. charges for carers/respite and working time/sleep-in arrangements.
2. Contingencies - This includes items for fuel price fluctuations, ferry breakdown costs, winter maintenance and storm damage and supply teacher costs.

10.2.2 It is expected that not all of the forecast cost will arise in every year therefore the provision does not provide for 100% of the identified cost pressures and contingency items. Due to the Council's recent history of delivering on budget or below there has been flexibility for Services to absorb a proportion of cost pressures in year where they arise, without requiring an allocation of budget from contingency.

10.2.3 Each year there will be a need to review and refine the provision in light of new and improved information on the scale and timing of cost pressures and contingencies. Where possible recurring items, once known, will be built into the Service base budgets.

10.3 Uncommitted General (Revenue and Capital) Reserves

10.3.1 Category 3 risks will need to be managed through General Reserves. This will provide capacity for the Council to manage the more significant and unexpected events that it may face. Three main risks aim to be mitigated by holding uncommitted reserves, namely Major Incidents, Major Disasters (e.g. Natural) and the General Financial Climate. There may be other risks that are also pertinent to be mitigated through these reserves.

Major Incident – potential for significant unplanned expenditure in support of specific circumstances;

Major Disaster – service delivery affected and resources diverted (e.g. buildings being in accessible or disaster recovery plan / emergency plan being set in action);

Financial Climate – wider knock-on effects All General Reserves form a part of the market changes, Brexit, austerity, and / or lower growth and the consequential impact on UK and Scottish Government budgets. There is uncertainty both in relation to the totality of resources available for the public sector and the distribution of those resources. This uncertainty applies both to Capital and Revenue resources.

10.3.2 The Council, as at 31 March 2016, held an uncommitted General Fund Reserve of £10.2 million which could be used to defray such expenditure.

10.3.3 Usable Reserves of the Council and as such form part of the overall Reserves Policy that has been discussed in detail in section 6.5 above. The risk that arises in relation to Reserves is a failure to recognise that Reserves are usable only once. The Reserves Policy sets out to maintain the level of Usable Reserves and this includes the values currently held within General Reserves. In doing so the value is committed to the long-term investment returns withdrawal policy of the Council which allows a sustainable draw from the investment returns to support the Revenue Budget annually.

10.3.4 By committing to the long-term investment it relies upon the General Reserves remaining unspent and held as Usable Reserves.

10.4 Financial Stability

10.4.1 A careful balance needs to be maintained between holding too much and too little money in Reserves. If Reserves are too small, this increases the Council's exposure to risk and endangers its capacity to deliver priorities in a planned and prudent fashion. Demand-led services and an environment of ever changing legislative requirements, an increasingly litigious society, combined with reduced funding from the Scottish Government all threaten financial stability. Planning to increase Reserves beyond current levels (by delivering a surplus) prevents in-year funding from being allocated to Service budgets.

10.4.2 It is important to remember that Council cash is not idle. The money the Council has in Reserves is invested long-term and the Council benefits from the positive results that the Council's investment strategy delivers (see section 6). Investment return generated through the management of Council cash is used to pay for additional Service provision.

11. Balancing the General Fund Revenue Budget

11.1 Introduction

11.1.1 A balanced General Fund Revenue Budget is achieved when the forecast expenditure required to meet the Corporate Plan and associated Directorate and Service Plans are matched by the resources available.

11.1.2 Based on the information gathered from the Medium Term Financial Plan planning process a General Fund Revenue Budget financial model has been developed that indicates the forecast matching of income and expenditure over the five year period. The detail is shown in Appendix A.

11.1.3 In setting the 2017/18 budget the starting point had been maintaining the approach taken in the previous MTFP, that of 3.3% savings across all Services. However, following two financial years with significant grant funding reductions (c.9%), that strategy has had to be revised. A balanced budget has been set for 2017/18 having taken account of a one-off use of reserves, taken from underspends achieved in 2015/16.

11.1.4 Focus is now squarely on the future, with a need to bridge a funding gap that will grow to almost £20 million by the end of the MTFP in 2021/22, as shown in the table below.

Shetland Islands Council Medium Term Financial Plan 2016/17 - 2021/22	**2016/17 £'000**	**Year 1 2017/18 £'000**	**Year 2 2018/19 £'000**	**Year 3 2019/20 £'000**	**Year 4 2020/21 £'000**	**Year 5 2021/22 £'000**
Total General Fund Net Service Expenditure	110,278	110,136	114,783	118,267	122,481	125,785
Total Trading Income	(6,110)	(6,222)	(6,850)	(7,150)	(7,450)	(7,550)
Total Core Revenue Funding	(91,144)	(88,889)	(87,654)	(86,582)	(85,660)	(84,669)
Additional Financing Requirement	**13,024**	**15,025**	**20,279**	**24,535**	**29,371**	**33,566**
Financed By:						
Affordable Draw from Investment Returns	(12,024)	(12,272)	(13,439)	(13,656)	(13,878)	(14,105)
One-Off Use of Reserves	(1,000)	(2,753)	0	0	0	0
Underlying future savings requirement (funding gap)	(0)	0	(6,840)	(10,879)	(15,493)	(19,461)
	(13,024)	**(15,025)**	**(20,279)**	**(24,535)**	**(29,371)**	**(33,566)**
Cumulative One-Off resources required would be...	**(0)**	**(0)**	**(6,840)**	**(17,718)**	**(33,211)**	**(52,672)**

11.1.5 Most significant is that if the Council takes no action and all things being equal, then by 2021/22 the Council would have used an additional £53 million from its investments and this would fundamentally undermine the value of affordable draw from investments; compounding the problem. For every £1 million spent from Reserves equates to a loss in investment income of approximately £73,000. The effect would be cumulative resulting in an annual loss of £3.9 million from the affordable draw from investment returns.

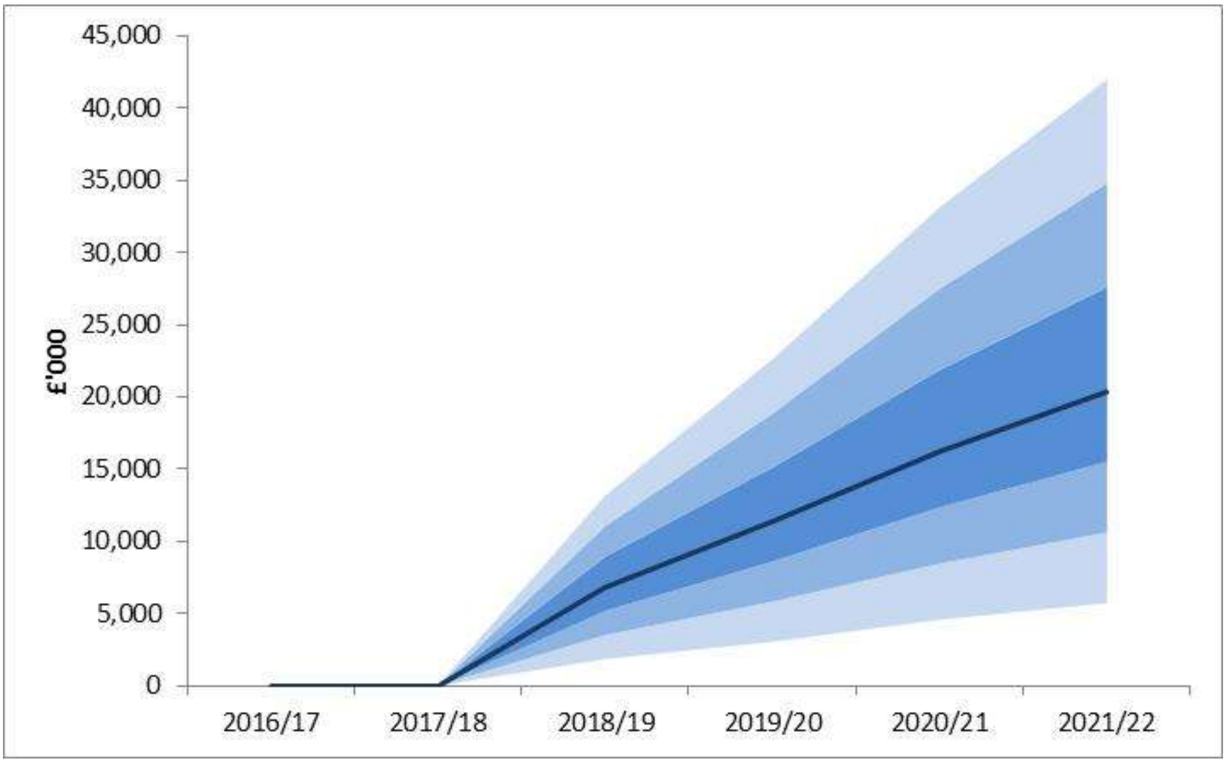
11.1.6 A more appropriate, and the recommended, response by the Council will be implementing recurring savings, or recurring income or managing out demand and growth pressures to the value of £20 million over the period to 2021-22. A target for the Council should be annual recurring savings of 4.5% (Appendix B).

11.1.7 This does present the challenge of requiring one-off funding to manage the reduction over that time, but if delivered then an affordable budget of £106 million per annum is achieved. The one-off funding, the value of £2 million is affordable over that period because of the positive position from which it starts; underspending that has provided additional funds at the end of 2015/16.

11.1.8 The alternative would be to recommend that the one-off funding is balanced over the 5 years, which would mean higher savings targets and quicker delivery. It would also result in a base budget at year 5 that was substantially below that which would appear to be affordable at that point. This scenario is shown in Appendix C for illustrative purposes.

11.1.9 It is clear that the uncertainty in forecasting all of the various factors brings a significant likelihood of error and therefore setting the gap of almost £20m in the context of the 'Best' and 'Worst' case scenarios. Chart 11 shows the range of uncertainty and the scale of the challenge. Even in the best case income cannot keep up with expenditure, with a gap of £6 million, which is in sharp contrast to that of the worst case scenario with a gap of £42 million.

Chart 11: Shetland Islands Council, Medium Term Funding Gap to 2021/22.



11.1.10 The MTFP takes a prudent approach to the overall range of possible scenarios.

11.1.11 It is recommended that the Council now, urgently and robustly takes an overall strategic approach to ensure that the Corporate Plan objectives are given the highest priority, that the approved Business Transformation Programme is delivered alongside clear and focused Service redesign to address this gap.

11.1.12 The Council does not, as yet have a clear plan of action to address this however it has some limited time, is in a positive position – currently forecasting to underspend in 2016/17 – and has been able to identify within the MTFP that in the future further resources from the Council can be utilised to support services.

11.1.13 Action has to be taken and detailed plans put in place so that the opportunity the Council has to reduce the cost base, is not missed.

11.1.14 It is fully recognised that the assumptions made will require to be refined as more information and certainty is brought to those assumptions.

11.2 Aligning Resources with Priorities

11.2.1 As highlighted in 11.1.7 the MTFP describes an affordable budget in the future of £106 million, subject to the uncertainties described above. This is not particularly different to the cash value of the base budget that was described in the budget for 2017/18 (before any one-off funding). Only 1% below, what it is today.

11.2.2 This shows a significant ongoing investment in the Services that the Council will continue to deliver into the future. The challenge is that costs will inevitably rise, as described in detail at section 7.

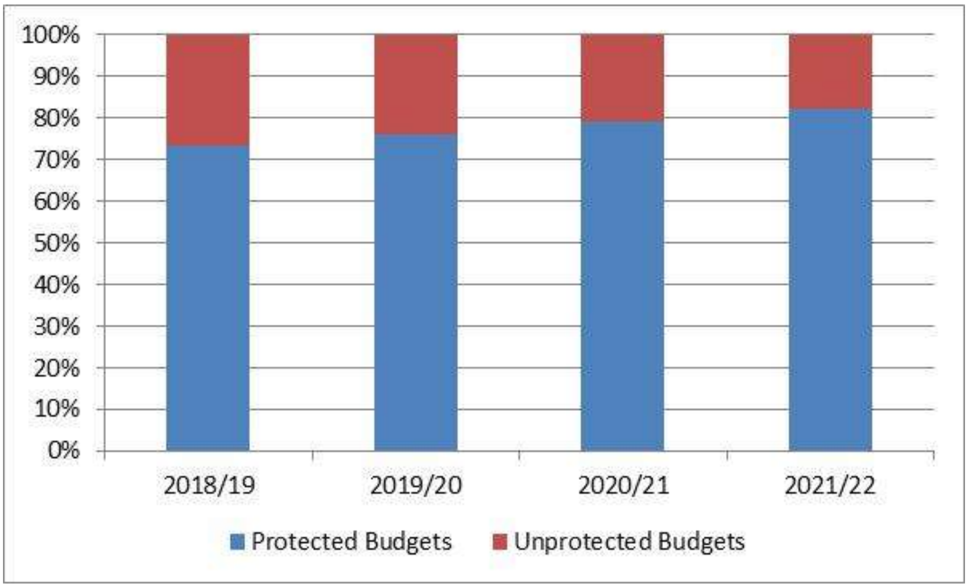
11.2.3 It is these rising costs, based on the current staffing establishment, operational buildings, contracts and payments to external organisations that present the problem.

11.2.4 The key to keeping rising costs in check is to look at the way Services are delivered and find alternatives ways of carrying them out at reduced cost or to reconsider the priority for the Council and to stop or reduce what is done.

11.2.5 The last MTFP looked at the impact of simply protecting certain elements of the budget as currently organised and allowing those to continue as is. This would have the impact of skewing the delivery (or stopping) of Services in other parts of the Council which may not be possible for legislative reasons and is disproportionate.

11.2.6 This is illustrated by Chart 12, which shows the impact of protection being offered to almost 70% of the budget, to reflect Education, Social Care (Adults and Children) and Transport. The impact on everything else is that by Year 5 there are only sufficient funds to provide 60% of the current funding levels. Many statutory services and fixed costs are included in what is defined as ‘everything else’. This presumes that there are not cost reductions in the way that those protected services are delivered and that success in the future is based on what is in place now. There have to be other ways to do many of the activities the Council does.

Chart 12: Impact of protecting 70% of the 2017/18 budget, plus anticipated growth, on other parts of the Council Budget.



11.2.7 It is not recommended that protection is applied, unless and until the Council is able to decide what its priorities for resource allocation are. This becomes the framework for protection of specific Services, but is not necessarily based on the way those Services are currently carried out or the current management arrangements and departmental structures.

11.2.8 There remains an underlying requirement for the Council, through the funding settlement from the Scottish Government, to deliver year on year efficiency savings and these in principle should apply to all Council Services.

11.2.9 As discussed in section 11.1 a programme of change is required to take the Council forward, clear in its priorities and ambitions for outcomes. Focus must be on the Council doing the things that are most important to it to achieve those outcomes and contribute to the wider Local Outcomes Improvement Plan.

11.2.10 There should be a review of the way that outcomes can be achieved for lower cost, a cost base that does not use the current composition of resources, whether that is staff, buildings, plant and equipment, external contractors and so on.

11.2.11 The other consideration that has to be taken into account is look at the Services for which the Council is not receiving its fair share of funding. Examples of activities where the Council stands out are in transport, in tertiary education, and in promotional activities. This is not to say these should be the only activities to be analysed, it should be clearly understood what the considerable investment in such areas is going to achieve. Appropriate funding levels to match those of other parts of Scotland should also be sought.

11.2.12 If the Council is to address its priorities and arrange its financial and other resources to deliver on the key objectives with a view to achieving the long-term outcomes then the Council will need to take a long-term and robust approach to this. Gathering the necessary data and evidence that supports an outcome focus is not a straightforward or quick task.

11.2.13 Within the framework of this MTFP, rising cost and reducing income does not make this task any easier. However it is recommended that the work is put into defining the allocation of resources to support the strategic objectives and outcomes and to set a Council-wide recurring savings target of 4.5% per annum, a sum of approximately £5 million.

11.2.14 In the absence of that strategic work being completed then the MTFP recommends an alternative 'salami slicing' approach. A Service focused financial target that essentially looks for each Directorate to deliver their budget proposals with no growth and set an efficiency target that requires to be delivered beyond that. The figures are indicated in Appendix B.

11.2.15 This will not actually deliver the outcomes for the citizens of Shetland and will potentially target activities/Services that are needed in the medium to long term for the ultimate achievement of what is important. It does however ensure there is clarity in what is expected in event of a void of information.

11.3 Assumptions for Future Resources

11.3.1 The financial modelling for 2017/18 to 2021/22 is based on a set of assumptions which have been described in detail throughout the MTFP.

11.3.2 The following points are a reminder of the headline assumptions made in estimating resources for the future:

Council Tax	Band D rate increased annually by 3%;
	Tax base increase 1% per annum (80 Band D equivalents).
SG Revenue Funding	Cash reduction in General Revenue Grant will apply for the final 4 years (7.38% reduction by 2021/22);
	The reduction includes the continued fall in Notional Loan Charge Support at approximately £0.6m per annum.
Shetland Gas Plant	Oil and Gas prices are at a level that means throughput income will be received over life of the MTFP.
Harbour Surplus	Increased surplus of £6m annually for services.
Shetland Charitable Trust	Cash reduction of £0.5m by 2019/20.

Investment Returns	7.3% annual return year on year; inflation proofing at 2.1%; net return 5.2%.
SG Capital Funding	£5.5m Capital Grant per annum, with additional funding in 2018/19 and 2019/20 because of hold back in 2016/17.

11.3.3 The following points are a reminder of the headline assumptions made in estimating expenditure for the future:

Inflation	Pay award / Living Wage / Pension Increases / other 2.25% Years 2-4; 1.5% Year 5.
	Price inflation, ranging from 1% to 3.5% over various categories – fuel and energy costs reflecting higher assumptions than more general supplies and services.
Population Changes	Contingency for the impact of population changes - £0.3m per annum from 2017/18.
Policy Changes	Apprenticeship Levy 0.5% of pay bill from 2017/18
	Children and Young People (Scotland) Act 2014 – funded by Scottish Government.
Debt	No new external borrowing is taken beyond projects already identified.

11.4 Management of the Budget and Budget Flexibility Initiatives

11.4.1 The Council now has a history of delivering its budget outturn at or below budget. It is inevitable that significant demands will be placed on the Council and its future capacity and as such the Council will need to continue delivering robust control of its budget. This is done through devolved budget ownership (Budget Responsible Officers) and a monthly reporting process to the Corporate Management Team. It culminates in quarterly budget monitoring reports to the Council Service Committees and Policy and Resources Committee.

11.4.2 The Council's budget monitoring and performance reporting process includes monitoring progress in relation to the savings identified as part of the annual budget setting process. This enables management action to be taken as early as possible including corrective actions and the identification of alternative approaches.

11.4.3 The Council has made progress in financial decision making, using evidence based reporting, following the Building Better Business Cases methodology and demanding fully costed options. There is also a much stronger understanding of the cost of using resources and this being taken into account when making decisions. It is recommended that the Council continue to build upon the financial management improvements that have already been made.

11.4.4 The Council, through the work with CMT and Directors, is positively positioned to respond to moving and prioritising financial resources it has available. To promote and support a robust approach to budget management now and in the future a number of initiatives are in place to assist officers.

11.4.5 **Funding for Change**

11.4.6 The MTFP in its current form indicates the impact on expenditure and income of delivering Services in their current form through the next five years. To continue to deliver Services in the same way over the next few years will only result in overspending and a failure to address the unaffordable cost base in place for providing Council Services.

11.4.7 Without continuing to press for savings year on year the costs and uncertainty of existing income streams will make it impossible to provide the assurance that the Council will require, that it will balance its budget in the future.

11.4.8 What is clear is that the models of service delivery that the Council has cannot be afforded if nothing changes. The Local Government Benchmarking Framework as developed by the Improvement Service, in conjunction with the Scottish branch of the Society of Local Authority Chief Executives (SOLACE Scotland) and Convention of Scottish Local Authorities (COSLA), has been developing for the last four years to establish a common approach to benchmarking and this shows Shetland Islands Council as a high cost, high quality Council. Reference was made earlier (section 7.4) to data that supports this.

11.4.9 To deliver the Corporate Plan objectives and make the difference to the outcomes that are valued and of the highest priority change is necessary.

11.4.10 The Directorate Plans that have been approved recently focus on taking key strategic projects forward, and these must be done in the context of the very challenging financial forecast in this MTFP. Reference can be made to a summary of priorities in Appendix D.

11.4.11 This includes the greatest benefit from Service redesign that can be achieved within a framework of business transformation, capturing the benefits of alternative ways of working and technology, to implement a more cost effective model of Service delivery, or to redirect resources to improve the outcomes that can be achieved overall.

11.4.12 Making the shift of resources to be more outcomes focused so that the result is the priority rather than the status quo is a crucial and very complex issue to address. In part it is anticipated that the work on Community Choices in mainstreaming will reveal new opportunities.

11.4.13 The Council acknowledges that Services themselves do not always have sufficient resources to fund the initial costs of implementing change, and the MTFP provides for continued funding to be set aside from the Revenue Budget Contingency to support this, to invest in the work that will be required. The MTFP incorporates a sum of £0.5 million annually to facilitate change.

11.4.14 It is recommended that decisions on the use of this funding will be approved by the Director of Corporate Services in conjunction with the Executive Manager - Finance to ensure that the funding is allocated to work that will progress the achievement of the Council's Corporate Plan priorities and there is a clear link to the achievement of the long-term outcomes.

11.4.15 **Budget Carry Forward Scheme**

11.4.16 The MTFP makes provision for a budget carry forward scheme in order to offer an incentive to Directorates to effectively manage their budgets.

11.4.17 If a Directorate achieves a one-off revenue under spend in a financial year, assuming it has delivered its budget in full, it will be permitted to carry 50% of this funding into the following financial year to support approved service priorities.

11.4.18 A 100% revenue carry-forward will be allowable if it relates to a specific contractually committed project that was not completed during the year due to slippage, or relates to ring-fenced funding.

11.4.19 A capital carry-forward is only allowable if it relates to a committed project that has not been completed. In these cases, 100% of the unspent budget can be carried forward if it is required to complete the project. There is no provision for the general carry-forward of capital under spends.

11.4.20 Carried forward funding will be applied to the following year's budget as a one off item and will only be available in line with approved Council service priorities.

11.4.21 The conditions of the scheme are:

- A Service will only be granted revenue carry forward if it's Directorate has delivered its budget. If a Directorate was overspent no budget carry forward would be considered.
- The under spend will be carried forward as a non-recurring budget i.e. the service would benefit in the next financial year, but it will not receive the funding in future financial years.
- Services will be required to identify their under spends and make a request for a carry forward at a date to be specified by the Executive Manager – Finance, based on Period 9 information.
- A carry forward will have to be applied to approved Council service priorities.

- If a service achieves a higher actual under spend than it forecast at period 9, it will not be able to subsequently seek an increase in its carry-forward request. If a service fails to achieve the level of under spend that it forecast at period 9, it will have its carry-forward request reduced accordingly.
- A Service's carry-forward request will be reduced by a percentage which is double the percentage difference of period 9 forecast to the actual outturn position for the Directorate as a whole. For example, if at Period 9 the Directorate forecasts an under spend of 5% but the outturn is a 15% under spend, the 10% difference will result in there being a 20% reduction in the value of the carry-forward that was requested based on the Period 9 data. This provides Services with a strong incentive to ensure that they forecast as accurately as possible at Period 9.
- Following a review of the Cost Pressure and Contingencies budget, with effect from financial year 2017/18 there will be no access to this budget when calculating the carry forward. Any underspend of this budget will be retained for the overall benefit of the Council.

11.4.22 Spend to Save and Improvement Fund

11.4.23 The Council has in place a Spend to Save scheme. The purpose of the scheme is to provide up front funding to a service in order to effect a change that will result in recurring savings in the future.

11.4.24 It is expected that the 'Funding for Change' described in section 11.4.5 will work in conjunction with this scheme to facilitate options identification and feasibility work that may be required in advance of specific actions required to deliver the change and reduce expenditure.

11.4.25 Due to the requirement for savings now and into the future the scheme has been reviewed to take a longer term view of how quickly the savings achieved from the use of the scheme are recouped. The underlying principle of the scheme therefore is that any funding awarded has to have a payback period no greater than 5 years.

11.4.26 The Executive Manager – Finance has the authority to increase this payback period to 7 years in exceptional circumstances, which may exist where additional resource benefits beyond financial savings or where the evidence of the impact on priority outcomes is compelling.

11.4.27 It is possible to apply for Spend to Save funding to undertake specific feasibility and option identification work if the revenue 'Funding for Change' is fully committed. In this circumstance any expenditure will be included in any subsequent request for Spend to Save funding and factored into the payback calculation.

11.4.28 Savings that may be derived from a Spend to Save investment can include future cost avoidance, for example waste, energy or carbon taxes, fines, penalties or charges that will improve the Council's control of future cost pressures. In this situation clear and robust evidence of the cost avoidance will have to be provided and be approved by the Executive Manager – Finance.

11.4.29 The Spend to Save funding can be used to support Revenue or Capital expenditure.

11.4.30 Due to the requirement for the Council to deliver actual savings in the revenue budget the Spend to Save funding will be provided on the following basis:

- That no interest will apply when repaying the sum invested by the Spend to Save fund;
- Where payback is calculated as 2 years or less, 100% of the sum invested will be repaid to the Spend to Save fund; and
- Where payback is calculated as more than 2 years, 50% of the sum invested will be repaid to the Spend to Save fund.

11.4.31 This will deliver earlier cashable savings into the Revenue Budget rather than having to wait until the payback period has been reached.

11.4.32 An example would be £0.5 million Spend to Save application for investment will generate £0.125 million of savings per annum. Payback period 4 years. If the full value of the investment has to be repaid into the fund then the saving that has been generated will only impact in year 5. By only repaying into the fund half of the investment the Service will be able to impact on the Revenue Budget in year 3. This enables the timescales for generating an impact on the Revenue Budget to be substantially improved, providing an incentive to effect the savings quickly.

11.4.33 The other impact is that the Spend to Save fund will reduce and not be self sustaining meaning that fewer future opportunities will be able to be funded.

11.4.34 The value of the Spend to Save funds, earmarked in the Council's Usable Reserves as at 31 March 2016, was £10.3 million.

11.4.35 The Spend to Save scheme will be regularly reviewed to ensure it remains relevant to current funding levels and the financial climate.

12. Capital Investment Planning

12.1 Introduction

12.1.1 The Asset Investment Plan sets out the capital expenditure that the Council plans to incur over a five year period. Capital expenditure relates to spending on significant repairs and maintenance work where the result is to extend the life of a Council asset, or spending on the creation or purchase of a new asset.

12.1.2 Shetland Islands Council receives a capital grant from the Scottish Government each year to spend exclusively on capital, and also receives money from the sale of Council assets, known as capital receipts. Any additional spending on capital items that is greater than these funding sources effectively has a cost – the cost of capital.

12.1.3 In the past the Council has used its Reserves to fund capital expenditure, which itself had a cost in that by using Reserves to fund capital expenditure, the value spent from Reserves was no longer be available to generate a long-term investment return. This cost was not accounted for and recognised as a cost in the past. The MTFP has ruled out using Reserves to fund capital expenditure.

12.1.4 The Council's resources are precious and in recommending the Financial Strategy in section 11 the investment returns that can be generated by retaining Usable Reserves, invested for the long-term, will be targeted on supporting the Revenue Budget. The consequence of this is that by maintaining the Usable Reserves value to maximise those returns there they cannot also be used to fund capital expenditure.

12.1.5 Now and in the future it is important that the Council recognises the cost of capital expenditure so that it is not treated as a "free resource".

12.1.6 Borrowing money from within the Council, or externally is the same, it has to be repaid in full.

12.1.7 The Long Term Financial Plan (LTFP) demonstrates that if the Council wishes to retain and operate the asset base that it currently has, there will have to be a significant transfer away from spending money on ongoing service delivery and will instead have to make savings in order to fund the cost of capital.

12.1.8 At present the Council is in another fortunate position where a substantial proportion of its revenue budget is not committed to annually funding the cost of borrowing.

12.1.9 The LTFP takes into account as part of its scenario planning the impact of long term asset management planning, as well as the current policy of focusing on what the Council has and needs for its organisational Service delivery.

12.1.10 A long standing issue that creates enormous uncertainty for the island communities is being unclear about the extent to which the Scottish Government will commit financial resources to fully support the aging ferry fleet and terminals. This is seen as a critical element of the commitment made by the Scottish Government to fund these services fairly.

12.1.11 The annual maintenance costs increases year on year and a programme of tens of millions is required over the next 20 years to protect that infrastructure. At present the funding the Council receives is not sufficient to fund this programme. The Asset Investment Plan makes the assumption that funding will be made available from the Scottish Government through Transport Scotland. The Council continues to lobby the Government and work with Transport Scotland, although the reality is that it cannot be certain that the necessary level of funding will be made available.

12.1.12 The Capital Expenditure and Capital Funding Policies recommended below (see sections 12.3 and 12.4) are applicable to the General Fund, Harbour Account and Housing Revenue Account

12.2 Future Capital Resources

12.2.1 The Capital Grant that the Council receives from the Scottish Government is the primary source of funding for capital expenditure. In the recent past the Scottish Government varied the value of capital grant available in 2016/17 and held it over until 2018/19 and 2019/20.

12.2.2 Projecting forward is challenging due to the lack of data to support any specific forecasts of what the Scottish Government may do. It has been assumed that Shetland will have to manage its capital expenditure on the basis of reduced funding too. The value used as a base in the MTFP is £5.5 million annually.

12.3 Capital Expenditure Policy

12.3.1 To address the unaffordable capital expenditure requirements of the Council the following policy is recommended:

- ➢ No growth in the asset base;
- ➢ All capital expenditure to be focussed on the maintaining the existing assets (with the exception of the previously approved new Anderson High School and new Eric Gray Resource Centre);
- ➢ A gateway process will ensure strategic fit is demonstrated early and decisions are taken at key stages. This will be supported by a full business case, including projected future demand, and options and investment appraisal process before a project can be considered for inclusion on the Asset Investment Plan;
- ➢ No project will be considered for inclusion on the Asset Investment Plan, and existing projects will be removed, unless they have a robust financial estimate

of cost. The Executive Manager – Finance will determine whether the financial estimate of cost is robust;

- All capital projects must clearly demonstrate the revenue consequences arising from a capital spending decision to assist Councillors in understanding the full financial impact; and
- The focus will be on effective asset management, driven forward through the Asset Strategy and Implementation Plan. This will ensure that the Council occupies a reduced number of properties in the future.
- The Executive Manager – Capital Programme will determine the opportunities for the maximisation of income from the Council's property estate, which may be in the form or revenue income or capital receipts.

12.4 Capital Funding Policy

12.4.1 To reflect the limited availability of capital funding and the cost associated with the use of capital the following policy is recommended:

- Scottish Government Capital Grant will be applied initially to short life assets (e.g. vehicles, ICT, certain maintenance);
- Capital Receipts will be targeted at core capital maintenance costs;
- Capital Funded from Current Revenue (CFCR) will be used were appropriate to fund low value, shorter life capital expenditure;
- Where available and determined as appropriate by the Executive Manager – Finance, other assets may be funded from Capital Grants, Capital Receipts and CFCR;
- All other capital expenditure will be financed by borrowing. If interest rates are lower than the return on long-term investments described in the MTFP (see Withdrawal Policy in section 6.3), external borrowing will be undertaken. If interest rates are higher than investment returns, internal borrowing will be undertaken;
- The service(s) that benefit from the capital asset will be required to make sufficient revenue savings to free up budget to pay for the cost of capital (interest charges and principal repayment of debt). This will be calculated based on the amount borrowed;
- Capital financing products are affected by external and financial market factors and can develop in a way that may enable the Council to achieve its Corporate Plan outcomes through alternative means. Where new capital financing opportunities arise, such as Scottish Government initiatives like the National Housing Trust models, then the Executive Manager – Finance will give

consideration to such products, subjecting them to financial viability, affordability and risk tests, and make a recommendation prior to proceeding.

- The level of borrowing required to finance the Asset Investment Plan is called the Capital Financing Requirement (CFR). The Council will be able to manage limits for borrowing based on what it thinks is prudent, affordable and sustainable through annually agreeing Prudential Indicators as part of the Annual Borrowing & Investment Strategy.

13. Conclusions and Financial Strategy

13.1 Introduction

13.1.1 Financial planning by the Council is good with improved financial management, improved financial and risk awareness and the adoption of a medium to long term plans to lead and direct the actions and activities of the Council.

13.1.2 This has enabled the Council to deliver Services to the Shetland public within budget and in doing so has improved the financial sustainability and resilience of the Council. However it cannot remove the need for the Council to continue to look forward and to recognise the enormous challenges that lie ahead in relation to the availability of resources, the cost pressures and the level of risk that Council has in relation to significant elements of its funding.

13.1.3 To continue to strengthen the financial management arrangements in place for the Council this MTFP has outlined those challenges and recommends that decisions are not only taken to address the forecast financial position but to carry out and implement a programme of change that moves Council resources to be focussed on delivery of the activities that are most important, achieve the best outcomes that it can.

13.2 Financial Strategy

13.2.1 Looking forward and taking into account the principles (set out in section 2) the MTFP sets out the recommended Financial Strategy to enable the effective management of financial resources over the next five years:

- To take action on costs over the life of this MTFP on the basis that Scottish Government funding will not increase for years to come and that it is likely to never return to the funding level (in real terms) that it has now to deliver Services (section 4.1);
- To continue to seek all opportunities to enter into dialogue with the Scottish Government in relation to Services for which the Council does not receive its fair share of funding, or where inconsistency exists between Shetland and other local authorities (section 4.2);
- To take a prudent approach to core Scottish Government funding projections for the next five years; to take a cautious approach to the benefits that may be generated from oil and gas related income (section 5); and to take a measured approach to the long-term investment returns that will be generated (section 6), to determine the overall value of Council income;
- To treat all non-specific grants received as a corporate resource (section 5.2);

- To apply the Charging Framework in considering, setting and applying charges for services, recognising the important place income has in addressing rising costs (section 5.4);
- To continue to adopt the Investment Returns Withdrawal Policy, which includes a long-term investment return rate of 7.3% and long-term inflation rate of 2.1%, resulting in an affordable draw from investment returns of 5.2% of the investment return base (section 6.3);
- To maintain Usable Reserves at current levels (£242 million) to protect the predicted investment return base of £252.4 million as at 1 April 2017, by working annually within the funding constraints of the revenue and capital budgets (section 6.3);
- To focus investment returns on supporting revenue expenditure (section 6.4);
- To capture savings from improved and robust procurement and commissioning processes, including the re-negotiation of contracts (section 7.2);
- To adopt a robust pricing policy for the Port to ensure that an annual return on investment is achieved and that the surplus is used to deliver benefit to the Shetland public (section 8.1);
- To acknowledge the contribution that through the use of the Housing Revenue Account and other initiatives there are opportunities for the delivery of quality affordable housing in Shetland, one of the Council's top priorities (section 9);
- To maintain a Revenue Budget contingency to enable cost pressures and contingency items to be met on an annual basis, if and when they arise and to take a risk based approach to the value required (section 10.2);
- To maintain an uncommitted General Fund Reserve to mitigate the risk of significant unplanned one-off events (such as Major Incident, Major Disaster and the Financial Climate) that the Council may face (section 10.3);
- To acknowledge rising costs and falling income from the Scottish Government, and agree to respond to the gap that exists between income and expenditure in the future (section 11.2);
- To prioritise the development of a strategic approach to resource allocation to determine the options that will best focus on statutory obligations and outcome delivery while limit resource usage (section 11.2);
- To create a clear plan of action that embraces Service redesign that works alongside business transformation, and to do this within the resource limitations set out in the MTFP (section 11.1);
- To agree that a target of 4.5% recurring savings is set for the Council, with effect from 2018/19 onwards (section 11.1 and Appendices A and B);

- To agree that in the absence of a strategic, Council-wide approach being taken to addressing rising costs, Directorate savings are set as indicated in Appendix B (section 11.2);
- To structure Services in a way that maximises productivity and operates as efficiently and effectively as is possible (section 11.2);
- To prioritise Service delivery that is identified as being most likely to successfully achieve the Corporate Plan objectives and outcomes in the long term or is required to fulfil the Council's statutory duties, and to agree to stop discretionary Services that do not contribute to that achievement (section 11.2);
- Directorate Plan priorities can only be taken forward in the context of the very challenging financial forecast in this MTFP, the work is not permitted to grow the cost base (section 11.4);
- To build upon the financial management improvements that have already been made, and continue to base decision making on evidence based reporting, following the building better business cases methodology, demanding fully costed options and recognise that the use of Council resources all come with a cost (section 11.4)
- To continue to set aside an annual sum of Funding for Change and authorise the Director of Corporate Services, in conjunction with the Executive Manager – Finance, to approve the allocation of funding to projects seeking Funding for Change (section 11.4);
- To continue the scheme for the Spend to Save and Improvement Funding earmarked within the Council's Usable Reserves (section 11.4);
- To continue to adopt the Capital Expenditure Policy and limit capital expenditure to a programme that is deliverable and affordable based on the estimated level of Scottish Government Capital Grant, supplemented by capital receipts (section 12.3);
- To continue to adopt the Capital Funding Policy and borrow in specific circumstances for capital investment, that cannot be funded from Capital Grant or capital receipts, the cost of which will be borne by the Service(s) that the investment benefits. Borrowing will be carried out under the Prudential Code framework of prudence, sustainability and affordability in line with the Borrowing Policy[9] (section 12.4).

[9] Shetland Islands Council, Borrowing Policy and Strategy 2013 - 2018

MEDIUM TERM FINANCIAL PLAN – QUANTIFICATION OF THE FUNDING GAP

APPENDIX A

	Shetland Islands Council **Medium Term Financial Plan 2016/17 - 2021/22**	**2016/17** **£'000**	**Year 1** **2017/18** **£'000**	**Year 2** **2018/19** **£'000**	**Year 3** **2019/20** **£'000**	**Year 4** **2020/21** **£'000**	**Year 5** **2021/22** **£'000**
Service Expenditure and Income	General Fund Service Expenditure	134,605	134,643	139,433	142,431	145,496	148,008
	General Fund Service Income	(25,310)	(26,035)	(27,827)	(28,317)	(28,948)	(29,561)
	Other Account Recharges	(1,758)	(2,044)	(2,075)	(2,106)	(2,138)	(2,170)
	Net Income from Integration Joint Board	(512)	(1,263)	(1,282)	(1,302)	(1,321)	(1,341)
	Economic Development Investments Income	(800)	(900)	(1,080)	(1,134)	(1,134)	(1,134)
	Capital Financing Costs	1,427	1,295	1,295	1,295	1,295	1,295
	Recurring Budget Pressures	1,613	3,990	4,819	5,899	7,731	9,187
	Non-Recurring Contingency Provision	1,013	450	1,500	1,500	1,500	1,500
	Total General Fund Net Expenditure	**110,278**	**110,136**	**114,783**	**118,267**	**122,481**	**125,785**
Trading income	Shetland Gas Plant Income	(693)	(550)	(850)	(1,150)	(1,450)	(1,550)
	Harbour Account Surplus	(5,417)	(5,672)	(6,000)	(6,000)	(6,000)	(6,000)
	Total Trading Income	**(6,110)**	**(6,222)**	**(6,850)**	**(7,150)**	**(7,450)**	**(7,550)**
Core Funding	GRG & NNDR	(82,639)	(79,886)	(78,291)	(76,847)	(75,542)	(74,154)
	Council Tax	(8,505)	(9,003)	(9,363)	(9,735)	(10,119)	(10,515)
	Total Core Revenue Funding	**(91,144)**	**(88,889)**	**(87,654)**	**(86,582)**	**(85,660)**	**(84,669)**
	Budget Deficit	**13,024**	**15,025**	**20,279**	**24,535**	**29,371**	**33,566**
Deficit Funding	**Financed by:**						
	Affordable Draw from Investment Returns	(12,024)	(12,272)	(13,439)	(13,656)	(13,878)	(14,105)
	Savings and/or Income Generation	0	0	0	0	0	0
	One-off Use of Reserves	(1,000)	(2,753)	0	0	0	0
	Underlying future savings requirement (Funding Gap)	(0)	0	(6,840)	(10,879)	(15,493)	(19,461)
		0	**0**	**0**	**0**	**0**	**0**

MEDIUM TERM FINANCIAL PLAN SCENARIO 1 **APPENDIX B**

AFFORDABLE BUDGET REACHED BY YEAR 5 (4.5% SAVINGS TARGET) **RECOMMENDED FINANCIAL PLANNING TARGET**

Council Savings Model Target set at... 4.5%	Total £'000	Year 1 2017/18 £'000	Year 2 2018/19 £'000	Year 3 2019/20 £'000	Year 4 2020/21 £'000	Year 5 2021/22 £'000
Based on Approved Budget 2017/18		**110,136**	**110,136**	**109,029**	**107,925**	**107,421**
Growth (Costs)			4,647	3,483	4,215	3,304
Change in Scottish Government Grant			1,595	1,444	1,305	1,388
Change in Council Tax			(360)	(372)	(384)	(396)
Change in Council Resources			(1,795)	(517)	(522)	(327)
Forecast Net Expenditure		**110,136**	**114,223**	**113,067**	**112,539**	**111,390**
Savings Generated by Target			**(5,195)**	**(5,142)**	**(5,118)**	**(5,066)**
Target Net Expenditure Budget		**110,136**	**109,029**	**107,925**	**107,421**	**106,324**
Affordable Budget Forecast		**107,383**	**107,943**	**107,388**	**106,989**	**106,324**
One-off Use of Reserves Required	**2,055**		**1,085**	**537**	**433**	**0**
Based on 2017/18 Percentage of Budget per Directorate **Indicative 'Salami Sliced' Budgets**			**2018/19** **£'000**	**2019/20** **£'000**	**2020/21** **£'000**	**2021/22** **£'000**
Children's Services	39.0%		(2,027)	(2,006)	(1,997)	(1,977)
Community Health & Social Care	19.1%		(993)	(983)	(978)	(968)
Corporate & Executive Services	9.5%		(494)	(489)	(487)	(482)
Development	13.9%		(722)	(714)	(711)	(704)
Infrastructure	18.5%		(959)	(950)	(945)	(936)
Total	**100.0%**		**(5,195)**	**(5,142)**	**(5,118)**	**(5,066)**

MEDIUM TERM FINANCIAL PLAN SCENARIO 2 **APPENDIX C**

ONE-OFF USE OF RESERVES IS BALANCED AT YEAR 5 (4.7% SAVINGS TARGET) ILLUSTRATIVE ALTERNATIVE

Council Savings Model Target set at... 4.7%	Total £'000	Year 1 2017/18 £'000	Year 2 2018/19 £'000	Year 3 2019/20 £'000	Year 4 2020/21 £'000	Year 5 2021/22 £'000
Based on Approved Budget 2017/18		**110,136**	**110,136**	**108,811**	**107,503**	**106,805**
Growth (Costs)			4,647	3,483	4,215	3,304
Change in Scottish Government Grant			1,595	1,444	1,305	1,388
Change in Council Tax			(360)	(372)	(384)	(396)
Change in Council Resources			(1,795)	(517)	(522)	(327)
Forecast Net Expenditure		**110,136**	**114,223**	**112,850**	**112,117**	**110,773**
Savings Generated by Target			**(5,412)**	**(5,347)**	**(5,312)**	**(5,249)**
Target Net Expenditure Budget		**110,136**	**108,811**	**107,503**	**106,805**	**105,525**
Affordable Budget Forecast		**107,383**	**107,943**	**107,388**	**106,989**	**106,324**
One-off Use of Reserves Required	**(0)**		**868**	**115**	**(184)**	**(799)**
Based on 2017/18 Percentage of Budget per Directorate Indicative 'Salami Sliced' Budgets			**2018/19 £'000**	**2019/20 £'000**	**2020/21 £'000**	**2021/22 £'000**
Children's Services	39.0%		(2,112)	(2,086)	(2,073)	(2,048)
Community Health & Social Care	19.1%		(1,034)	(1,022)	(1,015)	(1,003)
Corporate & Executive Services	9.5%		(515)	(508)	(505)	(499)
Development	13.9%		(752)	(743)	(738)	(729)
Infrastructure	18.5%		(1,000)	(988)	(981)	(969)
Total	**100.0%**		**(5,412)**	**(5,347)**	**(5,312)**	**(5,249)**

Directorate Plans, Corporate Priorities & Joint Working **APPENDIX D**

Corporate Priorities and Joint Working:

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

Despite the work done so far, sustainability in particular is extremely challenging at this time with reducing Scottish Government funding being the trend since 2011/12. It is expected that this will continue while the UK and Scottish Government's seek to balance their budgets and prioritise their spending. In order to take action on improving the Council's approach to identifying and implementing sustainable solutions for the future Directorate plans identify core priority areas for action between now and 2020, which can be summarised as follows;

Policy & Resources Committee - Community Health & Social Care

- Keeping people safe from harm, protecting vulnerable people;
- Delivering integrated health and care pathways and a single point of entry to services by continuing to shift resources to primary and community care;
- Strengthening and working in partnership with individuals, their families and communities;
- Reducing avoidable admission to/inappropriate use of hospital services;
- Developing primary care and community responses through multi-disciplinary teams;
- Supporting unpaid carers;
- Tackling inequalities, with a focus on health inequality;
- Prevention and early intervention;
- Promoting healthy lifestyles;
- Improving mental health and wellbeing;
- Promoting self management and independence.

Policy & Resources Committee - Corporate and Executive Services

- Manage and implement a programme of transformative projects designed to take advantage of current and future technology that means our customers and staff are able to help themselves to services and information through electronic means.

- Protect the Council's interests.
- Explore and take advantage of the options and opportunities that the council asset base offers and to reduce the floor area of the operational buildings we use in the delivery of our services.
- Recognising the importance of workforce planning, provide the framework for doing this across the council and to carry out a review of the workforce requirements in Corporate and Executive Services, to meet future skill gaps, age profile and the impact of transformation projects.
- Embed a culture of robust, effective and efficient procurement and commissioning that delivers best value in relation to the goods and services the council needs.
- Collect, analyse and report on core data required for good decision making, including performance, financial and workforce information.

Development Committee

- Achieve benefits from Colleges Integration and progress external funding and SFC funding opportunities. Also reduce cost of Colleges Estate 2017-2020;
- Explore opportunities to share service with community partners and other local authorities, 2017-2020;
- Review funding of external organisations, 2017-2020;
- Workforce Review – establish requirements for level of service by Development Services by 2020 and develop a workforce plan to meet future skills gaps, considering retirements, redeployments, extended use of career grades and Modern Apprentice placements, and maximise opportunities from Apprenticeship Levy project funding, 2018-2019.

Education & Families Committee

- the completion of the new Anderson High School and Halls of Residence and the subsequent move into the new facilities;
- the closing of the attainment gap for children in Shetland;
- the development of the emotional wellbeing project;
- the development of a strategic outline case for the provision of residential care for submission through the gateway process;

- progress opportunities to share service with community partners and other local authorities;
- workforce review – establish requirements for level of service in Development Services by 2020 and develop workforce plans to meet future skills gaps, considering retirements, redeployments, extended use of career grades and Modern Apprentice placements 2018-19.

Environment & Transport Committee

- achieve Fair Funding for Ferries, or review ferry services to deliver future services at the affordable level based on Scottish Government funding, or stop running ferry services and let the Scottish Government deliver ferry services - priority 2017/18;
- develop Ferry Replacement Programme - secure funding for capital replacement of ferries and terminals and start delivering the replacement programme - 2017/18 onwards beyond 2020;
- undertake Waste Services review - 2017/18 - service change by December 2017 and feed into 2018/19 budgets;
- undertake full review of Estate Operations and facilities management function using telemetric data and consider redesign - 2018/19;
- establish workforce requirements for level of service by 2020 and develop workforce plan to meet future skill gaps, considering retirements, redeployments, extended use of career grades and Modern Apprentice placements - 2018/19; and
- negotiate Government funding of internal air service - 2018/19

Harbour Board

- maximise income from Sullom Voe and other port infrastructure investments - 2017-2020;
- redevelop Scalloway Fishmarket - 2017-2019; and
- establish workforce requirements for level of service by 2020 and develop workforce plan to meet future skill gaps, considering retirements, redeployments, extended use of career grades and Modern Apprentice placements - 2018/19.

Shetland College Board

- continue to progress the Shetland Tertiary Education, Research and Training Project, by completing the second tier integrated management team restructure;

- continue to explore options to increase external and Scottish Funding Council funding opportunities; and
- review and identify options to reduce the cost of the Tertiary Education Sector estate.

Development Committee - Housing Revenue Account

- to ensure that annual HRA budgets are financially sustainable into the future;
- to focus on keeping housing rents at affordable levels;
- to focus capital expenditure on maintaining the existing housing stock;
- to ensure that all capital expenditure funded through borrowing complies with the Prudential Code and its key principles of prudence, affordability and sustainability; and
- to ensure that only a sustainable draw is made on the Housing Repairs and Renewals Reserve each year.

Agenda Item
12

Shetland Islands Council

Meeting(s):	**Policy and Resources Committee** **Shetland Islands Council**	**7 March 2017** **8 March 2017**
Report Title:	**Long-Term Revenue & Capital Planning – Update**	
Reference Number:	**F-039-F**	
Author / Job Title:	**Jonathan Belford, Executive Manager – Finance** **Robert Sinclair, Executive Manager – Capital Programme**	

1.0 Decisions / Action required:

1.1 That the Policy and Resources Committee:

1.1.1 NOTES the progress made by the Executive Manager – Finance and Executive Manager – Capital Programme in reviewing the Council's Long Term Financial Plan (LTFP) and developing a Long Term Asset Investment Plan (LTAIP); and

1.1.2 RECOMMEND that the Council RESOLVES to adopt the recommendations, as set out in section 2.16.

2.0 High Level Summary:

2.1 This report provides an update on the work that has taken place to review the Council's LTFP, which was last reported to Council on 3 December 2014, and incorporates the LTAIP position that has been refreshed following the last report, on 7 December 2015.

2.2 The implications of cuts to Local Government funding in the interim highlights the challenges that Local Government faces which means that maintaining services at current levels becomes impossible due to the financial constraints.

2.3 Reviewing the LTFP assumptions concludes that they remain sound. The resulting recommendations are now incorporated and approved as part of the Medium Term Financial Plan (MTFP), namely the need to fully consider the impact of the changing demographics in Shetland over time; and that the Council's investments should be treated as a fund from which regular, index linked, returns can be drawn to support the cost of delivering Council Services to mitigate as far as possible the negative impact of cuts in funding from the Scottish Government.

2.4 The Council has an agreed Capital Expenditure Policy that has no growth in the asset base and that capital expenditure is focussed on maintaining the existing assets. The approved Capital Funding Policy recognises the cost of capital and that in line with the Borrowing Policy, where grant funding and capital receipts are exhausted the Council will borrow externally to fund capital investment.

2.5 This places restrictions on capital expenditure and has specific revenue implications for funding capital expenditure.

2.6 There is clearly a revenue impact if capital investment is increased and because the Medium Term Financial Plan presents a forecast for 2016 to 2021 that requires recurring savings of 4.5% (or c. £5m) per annum it is difficult to see where additional funding could come from to further increase capital expenditure.

2.7 In order to assess the capital position that the Council may face in the future and to consider the overall impact of operating with the asset base that it has, a number of scenarios have been considered in relation to the Long-Term Asset Investment Plan (LTAIP).

Scenario 1: Only committed projects and maintenance of existing assets funded by the Council – Ferry and Terminal replacement programme funded by Scottish Government.

Scenario 2: Only committed projects and maintenance of existing assets funded by the Council – Ferry and Terminal replacement programme funded by the Council.

Scenario 3: Committed projects, maintenance of existing assets and provision for some replacement assets funded by the Council – Ferry and Terminal replacement programme funded by Scottish Government.

Scenario 4: Committed projects, maintenance of existing assets, provision for some replacement assets and Ferry and Terminal replacement programme funded by the Council.

2.8 Scenarios 1 and 3 rely upon Scottish Government funding to mitigate the impact on the Council's financial position.

2.9 A significant part of the anticipated capital investment is in Ferries and associated Terminals, the funding of which is still under discussion with Transport Scotland in the context of the Scottish Government's commitment to fair funding for the inter-island transport services.

2.10 Should this commitment not be honoured and no funding made available then the Council approach to funding expenditure would be through borrowing, as per the approved Borrowing Policy.

2.11 Scenario 3 takes into account that there may be a level of investment required to replace or renew some Council assets over time. This has been estimated based on a modest sum of £3m per annum.

2.12 Scenarios 2 and 4 place the funding burden on the Council in respect of Ferries and Terminals replacement, creating the greatest financial impact.

2.13 With the exception of Scenario 1, which remains affordable over the life of the long-term plan, the other scenarios clearly demonstrate costs that will impact adversely on the revenue budget and MTFP.

2.14 There is scope within Scenario 1 to accommodate rising costs and a degree of investment in future years, however this is modest in comparison to what is identified as required.

2.15 In considering these updated scenarios, based on the data gathered to support a long-term projection of costs, the capital grant limitations and the revenue constraints in relation to paying for the cost of capital only Scenario 1 can be recommended for long-term planning purposes.

2.16 In line with the MTFP the LTFP and LTAIP recommendations are:

- Base long term asset investment planning on £6.5m per annum as affordable to the Council, placing no additional burden on the revenue budget from borrowing (based on Scenario 1). To reinforce the decision to consider capital investment in line with the approved Gateway Process for the Management of Capital Projects.

- Instruct Executive Managers to develop, in conjunction with the Executive Manager - Capital Programme, long term asset investment plans for their individual Services that are regularly reviewed to maintain their integrity and relevance.

- The Council review its Employer discretions in relation to the Pension Fund to determine how future costs can be reduced through making changes to the discretionary awards that can apply when an employee leaves the Council through, for example early retirement.

- The Council's Investments continue to be used, as per the MTFP, to support the delivery of revenue Services, and that this is done in line with the Investment Withdrawal Policy defined in the MTFP.

- Resource allocation and financial planning should take into account the demographic changes that are projected to occur over the life of the LTFP and to consider the evidence of population changes in making strategic decisions about Service outcomes and setting priorities.

3.0 Corporate Priorities and Joint Working:

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

4.0 Key Issues:

4.1 The Council has had a 5-year Asset Investment Plan (Capital Programme) since October 2010. This has been reviewed and updated since then as part of the annual budget setting process. This Asset Investment Plan (AIP) has been reduced in scale as the Council has progressed towards reducing its draw on reserves to a sustainable level and since 2013/14 it has been funded without drawing on reserves other than for Spend to Save Projects and the new Anderson High School.

4.2 Now that the 5-year AIP is funded on a sustainable basis, it does not change dramatically at each annual review. This has benefits in planning and programming both works and cash flow.

4.3 This has highlighted the benefits that could come from an AIP that extends further into the future. A timeline of 35 years was decided initially and on 3 December 2014 the Council agreed to the recommendations in a Long Term Financial Plan (Min Ref: 99/14), prepared by the Executive Manager – Finance, which described the financial backdrop of falling Government funding and rising costs and the financial constraints relating to the LTAIP.

4.4 The Long Term Financial Plan (LTFP) explored predicted capital spend into the future, from estimates by Council officers and from historical trends. Based on that information, it was estimated that the Council would need to spend £17.2m per year on capital in order to maintain the existing asset base. This figure makes no allowance for 'growth' projects that would increase the asset base. When set against predicted total core capital income of £6.3m (from Capital Grant and Capital Receipts), this leaves an annual shortfall of £10.9m.

4.5 The LTFP then explored a number of financial modelling options, which looked at borrowing to fund this shortfall. It compared different levels of borrowing to support capital spend as well as assessing historic interest rates and concluded that a sustainable level of spending on capital (at 2014 prices) would be £10-£11m per annum.

4.6 Any Asset Investment Plan relies heavily on service planning across the Council and in particular any predictions relating to future levels of service. On 7 December 2015, the Executive Manager – Capital Programme presented Members with an indicative LTAIP (Min Ref: 91/15). It was provided in order to give a sense of scale only, based on the assumptions and information set out below.

4.6.1 It was recognised that ferry related projects accounted for 45% of spend over the first 18 years or so. Whilst work had been commissioned by Transport Planning to examine the future of transport links of all types across Shetland, both in terms of level of service and in terms of management and funding, the outcome of that work was, and remains, uncertain. The cost of ferry and terminal replacement was therefore included in the indicative plan.

4.6.2 No allowance was made for new buildings, even where they would be on a 'like-for-like' basis. The LTFP made an allowance of £3m per annum for this type of project. The capital building maintenance allowance was also reduced from £2.1m to £1m per annum.

4.6.3 Similarly, the allowance of £4.5m per annum for new roads in the LTFP was reduced.

4.6.4 This indicative plan sought to balance service needs with the identified sustainable level of capital spend identified in the LTFP. The capital spending predictions used in the LTFP were all re-examined. Most were reduced or re-profiled to reduce annual spend.

4.6.5 Housing Revenue Account projects, Spend to Save projects and the new Anderson High School were not included in this plan.

4.7 This indicative LTAIP demonstrated that balancing capital spend with sustainable levels of funding would be a challenge well into the future. It showed that until 2031 the predicted average spend per annum was still unaffordable at over £12m per annum. The predicted spend figures in later years suggested that the situation would be less challenging, but highlighted that it would be unrealistic to think that new aspirations will not emerge by that time. It indicated that the future model of inter-island transport links might change the indicative plan significantly and therefore indicated that Members would be provided with an update, expected in late 2016. This report seeks to provide that update

4.8 As Members will be aware, discussion with the Scottish Government have not yet confirmed the financial package to support Ministers commitment to fair funding for inter-island transport in Shetland. The investment required to the infrastructure underpinning those services represents such a significant proportion of the Council's predicted capital spend (over £23m over the next 5 years and over £90m in 18 years) that it makes a fundamental difference to the affordability of capital expenditure in the future.

4.9 In an effort to refresh the LTAIP forecasts and determine what impact there might be in the future, the indicative LTAIP has been updated in line with the 5-year Asset Investment Plan, approved by the Council on 15 February 2017, and four scenarios have been prepared. These scenarios are attached as Appendices A to D, namely;

4.9.1 Appendix A – Scenario 1: Only committed projects and maintenance of existing assets funded by the Council – Ferry and Terminal replacement programme funded by Scottish Government.

4.9.2 Appendix B – Scenario 2: Only committed projects and maintenance of existing assets funded by the Council – Ferry and Terminal replacement programme funded by the Council

4.9.3 Appendix C – Scenario 3: Committed projects, maintenance of existing assets and provision for some replacement assets funded by the Council – Ferry and Terminal replacement programme funded by Scottish Government.

4.9.4 Appendix D – Scenario 4: Committed projects, maintenance of existing assets, provision for some replacement assets and Ferry and Terminal replacement programme funded by the Council

4.10 In all the scenarios the basis for forecasting has been the approved AIP for 2017/18 to 2021/22. The ongoing commitment to maintain current properties has been updated to reflect current condition information at a high level. The Housing Revenue Account has been included to reflect the investment profile as per the 30 year financial plan that supports the HRA Business Plan – this is fully funded by the HRA. Ferry and Terminal replacements programme is based on the existing programme, updated to reflect 2017/18 being the initial year in an 18 year programme.

4.11 In Scenarios 2 and 4, where recognition of the potential for capital expenditure is likely to be required during the life of the programme, this has been valued at £3m per annum from 2019/20 onwards. This does not necessarily reflect building projects, as the Council's approved Gateway Process for the Management of Capital Projects will be used to define the detail of future projects.

4.12 In Scenarios 1 and 3 the assumption is that the Ferry and Terminal Replacement programme would be funded in full. The costs of some limited life extension work as incorporated into the approved AIP has been included as a charge that the Council will have to fund. This is a prudent assumption.

4.13 The financial implications of the Scenarios are shown in detail in the appendices and summarised as follows:

General Fund Impact	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Balanced over 5 years	Yes	No	No	No
Shortfall over 5 years	-	£20.7m	£6.8m	£29.7m
Surplus over 5 years	£2.2m	-	-	-
Additional revenue financial implications over the long term	No	Yes	Yes	Yes
Capital Financing Requirement to 2050	Nil	£45.5m	£50.1m	£138.5m
Average annual revenue implication to 2050	Nil	£3.6m	£2.4m	£6.2m
Maximum annual revenue implication to 2050	Nil	£5.0m	£3.7m	£8.9m
Interest Rate for Borrowing (Pool Rate)	-	4.2%	4.2%	4.2%
Period of Borrowing	-	30 Years	30 Years	30 Years

4.14 Scenarios 2, 3 and 4 present an additional burden on revenue of between £3.7m and £8.9m per annum, which represents from 3.3% to 8.0% of the current revenue budget. Savings in the delivery of Services would require to increase from approximately 4.5% to between 7.8% and 12.5% per annum, recurring.

4.15 These Scenarios are unaffordable and to have to fund Ferry and Terminal Replacements or to continue spending at a rate of £3m per annum on creating or replacing other assets is beyond the Council at this time. Especially when any revenue implications of those additional spending projects have not been quantified or estimated.

4.16 It is clear from these appendices that based on current levels of Scottish Government funding the Council is only able to sustain a LTAIP consisting of the maintenance of existing assets. The introduction of either a programme of ferry and terminal replacements or any other asset replacement programme of significant scale would not be possible without an unsustainable level of draw on reserves or increased levels of borrowing, to the detriment of the delivery of core services.

4.17 Scenario 1, effectively the status quo, offers a future opportunity, subject to the funding of capital grant at £6m per annum that means the construction/price inflation can be absorbed so that in real terms the maintenance approach can be continued at current levels. Also, in following the Gateway Process for the Management of Capital Projects there may be scope to consider incorporating capital projects to the value of £1m per annum. This means that a recommended level of annual capital expenditure to be funded by the Council should be amended from the last LTFP (£10m) to be £6.5m per annum.

4.18 The Executive Manager – Finance has reviewed the LTFP in light of the changes in Local Government funding that have occurred since 2014 and any forecasts that can be made as to future funding. Fundamentally the underlying income for the Council reduced as a result of the Financial Settlements for financial years 2016/17 and 2017/18, when 9% of Scottish Government revenue funding was lost.

4.19 In light of this it is unsurprising that the statistical information underpinning the LTFP remains valid. The overall analysis and conclusions in terms of the financial context remain valid today and the Council continues to face a very challenging financial position as costs, predominantly employee related costs have risen substantially in recent years.

4.20 Pension costs over the long term are a feature of the current LTFP and the costs associated with early retirement/voluntary severance have added increased ongoing liabilities to the Council. The high costs of pension liabilities was demonstrated in the analysis carried out by Audit Scotland as at 31 March 2016 and published in their Financial Overview 2015/16 report in November 2016. This showed that Shetland Islands Council has the highest level of long-term pension liabilities in relation to its grant and Council Tax income of any Council (1.4 times the annual income). This not only signals the potential future costs that may be placed upon the Council as the primary Employer, it indicates that the cost of Pensions should be looked at in line with the recommendation made in 2014, and thereby mitigate increasing the future burden on the Council. The Council should carry out a review of its Employer discretions in relation to awarding pension enhancements.

4.21 Long term investment returns have for the last three years been assessed and utilised in line with the recommendations of the LTFP and this has been fully embedded into the MTFP approach to affordability for revenue budgets in the future. This means that retaining a consistent level of Usable Reserves on the Council Balance Sheet is an important means of protecting the underlying financial value of the investments and provides a solid basis upon which to assess the amount that can be used annually in support of Council Services.

4.22 The LTFP drew conclusions in relation to the Council's own resources, in particular the operations at Sella Ness. In light of the work that was done during 2015 to establish the Council's approach to the future of the Port, and the developing changes in relation to the ownership and operation of Sullom Voe Terminal, the recommendation from the LTFP regarding whether or not to retain the Port operations should now be removed. The Council should continue to actively engage in the changes that are planned for the Terminal and to secure the interests of the Council.

4.23 Other recommendations in the LTFP should remain, namely:

4.23.1 All services should develop robust asset management plans for their asset class (e.g. vehicles, ICT, ferries etc.) that include information on condition, suitability, utilisation (against a policy target) lifespan and future investment requirement for those assets. This will ensure that there is robust information available to assist with the regular updating of the Long Term Asset Investment Plan.

4.23.2 Members should consider the impact of demographic changes in Shetland as part of the process for determining service priorities. Resources should be aligned to the areas where there is growing service demand, with resources taken away from areas with falling demand if the Council is to remain financially sustainable in the long term. This should be done in line with corporate outcome priorities and the statutory duties of the Council.

5.0 Exempt and/or confidential information:

5.1 None.

6.0 Implications :

6.1 Service Users, Patients and Communities:	Upon completion, the projects described in the appendices to this report will either enhance the quality and/ or condition of the assets available to the people of Shetland or add to them.
6.2 Human Resources and Organisational Development:	No implications arising directly from this report.
6.3 Equality, Diversity and Human Rights:	No implications arising directly from this report.
6.4 Legal:	No implications arising directly from this report.
6.5 Finance:	The Council faces an increasingly difficult financial climate, and has to seek the solutions to balance its budget annually, while delivering the services that it values most and must deliver to remain compliant with legislation. The LTFP and LTAIP have previously identified that there is no significant opportunity to increase capital investment as Council resources are targeted to support revenue expenditure. Following a review of the various plans this has not changed. An AIP to the value of £6.5m per annum, funded by the Council's Capital Grant and Capital Receipts should be the expectation of the Council in the long-term.

6.6 **Assets and Property:**	Upon completion, the projects described in the appendices to this report will either enhance the quality and/ or condition of the Council's existing asset base or add to it.	
6.7 **ICT and new technologies:**	No implications arising directly from this report.	
6.8 **Environmental:**	All maintenance and new-build projects seek to address climate change and carbon management for example by embedding energy saving measures and environmentally friendly materials in their design. Where possible, assets are repaired and maintained where this reduces the carbon footprint associated with new-build. Environmental Impact Assessments are carried out where the nature or scale of the project dictates. The only such project currently underway is the new AHS and associated Halls of Residence.	
6.9 **Risk Management:**	The main areas of risk are financial in terms of the uncertainty surrounding the funding for inter-island transport throughout Shetland and the difficulties this presents in planning capital spend into the future. If the funding commitment to fair funding made by Ministers is not honoured then the Council will face the prospect of having to borrow to fund that expenditure in order to continue inter-island transport services, or to fundamentally change the level of Service that is affordable. There is also the risk that building and asset creation will have a similar impact, increasing revenue costs as borrowing would have to be undertaken and paid for by the revenue budget. Neither of these scenarios are affordable to the Council in the current financial climate therefore the mitigation of these risks is to continue to place the responsibility for inter-island transport at the door of the Scottish Government and not to progress this until such time as the Government has confirmed funding. Avoiding entering into commitments to build and replace assets would assist in the management of Council finances.	
6.10 **Policy and Delegated Authority:**	Approval of the financial strategy and budget framework is a matter reserved for the Council having taken advice from the Policy and Resources Committee.	
6.11 **Previously considered by:**	Policy and Resources Committee	7 December 2015

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7 March 2017

Appendices:
Appendix A – Scenario 1: Only committed projects and maintenance of existing assets funded by the Council – Ferry and Terminal replacement programme funded by Scottish Government

Appendix B – Scenario 2: Only committed projects and maintenance of existing assets funded by the Council – Ferry and Terminal replacement programme funded by the Council

Appendix C – Scenario 3: Committed projects, maintenance of existing assets and provision for some replacement assets funded by the Council – Ferry and Terminal replacement programme funded by Scottish Government.

Appendix D – Scenario 4: Committed projects, maintenance of existing assets, provision for some replacement assets and Ferry and Terminal replacement programme funded by the Council

Background Documents:
Audit Scotland, Local Government in Scotland, Financial Overview 2015/16, November 2016.
http://www.audit-scotland.gov.uk/report/local-government-in-scotland-financial-overview-201516

Indicative Long Term Asset Investment Plan 2017-2050 **F-039 - Appendix /**

Scenario 1

	Category	Building Maintenance	Building Projects	ICT	Roads & Bridges	Street-lighting	Vehicles & Plant	Waste Services	Ferries & Terminals	Harbour Works
	Year	£000	£000	£000	£000	£000	£000	£000	£000	£000
1	2017/18	2,208	2,712	625	1,277	225	1,260	50	1,730	920
2	2018/19	1,050	2,661	625	1,218	201	1,445	209	2,955	820
3	2019/20	1,000		625	1,026	199	1,374	50	11,900	320
4	2020/21	1,000		625	1,405	199	1,400	261	9,400	290
5	2021/22	1,000		630	1,079	200	1,416	50	1,500	204
6	2022/23	1,800		675	1,040	263	1,470		4,800	850
7	2023/24	2,000		675	1,040	263	1,470	140	6,900	475
8	2024/25	1,500		675	1,040	263	1,470		4,550	700
9	2025/26	1,650		675	1,040	263	1,470	140	4,550	825
10	2026/27	2,000		675	920	263	1,470		4,900	150
11	2027/28	1,500		675	920	263	1,570	140	3,600	75
12	2028/29	1,550		675	920	263	1,470		4,200	175
13	2029/30	1,750		675	920	263	1,470	140	7,200	175
14	2030/31	1,500		675	920	260	1,470		8,800	
15	2031/32	1,500		675	920	260	1,470		7,000	
16	2032/33	1,500		675	920	260	1,470		4,800	
17	2033/34	1,600		675	920	260	1,470		2,400	125
18	2034/35	1,600		675	920	260	1,470		1,800	250
19	2035/36	1,500		675	920	260	1,470			250
20	2036/37	1,500		675	920	260	1,470			100
21	2037/38	1,500		675	920	260	1,470			
22	2038/39	1,500		675	920	260	1,470			350
23	2039/40	1,500		675	920	260	1,470			300
24	2040/41	1,500		675	920	260	1,470			350
25	2041/42	1,500		675	920	260	1,470			350
26	2042/43	1,500		675	920	260	1,470			325
27	2043/44	1,500		675	920	260	1,470			200
28	2044/45	1,500		675	920	260	1,470			350
29	2045/46	1,500		675	920	260	1,470			
30	2046/47	1,500		675	920	260	1,470			
31	2047/48	1,500		675	920	260	1,470			
32	2048/49	1,550		675	920	260	1,470			
33	2049/50	1,750		675	920	260	1,470			
	Totals	**50,508**	**5,373**	**22,030**	**32,245**	**8,328**	**48,155**	**1,180**	**92,985**	**8,929**

	Category	Tugs & Harbour Craft	Housing Revenue Account	Expenditure Totals	Funded by Housing Revenue Account	Funded by Harbour Account	Funded by Transport Scotland	Funded by Capital Receipts	Funded by Capital Grants	Fundir Surplus (Shortfal
	Year	£000	£000	£000	£000	£000	£000	£000	£000	£00
1	2017/18	7,500	2,913	21,420	-2,913	-10,421	-200	-379	-8,026	51
2	2018/19	7,500	5,835	24,519	-5,835	-9,254	-2,000	-285	-6,373	(77
3	2019/20		5,924	22,418	-5,924	-390	-9,800	-280	-5,943	(8
4	2020/21		6,849	21,429	-6,849	-360	-9,400	-370	-5,525	1,07
5	2021/22		6,969	13,048	-6,969	-274	-1,500	-280	-5,525	1,50
6	2022/23		6,762	17,660	-6,762	-1,220	-4,800	-300	-6,000	1,42
7	2023/24		6,850	19,813	-6,850	-1,045	-6,900	-300	-6,000	1,28
8	2024/25	7,800	6,955	24,953	-6,955	-8,570	-4,550	-300	-6,000	1,42
9	2025/26	7,800	3,191	21,604	-3,191	-8,845	-4,550	-300	-6,000	1,28
10	2026/27	300	3,176	13,854	-3,176	-1,020	-4,900	-300	-6,000	1,54
11	2027/28	850	3,227	12,820	-3,227	-1,095	-3,600	-300	-6,000	1,40
12	2028/29		3,193	12,446	-3,193	-225	-4,200	-300	-6,000	1,47
13	2029/30		3,176	15,769	-3,176	-425	-7,200	-300	-6,000	1,33
14	2030/31	900	3,191	17,716	-3,191	-900	-8,800	-300	-6,000	1,47
15	2031/32	900	3,176	15,901	-3,176	-900	-7,000	-300	-6,000	1,47
16	2032/33	900	3,227	13,752	-3,227	-900	-4,800	-300	-6,000	1,47
17	2033/34		3,193	10,643	-3,193	-225	-2,400	-300	-6,000	1,47
18	2034/35		3,176	10,151	-3,176	-350	-1,800	-300	-6,000	1,47
19	2035/36		3,191	8,266	-3,191	-250		-300	-6,000	1,47
20	2036/37		3,176	8,101	-3,176	-100		-300	-6,000	1,47
21	2037/38		3,227	8,052	-3,227			-300	-6,000	1,47
22	2038/39		3,193	8,368	-3,193	-350		-300	-6,000	1,47
23	2039/40		3,176	8,301	-3,176	-300		-300	-6,000	1,47
24	2040/41		3,191	8,366	-3,191	-350		-300	-6,000	1,47
25	2041/42		3,176	8,351	-3,176	-350		-300	-6,000	1,47
26	2042/43		3,227	8,377	-3,227	-325		-300	-6,000	1,47
27	2043/44		3,193	8,218	-3,193	-200		-300	-6,000	1,47
28	2044/45		3,176	8,351	-3,176	-350		-300	-6,000	1,47
29	2045/46		3,191	8,016	-3,191			-300	-6,000	1,47
30	2046/47		3,179	8,004	-3,179			-300	-6,000	1,47
31	2047/48	500	3,227	8,552	-3,227	-500		-300	-6,000	1,47
32	2048/49		3,193	8,068	-3,193	-50		-300	-6,000	1,47
33	2049/50		3,176	8,251	-3,176	-250		-300	-6,000	1,47
	Totals	**34,950**	**128,875**	**433,559**	**-128,875**	**-49,793**	**-88,400**	**-9,994**	**-199,392**	**42,89**

Indicative Long Term Asset Investment Plan 2017-2050

Scenario 2

	Category	Building Maintenance	Building Projects	ICT	Roads & Bridges	Street-lighting	Vehicles & Plant	Waste Services	Ferries & Terminals	Harbour Works	Tugs & Harbour Craft	Housing Revenue Account	Expenditure Totals	Funded by Housing Revenue Account	Funded by Harbour Account	Funded by Transport Scotland	Funded by Capital Receipts	Funded by Capital Grants	Funding Surplus / (Shortfall)	Cumulative Debt	Revenue Impact
	Year	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
1	2017/18	2,208	2,712	625	1,277	225	1,260	50	1,730	920	7,500	2,913	21,420	-2,913	-10,421		-379	-8,026	319	(16,000)	948
2	2018/19	1,050	2,661	625	1,218	201	1,445	209	2,955	820	7,500	5,835	24,519	-5,835	-9,254		-285	-6,373	(2,773)	(18,773)	1,112
3	2019/20	1,000		625	1,026	199	1,374	50	11,900	320		5,924	22,418	-5,924	-390		-280	-5,943	(9,881)	(28,654)	1,698
4	2020/21	1,000		625	1,405	199	1,400	261	9,400	290		6,849	21,429	-6,849	-360		-370	-5,525	(8,325)	(36,979)	2,191
5	2021/22	1,000		630	1,079	200	1,416	50	1,500	204		6,969	13,048	-6,969	-274		-280	-5,525		(36,979)	2,191
6	2022/23	1,800		675	1,040	263	1,470		4,800	850		6,762	17,660	-6,762	-1,220		-300	-6,000	(3,378)	(40,357)	2,391
7	2023/24	2,000		675	1,040	263	1,470	140	6,900	475		6,850	19,813	-6,850	-1,045		-300	-6,000	(5,618)	(45,975)	2,724
8	2024/25	1,500		675	1,040	263	1,470		4,550	700	7,800	6,955	24,953	-6,955	-8,570		-300	-6,000	(3,128)	(49,103)	2,909
9	2025/26	1,650		675	1,040	263	1,470	140	4,550	825	7,800	3,191	21,604	-3,191	-8,845		-300	-6,000	(3,268)	(52,371)	3,103
10	2026/27	2,000		675	920	263	1,470		4,900	150	300	3,176	13,854	-3,176	-1,020		-300	-6,000	(3,358)	(55,729)	3,302
11	2027/28	1,500		675	920	263	1,570	140	3,600	75	850	3,227	12,820	-3,227	-1,095		-300	-6,000	(2,198)	(57,927)	3,432
12	2028/29	1,550		675	920	263	1,470		4,200	175		3,193	12,446	-3,193	-225		-300	-6,000	(2,728)	(60,655)	3,593
13	2029/30	1,750		675	920	263	1,470	140	7,200	175		3,176	15,769	-3,176	-425		-300	-6,000	(5,868)	(66,523)	3,941
14	2030/31	1,500		675	920	260	1,470		8,800		900	3,191	17,716	-3,191	-900		-300	-6,000	(7,325)	(73,848)	4,375
15	2031/32	1,500		675	920	260	1,470		7,000		900	3,176	15,901	-3,176	-900		-300	-6,000	(5,525)	(79,373)	4,702
16	2032/33	1,500		675	920	260	1,470		4,800		900	3,227	13,752	-3,227	-900		-300	-6,000	(3,325)	(82,698)	4,899
17	2033/34	1,600		675	920	260	1,470		2,400	125		3,193	10,643	-3,193	-225		-300	-6,000	(925)	(83,623)	4,954
18	2034/35	1,600		675	920	260	1,470		1,800	250		3,176	10,151	-3,176	-350		-300	-6,000	(325)	(83,948)	4,973
19	2035/36	1,500		675	920	260	1,470			250		3,191	8,266	-3,191	-250		-300	-6,000	1,475	(82,473)	4,886
20	2036/37	1,500		675	920	260	1,470			100		3,176	8,101	-3,176	-100		-300	-6,000	1,475	(80,998)	4,799
21	2037/38	1,500		675	920	260	1,470					3,227	8,052	-3,227			-300	-6,000	1,475	(79,523)	4,711
22	2038/39	1,500		675	920	260	1,470			350		3,193	8,368	-3,193	-350		-300	-6,000	1,475	(78,048)	4,624
23	2039/40	1,500		675	920	260	1,470			300		3,176	8,301	-3,176	-300		-300	-6,000	1,475	(76,573)	4,536
24	2040/41	1,500		675	920	260	1,470			350		3,191	8,366	-3,191	-350		-300	-6,000	1,475	(75,098)	4,449
25	2041/42	1,500		675	920	260	1,470			350		3,176	8,351	-3,176	-350		-300	-6,000	1,475	(73,623)	4,362
26	2042/43	1,500		675	920	260	1,470			325		3,227	8,377	-3,227	-325		-300	-6,000	1,475	(72,148)	4,274
27	2043/44	1,500		675	920	260	1,470			200		3,193	8,218	-3,193	-200		-300	-6,000	1,475	(70,673)	4,187
28	2044/45	1,500		675	920	260	1,470			350		3,176	8,351	-3,176	-350		-300	-6,000	1,475	(69,198)	4,099
29	2045/46	1,500		675	920	260	1,470					3,191	8,016	-3,191			-300	-6,000	1,475	(67,723)	4,012
30	2046/47	1,500		675	920	260	1,470					3,179	8,004	-3,179			-300	-6,000	1,475	(66,248)	3,925
31	2047/48	1,500		675	920	260	1,470				500	3,227	8,552	-3,227	-500		-300	-6,000	1,475	(48,773)	2,889
32	2048/49	1,550		675	920	260	1,470					3,193	8,068	-3,193	-50		-300	-6,000	1,475	(44,525)	2,638
33	2049/50	1,750		675	920	260	1,470					3,176	8,251	-3,176	-250		-300	-6,000	1,475	(33,169)	1,965
	Totals	**50,508**	**5,373**	**22,030**	**32,245**	**8,328**	**48,155**	**1,180**	**92,985**	**8,929**	**34,950**	**128,875**	**433,559**	**-128,875**	**-49,793**		**-9,994**	**-199,392**	**-45,504**		**117,792**

Indicative Long Term Asset Investment Plan 2017-2050 — F-039 - Appendix C

Scenario 3

	Category	Building Maintenance	Building Projects	ICT	Roads & Bridges	Street-lighting	Vehicles & Plant	Waste Services	Ferries & Terminals	Harbour Works	Tugs & Harbour Craft	Housing Revenue Account	Expenditure Totals	Funded by Housing Revenue Account	Funded by Harbour Account	Funded by Transport Scotland	Funded by Capital Receipts	Funded by Capital Grants	Funding Surplus / (Shortfall)	Cumulative Debt	Revenue Impact
	Year	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
1	2017/18	2,208	2,712	625	1,277	225	1,260	50	1,730	920	7,500	2,913	21,420	(2,913)	(10,421)	(200)	(379)	(8,026)	519	(16,000)	948
2	2018/19	1,050	2,661	625	1,218	201	1,445	209	2,955	820	7,500	5,835	24,519	(5,835)	(9,254)	(2,000)	(285)	(6,373)	(773)	(16,773)	994
3	2019/20	1,000	3,000	625	1,026	199	1,374	50	11,900	320		5,924	25,418	(5,924)	(390)	(9,800)	(280)	(5,943)	(3,081)	(19,854)	1,176
4	2020/21	1,000	3,000	625	1,405	199	1,400	261	9,400	290		6,849	24,429	(6,849)	(360)	(9,400)	(370)	(5,525)	(1,925)	(21,779)	1,290
5	2021/22	1,000	3,000	630	1,079	200	1,416	50	1,500	204		6,969	16,048	(6,969)	(274)	(1,500)	(280)	(5,525)	(1,500)	(23,279)	1,379
6	2022/23	1,800	3,000	675	1,040	263	1,470		4,800	850		6,762	20,660	(6,762)	(1,220)	(4,800)	(300)	(6,000)	(1,578)	(24,857)	1,473
7	2023/24	2,000	3,000	675	1,040	263	1,470	140	6,900	475		6,850	22,813	(6,850)	(1,045)	(6,900)	(300)	(6,000)	(1,718)	(26,575)	1,574
8	2024/25	1,500	3,000	675	1,040	263	1,470		4,550	700	7,800	6,955	27,953	(6,955)	(8,570)	(4,550)	(300)	(6,000)	(1,578)	(28,153)	1,668
9	2025/26	1,650	3,000	675	1,040	263	1,470	140	4,550	825	7,800	3,191	24,604	(3,191)	(8,845)	(4,550)	(300)	(6,000)	(1,718)	(29,871)	1,770
10	2026/27	2,000	3,000	675	920	263	1,470		4,900	150	300	3,176	16,854	(3,176)	(1,020)	(4,900)	(300)	(6,000)	(1,458)	(31,329)	1,856
11	2027/28	1,500	3,000	675	920	263	1,570	140	3,600	75	850	3,227	15,820	(3,227)	(1,095)	(3,600)	(300)	(6,000)	(1,598)	(32,927)	1,951
12	2028/29	1,550	3,000	675	920	263	1,470		4,200	175		3,193	15,446	(3,193)	(225)	(4,200)	(300)	(6,000)	(1,528)	(34,455)	2,041
13	2029/30	1,750	3,000	675	920	263	1,470	140	7,200	175		3,176	18,769	(3,176)	(425)	(7,200)	(300)	(6,000)	(1,668)	(36,123)	2,140
14	2030/31	1,500	3,000	675	920	260	1,470		8,800		900	3,191	20,716	(3,191)	(900)	(8,800)	(300)	(6,000)	(1,525)	(37,648)	2,230
15	2031/32	1,500	3,000	675	920	260	1,470		7,000		900	3,176	18,901	(3,176)	(900)	(7,000)	(300)	(6,000)	(1,525)	(39,173)	2,321
16	2032/33	1,500	3,000	675	920	260	1,470		4,800		900	3,227	16,752	(3,227)	(900)	(4,800)	(300)	(6,000)	(1,525)	(40,698)	2,411
17	2033/34	1,600	3,000	675	920	260	1,470		2,400	125		3,193	13,643	(3,193)	(225)	(2,400)	(300)	(6,000)	(1,525)	(42,223)	2,501
18	2034/35	1,600	3,000	675	920	260	1,470		1,800	250		3,176	13,151	(3,176)	(350)	(1,800)	(300)	(6,000)	(1,525)	(43,748)	2,592
19	2035/36	1,500	3,000	675	920	260	1,470			250		3,191	11,266	(3,191)	(250)		(300)	(6,000)	(1,525)	(45,273)	2,682
20	2036/37	1,500	3,000	675	920	260	1,470			100		3,176	11,101	(3,176)	(100)		(300)	(6,000)	(1,525)	(46,798)	2,772
21	2037/38	1,500	3,000	675	920	260	1,470					3,227	11,052	(3,227)			(300)	(6,000)	(1,525)	(48,323)	2,863
22	2038/39	1,500	3,000	675	920	260	1,470			350		3,193	11,368	(3,193)	(350)		(300)	(6,000)	(1,525)	(49,848)	2,953
23	2039/40	1,500	3,000	675	920	260	1,470			300		3,176	11,301	(3,176)	(300)		(300)	(6,000)	(1,525)	(51,373)	3,043
24	2040/41	1,500	3,000	675	920	260	1,470			350		3,191	11,366	(3,191)	(350)		(300)	(6,000)	(1,525)	(52,898)	3,134
25	2041/42	1,500	3,000	675	920	260	1,470			350		3,176	11,351	(3,176)	(350)		(300)	(6,000)	(1,525)	(54,423)	3,224
26	2042/43	1,500	3,000	675	920	260	1,470			325		3,227	11,377	(3,227)	(325)		(300)	(6,000)	(1,525)	(55,948)	3,314
27	2043/44	1,500	3,000	675	920	260	1,470			200		3,193	11,218	(3,193)	(200)		(300)	(6,000)	(1,525)	(57,473)	3,405
28	2044/45	1,500	3,000	675	920	260	1,470			350		3,176	11,351	(3,176)	(350)		(300)	(6,000)	(1,525)	(58,998)	3,495
29	2045/46	1,500	3,000	675	920	260	1,470					3,191	11,016	(3,191)			(300)	(6,000)	(1,525)	(60,523)	3,586
30	2046/47	1,500	3,000	675	920	260	1,470					3,179	11,004	(3,179)			(300)	(6,000)	(1,525)	(62,048)	3,676
31	2047/48	1,500	3,000	675	920	260	1,470				500	3,227	11,552	(3,227)	(500)		(300)	(6,000)	(1,525)	(47,573)	2,818
32	2048/49	1,550	3,000	675	920	260	1,470					3,193	11,068	(3,193)	(50)		(300)	(6,000)	(1,525)	(48,325)	2,863
33	2049/50	1,750	3,000	675	920	260	1,470					3,176	11,251	(3,176)	(250)		(300)	(6,000)	(1,525)	(46,769)	2,771
	Totals	**50,508**	**98,373**	**22,030**	**32,245**	**8,328**	**48,155**	**1,180**	**92,985**	**8,929**	**34,950**	**128,875**	**526,559**	**(128,875)**	**(49,793)**	**(88,400)**	**(9,994)**	**(199,392)**	**(50,104)**		**78,914**

Indicative Long Term Asset Investment Plan 2017-2050

Scenario 4

	Category	Building Maintenance	Building Projects	ICT	Roads & Bridges	Street-lighting	Vehicles & Plant	Waste Services	Ferries & Terminals	Harbour Works	Tugs & Harbour Craft	Housing Revenue Account	Expenditure Totals	Funded by Housing Revenue Account	Funded by Harbour Account	Funded by Transport Scotland	Funded by Capital Receipts	Funded by Capital Grants	Funding Surplus / (Shortfall)	Cumulative Debt	Revenue Impact
	Year	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
1	2017/18	2,208	2,712	625	1,277	225	1,260	50	1,730	920	7,500	2,913	21,420	(2,913)	(10,421)		(379)	(8,026)	319	(16,000)	948
2	2018/19	1,050	2,661	625	1,218	201	1,445	209	2,955	820	7,500	5,835	24,519	(5,835)	(9,254)		(285)	(6,373)	(2,773)	(18,773)	1,112
3	2019/20	1,000	3,000	625	1,026	199	1,374	50	11,900	320		5,924	25,418	(5,924)	(390)		(280)	(5,943)	(12,881)	(31,654)	1,875
4	2020/21	1,000	3,000	625	1,405	199	1,400	261	9,400	290		6,849	24,429	(6,849)	(360)		(370)	(5,525)	(11,325)	(42,979)	2,546
5	2021/22	1,000	3,000	630	1,079	200	1,416	50	1,500	204		6,969	16,048	(6,969)	(274)		(280)	(5,525)	(3,000)	(45,979)	2,724
6	2022/23	1,800	3,000	675	1,040	263	1,470		4,800	850		6,762	20,660	(6,762)	(1,220)		(300)	(6,000)	(6,378)	(52,357)	3,102
7	2023/24	2,000	3,000	675	1,040	263	1,470	140	6,900	475		6,850	22,813	(6,850)	(1,045)		(300)	(6,000)	(8,618)	(60,975)	3,612
8	2024/25	1,500	3,000	675	1,040	263	1,470		4,550	700	7,800	6,955	27,953	(6,955)	(8,570)		(300)	(6,000)	(6,128)	(67,103)	3,975
9	2025/26	1,650	3,000	675	1,040	263	1,470	140	4,550	825	7,800	3,191	24,604	(3,191)	(8,845)		(300)	(6,000)	(6,268)	(73,371)	4,347
10	2026/27	2,000	3,000	675	920	263	1,470		4,900	150	300	3,176	16,854	(3,176)	(1,020)		(300)	(6,000)	(6,358)	(79,729)	4,723
11	2027/28	1,500	3,000	675	920	263	1,570	140	3,600	75	850	3,227	15,820	(3,227)	(1,095)		(300)	(6,000)	(5,198)	(84,927)	5,031
12	2028/29	1,550	3,000	675	920	263	1,470		4,200	175		3,193	15,446	(3,193)	(225)		(300)	(6,000)	(5,728)	(90,655)	5,371
13	2029/30	1,750	3,000	675	920	263	1,470	140	7,200	175		3,176	18,769	(3,176)	(425)		(300)	(6,000)	(8,868)	(99,523)	5,896
14	2030/31	1,500	3,000	675	920	260	1,470		8,800		900	3,191	20,716	(3,191)	(900)		(300)	(6,000)	(10,325)	(109,848)	6,508
15	2031/32	1,500	3,000	675	920	260	1,470		7,000		900	3,176	18,901	(3,176)	(900)		(300)	(6,000)	(8,525)	(118,373)	7,013
16	2032/33	1,500	3,000	675	920	260	1,470		4,800		900	3,227	16,752	(3,227)	(900)		(300)	(6,000)	(6,325)	(124,698)	7,387
17	2033/34	1,600	3,000	675	920	260	1,470		2,400	125		3,193	13,643	(3,193)	(225)		(300)	(6,000)	(3,925)	(128,623)	7,620
18	2034/35	1,600	3,000	675	920	260	1,470		1,800	250		3,176	13,151	(3,176)	(350)		(300)	(6,000)	(3,325)	(131,948)	7,817
19	2035/36	1,500	3,000	675	920	260	1,470			250		3,191	11,266	(3,191)	(250)		(300)	(6,000)	(1,525)	(133,473)	7,907
20	2036/37	1,500	3,000	675	920	260	1,470			100		3,176	11,101	(3,176)	(100)		(300)	(6,000)	(1,525)	(134,998)	7,998
21	2037/38	1,500	3,000	675	920	260	1,470					3,227	11,052	(3,227)			(300)	(6,000)	(1,525)	(136,523)	8,088
22	2038/39	1,500	3,000	675	920	260	1,470			350		3,193	11,368	(3,193)	(350)		(300)	(6,000)	(1,525)	(138,048)	8,178
23	2039/40	1,500	3,000	675	920	260	1,470			300		3,176	11,301	(3,176)	(300)		(300)	(6,000)	(1,525)	(139,573)	8,269
24	2040/41	1,500	3,000	675	920	260	1,470			350		3,191	11,366	(3,191)	(350)		(300)	(6,000)	(1,525)	(141,098)	8,359
25	2041/42	1,500	3,000	675	920	260	1,470			350		3,176	11,351	(3,176)	(350)		(300)	(6,000)	(1,525)	(142,623)	8,449
26	2042/43	1,500	3,000	675	920	260	1,470			325		3,227	11,377	(3,227)	(325)		(300)	(6,000)	(1,525)	(144,148)	8,540
27	2043/44	1,500	3,000	675	920	260	1,470			200		3,193	11,218	(3,193)	(200)		(300)	(6,000)	(1,525)	(145,673)	8,630
28	2044/45	1,500	3,000	675	920	260	1,470			350		3,176	11,351	(3,176)	(350)		(300)	(6,000)	(1,525)	(147,198)	8,720
29	2045/46	1,500	3,000	675	920	260	1,470					3,191	11,016	(3,191)			(300)	(6,000)	(1,525)	(148,723)	8,811
30	2046/47	1,500	3,000	675	920	260	1,470					3,179	11,004	(3,179)			(300)	(6,000)	(1,525)	(150,248)	8,901
31	2047/48	1,500	3,000	675	920	260	1,470				500	3,227	11,552	(3,227)	(500)		(300)	(6,000)	(1,525)	(135,773)	8,044
32	2048/49	1,550	3,000	675	920	260	1,470					3,193	11,068	(3,193)	(50)		(300)	(6,000)	(1,525)	(134,525)	7,970
33	2049/50	1,750	3,000	675	920	260	1,470					3,176	11,251	(3,176)	(250)		(300)	(6,000)	(1,525)	(123,169)	7,297
	Totals	**50,508**	**98,373**	**22,030**	**32,245**	**8,328**	**48,155**	**1,180**	**92,985**	**8,929**	**34,950**	**128,875**	**526,559**	**(128,875)**	**(49,793)**		**(9,994)**	**(199,392)**	**(138,504)**		**205,767**

Shetland Islands Council

Agenda Item

13

Meeting(s):	**Policy & Resources Committee** **Shetland Islands Council**	**7 March 2017** **8 March 2017**
Report Title:	**Corporate Risk Register**	
Reference Number:	**CRP-05-17-F**	
Author / Job Title:	**Christine Ferguson** **Director of Corporate Services**	

1.0 Decisions / Action required:

1.1 That the Policy & Resources Committee and Council RESOLVE to

1.1.1 NOTE the changes to the Corporate Risk Register;

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

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

2.0 High Level Summary:

2.1 The purpose of this report is to present the current Corporate Risk Register to Policy & Resources Committee and to Council as part of the organisation's Performance Monitoring arrangements.

3.0 Corporate Priorities and Joint Working:

3.1 Our Plan 2016, in its 20 by 20 states that:-

- High standards of governance, that is, the rules on how we are governed, will mean that the Council is operating effectively and the decisions we take are based on evidence and supported by effective assessments of options and potential effects.
- Our approach to managing the risks we face will have resulted in a more risk-aware organisation that avoids high risk activities.

3.2 The implications for partnership working are included in the narrative in the Risk Register as appropriate.

4.0 Key Issues:

4.1 *Additions to the Register*

- ORG039 has been added to take account of the risks in relation to financial sustainability and the Medium Term Financial Plan;
- ORG040 considers partnership working and highlights areas of potential risk to Shetland Islands Council;
- ORG041 takes account of potential issues from the sale of BP's investment in Sullom Voe to EnQuest. This risk has been added to the Corporate Risk Register initially for a twelve month period.

4.2 *Removal from Register*
Nothing to note.

4.3 *Revisions to Risks*
- Risk No ORG032 – increased workload for services. The wording has been amended to better reflect current work pressures;
- Risk ORG035 – the *current* Anderson High School campus. The control measure completion date has been added to the risk;
- Risk ORG018 – recruitment and retention of staff. A revision of the risk includes the option of using Council's Market Forces Policy in appropriate circumstances; and
- ORG030 – Control measures have been added to the risk of breach of legislation from an uncontrolled release of data;

4.4 Risks around 'Brexit' will be considered again at the next meeting of the Risk Board as information on the impact of triggering Article 50 is not yet available.

5.0 Exempt and/or confidential information:

5.1 None

6.0 Implications :	
6.1 Service Users, Patients and Communities:	A robust approach to risk management at all levels of the organisation is essential in order to prevent or reduce potentially negative impacts on the Community/ Stakeholders. The detail in this regard is covered in the Risk Register.
6.2 Human Resources and Organisational Development:	Risk management promotes best practice and seeks to protect staff across the Council. Risk ORG0037, makes reference to the potential impact on the Council's workforce of the uncertainties that Brexit creates. This will add to the already complex arrangements put in place by the UK Borders Agency in relation to preventing illegal working. There is much speculation about the impact on employment in the UK which HR is monitoring to ensure the Council is in a position to respond appropriately.
6.3 Equality, Diversity and Human Rights:	By actively managing risks the Council ensures that negative impacts on the staff and service users are anticipated and prevented or minimised.

6.4 Legal:	There are no legal implications arising directly from this report. Legal issues are considered as an integral part of the risk management process.	
6.5 Finance:	Recognising and highlighting risks facing the Council will help ensure that appropriate controls are considered and put in place.	
6.6 Assets and Property:	The recent move out of the offices at 8 North Ness has caused some disruption to the Council and the services provided to the public and also internally by Corporate and Executive Services and Planning. Risk ORG0032 reflects the current situation and actions being taken to mitigate against any negative impacts.	
6.7 ICT and new technologies:	None	
6.8 Environmental:	Risks to the environment are considered in reports to committee or the Council in order to ensure that negative impacts are identified and reduced as far as practicable. There are no environmental issues identified specifically in this report.	
6.9 Risk Management:	This report presents the current risks to the organisation's delivery of services, as identified by the Risk Board, thus ensuring that the organisation complies with the Risk Policy and Strategy.	
6.11 Policy and Delegated Authority:	Policy and Resources Committee requires the Corporate Risk Register to be reported periodically [Min. Ref. P&R 75/15]. The Risk Management Strategy forms part of the Policy Framework contained in Section A of the Constitution – Governance, which states that the management body for the Risk Management Strategy lies within the remit of the Policy and Resources Committee. Ensuring the proper management of the Corporate Risk Register is therefore a delegated matter for the Policy and Resources Committee. However, the Council instructed that the Corporate Risk Register be reported to the Council quarterly as part of the PPMF cycle [Min. Ref. SIC 20/16] so that all Members are informed and involved in discussing the high level and strategic risks facing the Council alongside other performance information.	
6.12 Previously considered by:	Policy & Resources Committee	7 March 2017

Contact Details:
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28 February 2017

Appendices:
Appendix 1 – Corporate Risk Register as at 17 February 2017

Background Documents:

Shetland Islands Council

Risk & Details	Current Likelihood X Impact	Current Risk Profile	Current and Planned Control Measures	Target Probabilty	Target Impact	Target Risk Profile	Responsible Officer
Category							
Corporate Plan *F5. Our "20 by '20" - Standards of Governance*							
The Council handles significant quantities of data including confidential and personal data on a daily basis. It is expected to be an exemplar of good practice and to maintain high standards of security and confidentiality at all times. Information management is managed within the legislative framework as set out by the Information Commissioner. Trigger : Data is released in an uncontrolled manner, accidentally or deliberately, and potentially without the knowledge of the organisation, because of a lack of training/ understanding, poor security, loss of paperwork or data-storing technology. Consequences : Release results in reputational damage or action against the organisation by the Information Commissioner. Financial loss/ fine. Negative media coverage and reputational damage. Possible disciplinary action, stress for staff. Loss of confidence in Services. Risk type : Breach of Legislation - Data Protection, Human Rights, Employment Practice, Health and Safety etc Reference - ORG0030	Unlikely X Major	Medium		Rare	Major	Medium	Jan R Riise Shetland Islands Council
Category **Corporate**							
Corporate Plan *A2. Young People - Vulnerable Children and young people's opportunities*							
Child Protection - Children's Services deliver a range of services across a wide geographic area and all service users need to be safe. Children's Social Work manage high risk, complex situations in their work with families. Often it requires significant resource provision to mitigate risks and ensure the safety of a child or young person. Trigger : Crisis or escalation of complex situation, usually unanticipated and which puts child at increased risk of harm. Consequences : Failure to act quickly or to the extent that is required because of restricted resources can result in child being exposed to potentially more harm or to harm for a longer period of time, harm to child, impact on services, financial impact. Risk type : Physical - People / Property - Other Reference - ORG0025	Possible X Major	High	• Robust systems and procedures in place. Preventative measures, effective communications and information sharing to ensure that any changes or increased risk are identified quickly.	Unlikely	Major	Medium	Helen Budge Shetland Islands Council

Failure to appropriately accommodate looked-after children, off-island placement. There are circumstances when the Children & Families Team is required to accommodate children and young people away from home. Currently, there is a shortage of foster placements and residential placements in Shetland. On occasion this results in placements being sought away from Shetland, which is undesirable and which comes at a high cost to the Local Authority. Trigger : Shortage of foster placements and residential placements in Shetland. There are situations whereby the assessed needs of a child or young person are such that they require a specialist service that is not available in Shetland, such as secure accommodation or a parenting assessment unit. Consequences : Placements have to be sought away from Shetland, which come at a high cost to the Local Authority. Risk type : Economic / Financial - Other Reference - ORG0026	Likely X Significant	High	• Working to identify and develop alternative and flexible solutions which includes development of fee-paid foster carers and ensuring a second residential property becomes operational	Possible	Significant	Medium	Helen Budge Shetland Islands Council
Corporate Plan	*A4. Young People - Protecting vulnerable children and young people*						
As per risk no 026, Children's Services on occasion require an off-island placement for a child. The cost of that placement would be met by Shetland Islands Council and the host local authority would provide appropriate educational access services as they would for any child in their catchment area. Some host local authorities have indicated that the additional cost of a school place or education provision, including meeting the possible additional support needs of a pupil placed off-island, will be recharged to the Shetland Islands Council. This is currently quantified, unanticipated and not in the revenue budget. Trigger : Child requires an off-island placement, and the destination local authority chooses to recharge for the education element of the placement. Consequences : Additional unanticipated revenue cost Risk type : Fees/Charges Loss Reference - ORG0038	Possible X Minor	Medium	• From a resources perspective the risk is managed through the resource allocation panel in terms of gatekeeping and through subsequent commissioning of placements via the national framework. The framework allows for all costs to be negotiated prior to placements starting.				Helen Budge Shetland Islands Council
Corporate Plan	*B2. Older People - Independent Living*						
Risk of harm to a vulnerable adult - Shetland has an increasing older population and an increase in people with a learning disability reaching older age. Statutory services will need to have oversight of an increasing number of vulnerable adults to prevent harm occurring. Trigger : Statutory services fail to identify and take account of all vulnerable adults within their remit, systems failure means that information is not fully collated and/or shared Consequences : Vulnerable adult is not given access to full range of services that they need, delay in access to services leads to harm to vulnerable adult, reputational risk to organisation, potential for HSE action, Care Commission/ external advisors' negative report, civil action. Risk type : Communications failure Reference - ORG0024	Possible X Major	High	• There are well established mechanisms in place to support the detection of risk with an active Adult Protection Committee overseeing the work. There is good multi-agency working within formal arenas to discuss individual cases causing concern. Transitions group in place for Learning Disability Services to manage childhood support to adult support. Ongoing work to review services to make effective use of limited and reducing budgets.	Unlikely	Major	Medium	Simon Bokor-Ingram Shetland Islands Council
Corporate Plan	*F1. Our "20 by '20" - Leadership & Management*						

Lack of compliance with policies leading to a poorly run organisation with costly consequences. The Council could still improve further compliance with council policies and procedures. These include Standing Orders, Health & Safety, Risk Management, Insurance, Financial Regulations, Travel & Expenses, Employee Review & Development, managing poor performance and attending mandatory training events. Trigger : The Council continues to struggle to manage compliance with key council policies and procedures Consequences : Leads to a poorly run organisation that is prone to errors Risk type : Professional Errors and Omissions Reference - ORG0015	Possible X Extreme	High	• CMT has been sending out a strong message on compliance with policies which is having an effect, particularly with regard to budgetary control and financial management. However, there is still an issue of non-compliance in a number of other areas which has yet to be addressed. Some policies and processes need to be reviewed in order to ensure that compliance across the organisation is more achievable.	Possible	Significant	Medium	Mark Boden Shetland Islands Council
Management capacity to deliver the benefits of health and social care integration. Significant effort is required to continue driving the integration agenda and to realise the benefits, and adequate management capacity and skill is required to achieve this. Locality working will require further drive and effort to achieve a shift in structure that delivers front line benefits to residents. Trigger : Interim management arrangements Consequences : Management does not have the capacity to manage extra functions, impact on other services and on staff Risk type : Professional - Other Reference - ORG0016	Possible X Major	High	• There is a joint management structure in place. Work underway to deliver strategic direction agreed by IJB where localities are better supported. Structures in place around joint projects/ programmes of work.	Possible	Significant	Medium	Simon Bokor-Ingram Shetland Islands Council
Failure to deliver major STERT review on time and on budget. The time frame for the project is up to June 2018 i.e. the end of the Interim Joint Principal position. There is a change fund of £300K for two years but there will be an ongoing saving of £200K from the start of the second year. In the first year these payments will be attached to milestones which are also deliverables of the Interim Joint Principal. The project timescale is now less challenging as an Interim Joint Principal has been appointed and is now in post' Trigger : Project management failure, partner failure Consequences : Failure to deliver STERT review on time and on budget, project is delayed and/or budget rises, negative reaction in press and public. Negative impact on Shetland College with a potential increase in staffing costs required. Lack of stability / Change funding will have an impact on NAFC service. Risk type : Professional - Other Reference - ORG0022	Unlikely X Significant	Medium	• An Interim Joint Principal and Joint Vice Principal are now in post and a Colleges Integration Liaison Group is also in place. The current focus is on a joint second tier management structure to provide the depth of management and leadership resource across the organisations and deliver on the challenging operational and financial targets.	Unlikely	Minor	Low	Neil Grant Shetland Islands Council
Failure to deliver major AHS build project on time and on budget. Complex project involving several external parties, following a methodology not previously used by the Council Design Build Financial Model (DBFM) which increases the risk of the project going off track. However, financial close was achieved in July 2015, and construction has commenced. Project completion is currently timetabled for Sept 2017 Trigger : Lack of understanding of DBFM, project management failure, partner failure Consequences : A project is delayed and/or budget rises, negative reaction in press and public. Risk type : Professional - Other Reference - ORG0028	Possible X Significant	Medium	• Project risk register in place which is closely monitored and managed	Unlikely	Significant	Medium	Mark Boden Shetland Islands Council

Recent Council activities plus local / national issues have led to an increased workload for Services across the Council and within Corporate Services - and particularly for Finance, Governance and Law, Capital Programme and Human Resources. There is a limit to how much additional work staff can absorb - staff and services are considered to be at capacity. The implemented move from 8 North Ness was disruptive and there is an ongoing increase in workload caused by the work arounds required so that the Council can continue to operate from other locations. Trigger : Main triggers include: revised budget post Scottish Govt settlement, budget setting challenges - the requirement to make savings now and in the future, implementing various pay and conditions requirements plus 3rd edition of JE scheme, specific problems associated with CHRIS 8 transition (Payroll, HR, ICT), the tertiary review is a significant on-going piece of work, and the various tasks and activities around the governance and operation of the IJB. Governance and law workload includes an election plus governance reviews and organisation-wide project work.	Service redesign work also requires significant staff time. Consequences : Impact on planned work including in particular important corporate/ strategic reviews and strategy development. There is a risk that work will not be scheduled or will not be completed on time, leading to missed opportunities and/or increased costs. Teams at capacity, stress on staff, potential sickness absence, any reduction in resources, e.g. from absences, or resources diverted, can lead to missed opportunities or deadlines/ impact on quality of work as well as difficulty in meeting timescales. Significant work/ strategic planning/ long-term vision is affected or displaced by urgent tasks, short deadlines, reactive work and external demands. Impact on quality of work, missed information, failure to take adequate account of all relevant information, poor quality input / information can lead to poor decision-making. Risk type : Corporate/Community plan - failure to meet Reference - ORG0032	Possible X Significant	Medium	• The effects of the move from 8 North Nessare being monitored and adjustments made where possible to ensure minimal disruption to services. • Our Plan 2016-20 has been agreed. This explains the outcomes that the SIC wants to achieve by April 2020. Our financial planning process is more robust and in line with other planning processes. The risks to Directorate and Service plans are articulated and considered in reports. The Risks for new initiatives including the allocation of resources are considered at Project start up and kept under review.	Unlikely	Minor	Low	Christine Ferguson Shetlan d Islands Council
The Medium Term Financial Plan covers the period from 2016 to 2020 and is an instrument to ensure that the organisation's budget and expenditure is prudent and in line with available resources. The local authority's annual grant from the Scottish Govt has reduced by a greater percentage than anticipated for the last two years. It is also expected to continue to reduce in the short and medium term but is currently un-quantified. Further, the organisation has not yet achieved a position of sustainable services and will, in 17/18, make further draws on reserves in order to balance the budget for that year. Trigger : Organisation's failure to plan or put in place sustainable services for future years, continued reductions to govt grant of an unanticipated or unknown magnitude. Consequences : Unsustainable draw on reserves. The Council continues to operate unsustainably and without intervention, the Council would eventually run out of reserves altogether. Risk type : Economic climate Reference - ORG0039		Possible X Extreme	High	• Service redesign across all areas to identify and implement sustainable levels of service going forward. Business Transformation Programme will support service redesign projects	Unlikely	Major	Medium	Jonathan Belford Shetlan d Islands Council

Shetland Islands Council and specific Directorates, Services and sections are in a number of partnerships. Some have a legislative element and have a strategic planning role (the Community Planning Partnership, IJB, SADP, etc), some are entered into for the purpose of delivering services (SIC Housing Service and Hjaltland Housing Association). Many are contractual but for some, the partnership may exist only through an informal agreement. There is no single formal list of the council's partnership arrangements or agreements. Trigger : Partner fails (legally, financially, is wound up, becomes insolvent or goes into administration) or is no longer able to provide their part of the partnership. Grant or funding is cut to partner. Board resignation, difficulty in recruiting board members, failure to achieve buy-in from essential partners, volunteer fatigue. Consequences : If a partner fails, the responsibility to deliver service or function for which the partnership was formed, may fall to Shetland Islands Council. Contractual obligations such as leases may become the (moral or financial) responsibility of Shetland Islands Council. Financial responsibilities such as for pensions, may fall to Shetland Islands Council. Civil liabilities such as through claims, may fall to Shetland Islands Council in the event that joint liability exists. Risk type : Partnership working failure Reference - ORG0040	Possible X Extreme	High	• All contracts, SLAs and proposals for entering into partnership with another agency are scrutinised by Legal Services / Governance and Law/ Finance staff. Council's policies and standing orders are applied and arrangements are reviewed regularly. A commissioning and Procurement Framework has been approved and will be fully implemented in 2017/18. This includes a framework for commissioning in partnership with other agencies.	Unlikely	Major	Medium	Mark Boden Shetland Islands Council
Corporate Plan	*F13. Our "20 By '20" - Workforce Planning*						
Recruitment & Retention of staff within areas of high demand such as health and social care and in professional areas such as Planning, teaching and Ports and Harbours. The distant and remote nature of Shetland means that there is a small labour pool and therefore limited skills locally which is a greater challenge due to occupational segregation in areas such as ferries and social care. The national pay structures also place restrictions on our ability to match salaries of larger organisations. Trigger : Inability to recruit staff. Consequences : Posts remaining unfilled due to failure to recruit which places strain on services to deliver. Risk type : Demographic change Reference - ORG0018	Likely X Minor	Medium	• HR continually reviews the council's HR policies and processes to maximise successful recruitment and retention .Support is also provided to managers to ensure effective people management that encourages staff retention within service areas. The Council's Market Forces Policy can be applied in appropriate circumstances.	Unlikely	Minor	Low	Denise Bell Shetland Islands Council
Corporate Plan	*F15. Our "20 By '20" - Assets*						
The current Anderson High School campus is a large open site with a number of buildings on it. There are various access points to the campus and it is surrounded by residential properties. The school will be vacated when the service/ staff/ pupils, etc move to the new build at the Clickimin. Trigger : Failure to properly plan for the future of the site Consequences : A failure to plan for the future of the site could lead to missed opportunities to capitalise on this asset, . There will be on-going costs associated with the site, rates, maintenance etc. and a risk of vandalism or other damage. There is also a risk of reputational damage if the site is not developed. Risk type : Missed opportunities Reference - ORG0035	Unlikely X Extreme	High	• The Council has completed a Development Brief for the site - and will shortly be undertaking a masterplanning exercise. It is hoped this will be complete by October 2017.	Unlikely	Significant	Medium	Robert Sinclair Shetland Islands Council

On 24th January, BP announced an agreement to sell part of its interest in the Magnus Oilfield and some associated infrastructure to EnQuest. EnQuest's role as operator at Sullom Voe terminal will be to improve efficiency by driving down operating costs at the terminal and to deliver the renewal and rationalisation programme for the 25 owner companies in order that the terminal can remain open & economic. Shetland Islands Council states in its Corporate Plan that it's priority is to 'maximise income from Sullom Voe whilst supporting the sustainable contribution of this industry to Shetland's economy'. Trigger : The Council has a role facilitating this transition and there ara number of issues and activities, any of which could trigger a risk and result in adverse consequences for the Council and/ or Shetland. Any failure to fully understand the implications of any decisions. Consequences : Missed opportunity, adverse impact on Shetland's economy and/or environment, potential contractual or legal uncertainty. Risk type : Economic - Other Reference - ORG0041	Possible X Major	High	• Director of Infrastructure Services has responsibility for strategic and operational arrangements for the Port of Sullom Voe, senior management team is actively considering the issues and various work strands to facilitate this complex development to create the environment which will extend the life and viability of the terminal.	Unlikely	Significant	Medium	Maggie Sandison Shetland Islands Council
Corporate Plan	*F2. Our "20 By '20" - Staff Value & Motivation*						
An organisation-wide Staff Viewpoint Survey was carried out in January 2015 for the purpose of gauging staff opinions. The returns were analysed with the issues prioritised, and that information was reported to Directors, Managers and staff. Managers and Directors were then tasked with putting in place a range of measures to address the specific issues raised. The comments made reflect concerns about the Council, recent changes, and the impact of those changes. In general you suggested things such as: •better communication, •listening more, •being clear about Council strategy and sticking to it, •having better training for Managers, •Senior Leaders spending more time on the "shop floor". Trigger : Perception (real or imagined) that organisation, senior management or specific manager(s) will not/ have not acted upon the findings of the survey. No change evidenced, status quo despite assurances or promises to the contrary. Failure to communicate change to front-line staff, failure to embed change, so situation reverts to that which led to dis-satisfaction. Consequences : Disillusioned/ unhappy / disengaged staff, increased disillusionment following the expectation that the survey would make a difference, no confidence in manager or organisation, demotivated staff, poor commitment to Service, impact on Service and/or productivity. Staff retention issues - Increased turnover of staff with resulting recruitment costs and service impacts. Reputational damage, staff more likely to raise grievances. Stress, increase in sickness absence, perception that the whole exercise was a waste of public money. Risk type : Missed opportunities Reference - ORG0031	Possible X Significant	Medium	• Check and ensure good communication between staff and management. ERD's and training needs are implementedWorkforce Strategy is now approved, as well as the Viewpoint Engagement Plan. CMT are now leading on a number of work streams within the Plan. A set of Organisational Values and Behaviours has been developed in consultation with staff and the final document agreed by CMT in November 2016. Work is now underway to plan the implementation and integration of these Values & Behaviours so that they become part of our business as usual. A series of staff Viewpoint Engagement sessions are now being planned and delivered, led by Directors and Executive Mnaagers who will lead sessions with all the staff within their teams.	Rare	Significant	Low	Denise Bell Shetland Islands Council
Corporate Plan	*F4. Our "20 By '20" - It Equipment & Systems*						

Malicious cyber attack could happen at any time. ICT and SIC have a host of security systems and approaches in place. However, an attack, successful or otherwise, can always happen. It may be impossible to tell whether there has been an attack, or what any attack has looked at/ taken/ copied. Any attack could result in compromise /damage to systems or reputation, data leak, loss of data or system downtime. Trigger : Attack on the Council's network resulting in compromise/damage to systems or reputation, data leak, etc Consequences : Loss of data, system downtime Risk type : Malicious damage/ vandalism/sabotage Reference - ORG0029	Unlikely X Major	Medium	• Anti-virus and firewall defences, ICT security policy,boundary appliance scan all incoming e-mail. Corporate anti-virus installed on all servers and workstations. Corporate firewalls Surecloud vulnerability scanning and IDS appliance - Systems support team monitor network activity and check open server ports Annual penetration testing	Rare	Significant	Low	Susan Msalila Shetland Islands Council
Corporate Plan			*F5. Our "20 by '20" - Standards of Governance*				
ORG0014 - Policies - effect of - Health & Social Care Integration. Shetland's Integration Joint Board has delegated authority for the strategic planning of services, and the responsibility for directing delivery to achieve those strategic aims. Board has been established and core constitutional documents approved. Trigger : Planning and decision-making - the wrong priorities may be agreed, or decisions may not ensure that the desired outcomes are achievable Consequences : The risk is that the outcomes for the individuals and communities does not improve within a new framework Risk type : Policies - effect of Reference - ORG0014	Possible X Significant	Medium	• A Strategic Plan is in place for 2016/17 that sets out service delivery matched to available funding. • Performance indicators have been developed to complement the national core suite of indicators. Joint governance arrangements are in place with NHS Shetland that bring together scrutiny of both clinical and social care activity. . • The Chief officer for the IJB is the Director of Community Health and Social Care, who is a member of a national group of Chief Officers and information from the meeting/ activities of the group will ensure that the Council is kept up to date with developments so that these can be fed back to a wider audience.	Unlikely	Minor	Low	Simon Bokor-Ingram Shetland Islands Council
The Council invested heavily in infrastructure at the time when the oil industry was taking off. This infrastructure was funded from income generated from the oil industry. That infrastructure is now aging and will need to be replaced, however, the financial situation is now tighter which will mean that it will be challenging to finance this. Trigger : Need for Investment in Shetland's infrastructure Consequences : Challenge to finance the replacement of existing infrastructure Risk type : Physical - People / Property - Other Reference - ORG0021	Likely X Extreme	High	• The current Asset Investment Plan focuses on the maintenance of existing assets in order to prolong their useful economic lives. This should mitigate against the risk of immediate failure. In order to address the longer term replacement of assets, a Borrowing Policy was approved by Council on 11 December 2013.	Likely	Major	High	Christine Ferguson Shetland Islands Council
Corporate Plan			*F6. Our "20 By '20" - Financial Management*				
The SIC Pension Fund is currently not 100% funded. At 31 March 2014 triennial evaluation the Fund was 91.7% funded. The SIC Pension Fund, as well as the Council has a number of Scheduled and Admitted Bodies that have liabilities to fund over the long term. Admitted bodies failing or being unable to meet their contributions places risk from these arrangements on the Council, as the largest contributor to the Pension Fund. Trigger : Any circumstance that triggers a liability to actualise, Consequences : Financial impact, significant long term obligations Risk type : Customer / Citizen - Other Reference - ORG0034	Almost Certain X Major	High	• For Bodies seeking admission to the Pension Fund they now have to be supported in doing so by the Council (as a Schedule 1 Body) and also provide a guarantee / bond to meet any liabilities should they default in the future. This mitigates the risk in relation to new entrants.	Rare	Extreme	High	Jonathan Belford Shetland Islands Council

Corporate Plan	*F8. Our "20 by '20" - Efficient*						
Failure to deliver on Medium term Financial Plan - The Council's reserves have decreased by 60% since the turn of the century due to an over reliance on them to meet the funding gap between income and expenditure. The Council continues to operate unsustainably and without intervention, the Council would eventually run out of reserves altogether. Trigger : Failure to deliver on Medium term Financial Plan Consequences : Council runs out of reserves Risk type : Economic / Financial - Other Reference - ORG0020	Unlikely X Extreme	High	• The Financial Management arrangements of the Council have been strengthened with the introduction of the MTFP and more rigorous budgetary control.	Unlikely	Major	Medium	Mark Boden Shetland Islands Council
Corporate Plan	*Shetland Islands Council - Our Plan 2016 - 2020*						
On 23rd June 2016, a country-wide referendum was held to identify whether the UK wished to remain in, or leave, the European Union. Following the immediate political turmoil, there has been ongoing economic and political uncertainty. Various organisations in Shetland receive EU funding and this could be (and in some cases, has been) removed. The Shetland Islands Council receives EU finding for a number of purposes. Trigger : Referendum result, post referendum political and economic uncertainty or change Consequences : Short-term - Withdrawal of funding, political and economic uncertainty, potential impact on recruitment, uncertainty for non-UK EU nationals employed by SIC/ in Shetland - the potential impact on the councils workforce planning of the uncertainties that Brexit creates, will add to the already complex arrangements put in place by the UK Borders Agency in relation to preventing illegal working. There is much speculation about the impact on employment in the UK which HR are monitoring to ensure the council responds appropriately. Impact on partner organisations and partner-funded bodies. Does the SIC have a lobbying role?; Medium term: Withdrawal of funding, political and economic uncertainty, legislative change, regulatory uncertainty, impact on pension fund and Council investments, issues round fish quotas/ market/ pelagic fleet, economic impact, uncertainty for non-UK EU nationals employed by SIC/ in Shetland, potential impact on recruitment (of staff/ students),/ on SIC's workforce planning particularly given the already complex arrangements put in place by the UK Borders Agency in relation to preventing illegal working potential for further legislative, political and structural change, opportunity to influence direction and shape of new legislation, impact on partner organisations and partner-funded bodies, requirement to consider risks around capital expenditure. What is the SIC's role and priorities?; Long-term: Uncertainty, impact on longer term planning for organisation, potential for further legislative, political and structural change. Risk type : Political - Other Reference - ORG0037	Likely X Major	High	• Development Services are providing regular updates, preparing regular update papers to Committee and Community Planning board	Possible	Minor	Medium	Mark Boden Shetland Islands Council