

MINUTES

B - PUBLIC

**Special Shetland Islands Council
Council Chamber, Lower Hillhead, Lerwick
Tuesday 21 November 2023 at 10.00am**

Present:

A Armitage	A Duncan
J Fraser	C Hughson
D Leask	S Leask
M Lyall	E Macdonald
R McGregor	A Manson
N Pearson	B Peterson
L Peterson	M Robinson
D Sandison	I Scott
C Smith	R W Thomson
A Wenger	

Apologies:

D Anderson	T Morton
G Robinson	R Thomson

In Attendance (Officers):

M Sandison, Chief Executive
T Coutts, Executive Manager – Economic Development
P Fraser, Executive Manager – Finance
J Riise, Executive Manager – Governance and Law
K Collins, Financial Accountant
I Johnson, Business Investment Officer
L Geddes, Committee Officer
L Adamson, Committee Officer

Attending by Remote Link

M Hodgson, Solicitor

Also in attendance (Remote Link):

S O'Hagan, Audit Scotland
B Howarth, Audit Scotland
R Smith, Audit Scotland

Chairperson

Ms Manson, Convener of the Council, presided.

The Convener ruled that in accordance with Section 43(2) of the Local Government in Scotland Act 2003, remote attendance and participation by Members of the Council during the meeting was permitted.

Circular

The circular calling the meeting was held as read.

Declarations of Interest

None

71/23 **Annual Audit Report on the 2022/23 Audit - Shetland Islands Council and Zetland Educational Trust**

The Council considered a report by the Executive Manager – Finance (F-38-23-F) that presented the Annual Audit Report 2022/23 and the Audited Annual Accounts for Shetland Islands Council and the Audited Trustee's Annual Report and Financial Statements for Zetland Educational Trust for 2022/23.

The Executive Manager – Finance introduced the report and appendices, advising that these had previously been presented to Audit Committee. He thanked the Auditors, staff in the Finance Service and in the other departments for the work undertaken.

In introducing the audit reports, Mr B Howarth, Audit Scotland, referred to the opportunity for Members to raise any issues at this stage. In terms of the key issues, he advised on the main changes relating to housing and pension valuations and that the accounts were presented for approval and then for signature later today. Mr Howarth concluded by thanking officers and Members for their involvement in this first year of their audit appointment.

During questions, comment was made that the Zetland Educational Trust (ZET) had been formed in 1961 and it was understood the remit of the ZET had not been amended since then. In that regard, guidance was sought as to how to progress a review of the remit of ZET. The Chief Executive referred to a previous request for a review, and explained that had been delayed given the challenges regarding staff resources and on the need to prioritise work where there will be the greatest impact. She went on to say that the ZET was only a small part of the Council's overall finances and that the review would be undertaken in due course and would provide an update in terms of timescale, in 6 months' time.

Moving into debate, Mr Duncan advised that the Audit Reports for the Council and the ZET had been approved at Audit Committee, following a good question and answer session and constructive debate. Mr Duncan moved that the Council approve the recommendations in the report. Mr Peterson seconded.

During further debate, reference was made to the Chief Executive's earlier comment regarding increasing workloads and pressure on staff. In that regard, comment was made on the increasing volume of reports presented to Members, and it was suggested that officers could cut down on the time they spend on preparing reports and instead to let officers attend to matters of real importance. While acknowledging the point made, the Leader however advised on the need for detailed reports covering all the salient points, but she said that it is for each Member to decide how thoroughly they read the reports. She added that Members ask for further reports, which then adds to the workload of officers and therefore Members have to take some responsibility in that regard.

On behalf of the Audit Committee, Mr Duncan thanked the Auditors, staff and Members for their involvement in the audit reports. The Convener concurred.

Decision

The Council RESOLVED to:

- NOTE the findings of the 2022/23 audit; the auditor's covering letter which includes the audit opinion and Letter of Representation for both Shetland Islands Council and Zetland Educational Trust (Appendix 1); and the external auditor's Annual Audit Report (Appendix 2);
- APPROVE the audited Annual Accounts for 2022/23 for Shetland Islands Council, for signature (Appendix 3);and
- APPROVE the Trustees' Annual Report and Audited Financial Statements 2022/23 for Zetland Educational Trust, for signature (Appendix 4).

72/23 **Medium-Term Financial Plan 2023-2028 and Approach to Budget-Setting**

The Council considered a report by the Executive Manager – Finance (F-42-23-F) that presented the Medium-Term Financial Plan (MTFP) 2023-2028.

In introducing the report, the Executive Manager – Finance advised on an amendment required to the recommendation at Section 1.0, which should read, “The Council resolves to approve the Medium Term Financial Plan, attached as Appendix 1, and endorse the approach to setting the 2024/25 budget outlined in section 5 of Appendix 1”. He said that the MTFP is presented ahead of the budget setting, to look ahead at the next 4-5 years, which was a time of increasing uncertainty. He advised on the estimated budgetary deficit this year of £37m, which he said would be worse if there was no commercial income or the benefit of the sustainable use of the proceeds from the reserves.

The Executive Manager – Finance provided a summary of the key financial assumptions used in the MTFP and advised on the different scenarios identified. He clarified that neither figure would be an accurate representation of the expected future reality, but was being used as a model, rather than a budget, intended to be used to outline possible scenarios and look at extremes. He advised that the financial situation requires a robust response and to take a strategic view, which he said would not be achievable in the short-term. He referred to the challenging financial situation to date, but stated that the situation is now more challenging and budgets are under real pressure. He commented that from a financial savings point of view the lack of availability of staff is positive in terms of the budgets, however from a service delivery perspective that is not the case. He said that in moving forward, there is a need to look at the current inability to recruit to posts and to address the underlying deficit and look at services that can be redesigned in line with available staff and financial constraints. In that regard, the Executive Manager - Finance referred to the Plan Objectives in the MTFP, which sets out a number actions and approaches for consideration during 2024/25.

In moving into discussion, positive comment was made to the inclusion in the MTFP of the Plan Objectives in terms of practical suggestions going forward.

In responding to a suggestion, the Executive Manager – Finance confirmed that detail on the actual outturns of the Council in previous years would be a useful addition to the Plan.

During the discussion, the opinion of the Executive Manager – Finance was sought regarding the graph on page 33 of the MTFP, “Impact on underlying investment values if used to manage annual budget deficits”. During his response, the Executive

Manager – Finance provided an overview on the use of reserves, referring to the decisions taken previously whereby the Council is now living beyond its means and on the need to achieve sustainability to maintain a good level of service going forward. He said that the sustainable use of reserves cannot be overstated, and that it is very much the case that decisions need to be taken now so that harder decisions do not need to be taken in the future.

Comment was made regarding the Change Programme and the need to review the priorities and to increase staff resources to focus on the critical projects to progress into the medium-term. In responding, the Chief Executive referred to the hybrid model of the Change Programme, in that much of the activity is taken forward in other services with the co-ordination of projects through the Change Programme. She acknowledged the need to articulate better what is in the Change Programme and where the support for the projects are coming from. In that regard, it was decided that a list of the Change Programme projects would be presented to Members during budget setting, in order to ensure priorities are still aligned and include information on the level of support given to the projects from the Change Programme team and from other service areas.

The Executive Manager - Finance and the Chief Executive responded to questions, and the Council noted the following:

- New sources of commercial income would be taken into account in the MTFP as these developments become clearer going forward.
- A review of charging will be undertaken to ascertain the impact on the overall strategy and to understand the balance as to whether the charge fully covers the cost or whether it is subsidising other areas. Reference was made to some of the national fees set, that the Council, as a small local authority, cannot recover for statutory functions.
- The scale of change needed to implement a significant change to the Council's cost base will need a long-term approach. Reference was made to the current situation, regarding the issues around staff recruitment and the unreasonable amount of pressure on the remaining staff. The savings and underspends at this time due to vacancy factors require a change in focus looking ahead at how to resize and reshape the organisation to operate with the actual number of staff in place. In going forward, given the demographic of the Council and as more staff are leaving than being recruited, there will be less staff next year and less staff after the five year period of the MTFP. In terms the change there is a need to plan for longer-term rather than on shorter-term solutions.
- The proposal to ask new grant providers to make a nominal contribution to the Council to administer their funding, at possibly 8%, was seen as an aspirational Policy decision to support existing budgets and contribute to the underlying deficit.
- A programme of work is underway to look to reduce Council assets in terms of buildings and land, for savings to be achieved through the reduction in running costs and from the capital receipts from sales. Reference was made to the recently approved Property Asset Management Strategy and to the Net Zero Strategy which will be a prompt to upgrade properties, to consider sharing properties with the public sector or to have less properties.

- Regarding the Local Government Pension Scheme (LGPS), the early indication is that the Council, and all pension funds in the UK, will move to the fully funded position. While referring to the cautious approach to be taken, there is an indication that the current LGPS employer contribution rates could reduce by 2-3%, which will come before Pension Fund Committee/Pension Board early next year with a view to implementation from 1 April 2024.
- It was advised on the difficulty should a reduction be made to the employer contribution rates, to then need to increase those rates at a later stage, not only for the Council to have to find additional budget should that situation arise but also the other admitted bodies who are members of the Pension Fund.
- Responding to a comment regarding the fully funded Pension Funds being as a consequence of a change in the bonds market, the Executive Manager – Finance advised on the need for discussion with the Actuary as to whether this could be a blip or whether, for example, in a year's time the outcome could be significantly different. In that regard, he cautioned around reducing the employer contribution rate significantly advising that a less risky approach and a longer term view may be needed.
- While a proposal is being made at this time not to reinstate the graduate recruitment scheme, it may be considered again in the future. Reference was however made to the particular issue around the need for Project Managers, and in that regard, there are proposals to look at a Project Manager led recruitment scheme to take recent graduates and train them in project management skills and utilise those staff into areas of the organisation working on key projects.
- Responding to concerns raised around resourcing challenges to undertake current projects, on the need to align to "Our Ambition" with the available workforce, and that no significant change has been made in the Change Programme, the Council was advised that projects and priorities identified by the previous Council, were very much put into action and were resourced. The issue for the Council is to match whether key projects are properly resourced, acknowledging that some projects are impacted on by external capacity issues. It was suggested that the very ambitious Asset Investment Plan is reviewed, to look at what is realistic to reshape and rescale the Plan while taking forward the key projects.
- In terms of savings outwith the Asset Investment Plan, examples were given of using cluster social care accommodation to utilise staff better to support multiple individuals, which is a model that is more akin to supported housing rather than continuing to use residential housing. Education will also need to be looked at in the context of the Reform of Education, and on the workforce challenges in that regard to continue to deliver quality education. Those systemic reviews will form part of the budget setting to build a sustainable model over time.
- In referring to the review of charging, it was intended that going forward the list of charges reported annually will be more detailed to explain the strategic underpinning. In terms of reporting on statutory/non-statutory charging, it was cautioned that may be more difficult to differentiate between the two, but will form part of the discussions on the charges going forward.
- In responding to a request for figures on staff resources associated with non-statutory functions, it was advised that the Council is committed to ensuring that high costs are avoided by spending on non-statutory functions where possible and

in using Child Protection in Social Care as an example, it was explained that non-statutory functions around early intervention and protection is undertaken to ensure best outcomes are achieved as well as sustaining good quality lives and protecting the most vulnerable children in Shetland. To move into a statutory Child Protection function is where the highest costs for the Council would lie, leading to more spending and poorer outcomes for the community.

(There was a short break and the Council reconvened at 11.45am).

During debate, reference was made to the 8% contribution to be sought from grant providers for the administration of their grant funding, and it was commented on the need to be mindful on what the grant is being given for and to ensure grant conditions are fully met. It was also hoped there would be no additional bureaucracy or stress on what is to be achieved in delivering services.

Reference was made to the priorities highlighted by the Chief Executive, and to the proposals set out in Section 4.15 of the report, in terms of the plans to address the structural deficits within the existing budget, which it was suggested were all practical areas to make huge savings and ease the pressure on staff and see financial stability in the MTFP.

Comment was made on the useful discussion on the report, which highlighted that Members are aware of the challenges being faced. The MTFP is an improved position however there are still significant risks on the financial model going forward. There is a need to look to do things differently and as the budget setting process is approached there is a real opportunity, as a Council, to make decisions now that will impact the future of the Council and help sustain the really important services to the community

It was commented that the message being relayed, that the Council is spending beyond its means, the need to reduce costs and to restructure services, is being received and understood. It was noted however there is a need to plan how that will happen. Reference was made to the earlier suggestion, to better resource the Change Programme, however it was considered that the Change programme should instead be disbanded, as many of the projects being taken forward within departments will progress with or without the Change Programme. The savings could instead be directed towards external resources to see where major changes can be made to facilitate the restructuring.

Reference was made to the significant shift in how the Council is going to conduct itself and move forward in a very changing tone and nature and on how the MTFP is being articulated to Members and also to the wider community. Comment was made on the importance for prevention instead of cure, that early intervention will save this Council financially in the long term and on the good working relationships with other agencies. It was stated that the MTFP is welcomed, being a significant shift to what has been presented in previous years.

Disappointment was expressed that fixed links were not in place at this time, as it would offer huge support in terms of freeing up labour and for people to move around more easily. It was commented that to achieve fixed links in the future will be an enabler to further challenges that may be faced, and reference was made to the benefits in that regard to the Council and the whole of Shetland.

Comment was made that the MTFP will make significant changes, helping staff and the financial side of the Council to be more sustainable. Mr Leask moved that the

Council approve the recommendation in the report, namely the Medium Term Financial Plan, attached as Appendix 1, and endorse the approach to setting the 2024/25 budget outlined in section 5 of Appendix 1. Mr Fraser seconded.

During further debate, comment was made on the need to move rapidly into action to achieve the Council's priorities, and to do so in the context of a £37m deficit there was a need to fund overall budget considerations from the combined reserves and income streams, and that the constituents and wider public need to fully understand that situation. Reference was made to the Workforce Strategy, and the need to start to tackle the workforce problems in early course, by targeting the areas where change is required, with options to grow our own staff in order to find the level of skills and resources needed, through for example, the graduate recruitment programme.

Comment was made on the need to have the assets to deliver services and deliver the change in services, and on the importance for focusing on the timeline to deliver projects and to find out where projects are being delayed and to be able to make quicker decisions. In that regard, reference was made to several projects being delayed awaiting advice and that improvements have to be made in that area.

The Leader advised on the need to be realistic in terms of timescales, with the huge changes that needed to be made, rather than seeking small-term reviews. She suggested that in a year from now there may not actually be any change made, but it would be hoped there will be systems in place to take change forward. She said it was important to make the right decisions and to move in the right direction to make change properly, following a process and to make sure people are moving ahead with the Council. She also advised on the need to look at areas where there are the significant costs and the lack of workforce and to redesign those services, which she acknowledged will all take time.

Comment was then made on the need to look at the medium-term, and to have ambition. It was further commented that there is a need for a plan to be in place to inform on what changes may be and to make a start on those changes.

Decision

The Council RESOLVED to:

- APPROVE the Medium Term Financial Plan, attached as Appendix 1, and
- ENDORSE the approach to setting the 2024/25 budget outlined in section 5 of Appendix 1.

In order to avoid the disclosure of exempt information, Ms Manson moved, Mrs Macdonald seconded, and the Council RESOLVED to exclude the public in terms of the relevant legislation during consideration of the following items of business.

The officer remaining online confirmed to the Convener that there were no other persons present able to hear or record the proceedings.

73/23 Equity Investment

The Council considered a report by the Executive Manager – Economic Development.

The Executive Manager – Economic Development summarised the main terms of the report and responded to questions from Members.

During debate, Mr Peterson moved that the Council approve the recommendation in the report. Mr Sandison seconded.

Mr Fraser moved, as an amendment, that the Council does not approve the proposals. Mr Thomson seconded.

Following summing up, voting took place by a show of hands and the result was as follows:

Amendment (Mr Fraser)	3
Motion (Mr Peterson)	14

Decision

The Council APPROVED the recommendation in the report.

The meeting concluded 12.45pm.

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Chair