Shetland
Islands Council

MINUTE A & B

Special Shetland Islands Council
Council Chamber, Town Hall, Lerwick
Wednesday 19 August 2009 at 11.30 a.m.

Present:

L Angus	L F Baisley
J Budge	A J Cluness
A T J Cooper	A T Doull
E L Fullerton	I J Hawkins
J H Henry	R S Henderson
A J Hughson	C H J Miller
R C Nickerson	F A Robertson
G Robinson	J G Simpson
J W G Wills	A S Wishart

Apologies:
A G L Duncan F B Grains
W H Manson C Smith

In Attendance:
H Sutherland, Executive Director – Education and Social Care
G Johnston, Head of Finance
J Smith, Head of Organisational Development
A Cogle, Service Manager – Administration

Also:
N McDougall, Financial Controller - SDT

Chairperson

Mr A J Cluness, Convener of the Council, presided.

Circular

The circular calling the meeting was held as read.

Declarations of Interest

No interests were declared.

107/09 **Long Term Financial Planning – Council Reserves and Budget Strategy, 2010/2011 and Beyond**

The Council considered a report by the Head of Finance (Appendix 1).

Mr A J Cluness said that in general terms the report was very positive, but asked the Head of Finance to summarise the report and its recommendations.

The Head of Finance provided a detailed summary of the main issues within the report, during which he said that despite the very grave financial and economic circumstances around the world last year, the Council achieved good financial results in 2008/09. He said that these trends appeared to be continuing in the current financial year and this is evidence that holding to the financial policy framework was working. The objective of sustaining the reserves at or above £250m had been exceeded, with the final figure being £280m. The Head of Finance said this was a good financial background for the forthcoming budget exercise, and recommended that the Council continue this financial policy framework into the next financial year, and within that broad message, one or two opportunities would arise for the Council and it would have to consider how it would proceed. He went on to say that an important aspect of the forthcoming financial exercise would be the establishment of a five year capital programme, and that would be reported on shortly.

The Head of Finance said another opportunity for the Council was that, given the financial circumstances of the Housing Revenue Account, the Council would be able to provide £20m for expanding the public housing stock in Shetland over a period of 5 years. He said that the challenge was with Housing to come up with the proposals for that. The other big challenge for Budget Responsible Officers would be to cope with the costs of Single Status implementation at £4m per annum. Another big issue is the cost to the Council of contributions to the Pension Fund in respect of Shetland Towage employees. The Head of Finance said that progress on these issues would continue to be reported to Council, but today's report provided the opportunity for Members to consider the proposals and decide whether any adjustments were required.

The Head of Finance added that, in the medium term, there would be a three year financial settlement from the Scottish Government for the period 2011/12 to 2013/14. He said it was anticipated that there would be a tightening up of that settlement on a national basis. He added that there were no preparations being made for that at the moment, as the best position would be to operate within the current financial framework, and to respond to the forthcoming settlement when the details are known. In conclusion, he said that his main message to the Council at this stage was to keep to the existing financial framework, at least for the next couple of years, and that the Council be prepared to address the challenges of the future when the details of them becomes more clearly known.

Mr A Cluness thanked the Head of Finance for his report, and said that it was clear that the Scottish Government had to accept that there would be no increase of any kind in central Government funding for the next few years.

Mr L Angus complimented the Head of Finance on his report. Mr Angus said that the report covered a lot of issues, but it was still the case that there was evidence of over-budgeting in some revenue spending, but the message was starting to get across to officers. He expressed concern regarding paragraph 3.3.3 of the report, and to the contribution by the Council to the SIC Pension Fund to meet the costs of Shetland Towage employees. Mr Angus said this was a company that was liquidated because it was no longer profitable and the Council had paid the Shetland Charitable Trust for the privilege of propping up their pension fund.

On the principle of maintaining the reserves at £250m, Mr Angus said he was pleased to see that this was possible, as detailed in paragraphs 3.3.7 and 3.3.8. However, Mr Angus said that in 10 years investment managers for the Council had never been able to meet their benchmarks, and this posed the question for him as to whether it was still appropriate to continue that strategy. Mr Angus went on to say that whilst local infrastructure may be improved, there ought to be at least a 5 year plan. He said that other Councils were bracing themselves for the possibility of cutbacks and that this Council should be no different. He added that regarding the £20m investment in housing, this was to be welcomed particularly given the chronic housing shortage.

Mr Angus moved that the Council approve the recommendations in the report, but that the Council review again the proposal to supplement the Pension Scheme in relation to Shetland Towage.

The Head of Finance said that, with regard to the contributions to the Pension Fund, these were to be contributions made by the Council to cope with the burdens of those staff transferring to the Pension Scheme. He said that the valuation of £8.3m was an independent actuarial valuation. He added that it was accepted that this was a major contribution, and was worthy of more detailed consideration, and given that this decision was not required in a hurry, he suggested that a report be prepared later in the financial year which would provide more detailed information and options for consideration. Mr L Angus agreed to accept that as part of his motion.

The Head of Finance went on to say that with regard to the return on external investments, broadly speaking it was correct to say that the Fund Managers had more often than not fallen short of the benchmark, and whilst there have been returns, they have not been as high as expected. He said that there was always scope for looking at alternative investments, but it had to be borne in mind that infrastructure benefits were not necessarily financial, and the Council had to be clear about financially performing benefits and infrastructure investments that were of benefit to the local economy. Mr L Angus agreed but said that such a review need not form part of his motion at this time.

Mr G Robinson said that any report concerning a review of the Pension Fund should also be submitted to the Pension Fund Management Consultative Committee. Mr Angus agreed to accept that as part of his motion.

Mr F A R Robertson said it was inevitable that there would be slippage from year to year, and it was the significance of slippage occurring that had to be looked at. He said that if the Council moved to a 5 year capital programme, it would be easier to accommodate that slippage and adjust, rather than causing problems in future years. Mr Robertson said the issue was really to look and see if there were any ways the Council might best minimise slippage.

The Head of Finance said that slippage was undoubtedly a difficult issue in terms of project planning, and it would certainly be highly desirable to minimise its occurrence. He said the starting point would be to get to a firm and funded 5 year capital programme that included feasibility work on projects and good quality project management, including realistic timescales. He said that focus on good quality project management was recommended by the Audit and Scrutiny Committee, and a report would be coming forward on that later this year.

Mr A Wishart said that it was a good report and it was quite reassuring, but at the same time he was quite uneasy about the £100m capital spend over five years. He said that expected whatever the Council was given would be spent, rather than only spending what was needed. He asked if the effect of inflation on £250m ceiling had been taken into account, as between 2005 and 2016 at 3% per annum, would take the total to £330m instead of £280m.

The Head of Finance said that the first point to make was that there was a legitimate debate to continue with the £100m capital programme over the next five years, or a lesser sum. He said that debate should be held in the context of the proposals for a five year capital programme and anything within that programme that the Council found was unimportant should be struck out of the programme.

Regarding the projected £250m reserves floor, the Head of Finance said that this could be described as a policy weakness, as there was no mention within that of index linking into the future. He said that given current inflation, £250m was a realistic level. During the current low inflation period, he did not expect this policy framework to remain unrefined all the way to 2016, and he had already flagged up two areas where the Council would be required to re-affirm its position. In this regard, the Head of Finance said he was not ruling out a change in policy in the next two years or so.

Ms B Fullerton agreed this was a good report, and referred in particular to paragraph 2.6 of the report and that officers were making the required contributions to the objectives. However, Mrs Fullerton referred to the fact some savings were due to under spends and failure to recruit. She said that although the quality of service was maintained, needs in the care sector were not being met. Mrs Fullerton said the Council had to prioritise and move on quickly with establishing a 5 year capital programme. She went on to ask if recurring under spends could be identified, and asked that a further recommendation be added, recommending that the Council continue to pursue efficiency savings and appropriate charging throughout all services, without detriment to the quality of delivery, and also by maintaining assessed needs. Mr L Angus agreed to accept this as part of his motion.

The Head of Finance said that whilst there was some element of a better culture of achieving more for less and making savings, there was also a degree of over-budgeting. He said that some of the initiatives being made were a good first step and hopefully that would bear fruit in the forthcoming budgeting exercise.

Mrs C Miller referred to paragraph 3.2.5 of the report and asked if the new General Capital Grant was on an annual basis. The Head of Finance confirmed this was the case, and it was a new annual settlement which would be ongoing on this basis. Mrs C Miller went on to refer to the 5 year capital programme, and the proposal that this would rest at £15m, possibly going up to £20m with an extra £2.5 from capital grant and receipts, and external grants for specific projects. The Head of Finance confirmed it was the position that the Council could spend £20 million per annum and fund that on the basis of £15m from reserves, with the remainder being funded from the General Capital Grant and specific capital grants, and capital receipts.

Mrs C Miller seconded the motion, as amended, by Mr Angus.

Mr A Cooper referred to the Harbour Account and said that the best was being done in terms of achieving economies in that Account. Regarding under spends, Mr Cooper said that part of the policy should allow for money that was not being spent to be taken away and before the budget estimates came back to the Council.

Regarding Shetland Towage and the Pension Fund, Mr Cooper said his concern was the extent to which this had dragged on and the liability had increased. He said that the Council had a Marine Fund to cover any inflated element of the Sullom Voe Harbour staff. The Head of Finance said he intended the proposed report on this matter to discuss the issue of the Marine Fund as well.

The Head of Finance said there was clearly a need to squeeze out under spend, and in this regard he suggested that this matter be emphasised to Budget Responsible Officers that that was something the Council wants to see done and progress would be monitored during the current financial exercise.

Dr J Wills referred to the value of shares, which he said were on the books at 25% higher book valuation than they were last Friday. He went on to say that he knew about long term planning, but was astonished that the cost of the reserves was not index-linked. He asked how much of a decline in reserves was due to the recession, and how much was due to external factors. He said he was pleased to see that this decline had slowed down, and the figures were optimistic. Referring to paragraph 3.2.2, Dr Wills said that he was disturbed to see these levels of under spending in Education and Community Care, because the staff were being pushed hard in both services and these vacancies needed to be filled. Regarding the costs of the Education service, Dr Wills said he was not sure this was reflecting the true costs, as the Council was not charged at full cost for what were statutory functions for Shetland Recreational Trust properties. Dr Wills said that needed to be enquired about and sorted out.

Referring then to paragraph 3.2.8, Dr Wills asked how this figure of £21.8m compared with the income to the reserves. Referring to paragraph 3.3.2 Dr Wills asked if the Council should not now consider bringing forward reserves in order to subsidise the General Fund. He said there were concerns regarding Shetland Towage and the Pension Fund contributions, and said he was glad there was to be a report on it.

Dr Wills went on to refer to paragraph 3.4.4 and said that he thought the General Fund Capital Programme should sit at £15m, and therefore £75m over a 5 year period was a much more sensible and prudent target for the Council.

Referring to the points made by Dr Wills, the Head of Finance said that the value of investments were based on their market value. He said that the Council did not need to liquidate its assets and therefore stood by the continuation of their valuation at cost rather than market value. He went on to say that the Council had been spending more from its reserves, and this had been a feature since 2003, and of policy since 2005 when it decided to run down its reserves to a minimum of £250m. Regarding Education and the Shetland Recreational Trust, the Head of Finance confirmed this was being looked at and could well result in some pressure on the Council in the coming year.

With regard to utilising reserves for the General Fund, the Head of Finance said that was a matter of judgement that the Council could take later in the context of the forthcoming budget report.

Mr R Nickerson said that there would be savage cuts by the UK Government to the Scottish Parliament, and that would be an ongoing concern for the Council. He said that he had some sympathy with Mr Wishart regarding his comments on the capital programme, and asked what role the Financial Review Member/Officer Working Group would have in this. He said there had been several meetings this year but no further meetings since. The Head of Finance said he felt it was important to get this report to the Council today as it was the earliest opportunity and agreed that any or all further reports could be directed through that Group.

Mr R Henderson asked what the full cost of the transfer of Shetland Towage to the Council had been. Mr A J Cluness said that Shetland Towage in its time had contributed many millions to the Shetland Charitable Trust. He said that prior to 2000, the oil companies did meet all the bills, both in its original form and subsequently Shetland Towage was making substantial returns to the SCT. The Head of Finance said that the full costs could be referred to within the terms of his proposed report.

Mr A Cooper said that one of the aspects of taking Shetland Towage into the harbour operation was so that the Council could have more control over the charging structure, and that should also be referred to within the proposed report. Regarding the capital programme, Mr Cooper said that with a spend of £15m there would be revenue costs as well, and the implication of that had to be detailed as the Council had less and less ability to absorb new revenue costs.

The Head of Finance said that some of the effects of capital spending on revenue spending could be favourable, but the main point in setting the capital programme was that the Council had to be mindful of the implications, and this was a factor the Audit and Scrutiny Committee were explicit about, requiring revenue implications to be brought out in the cost of capital programmes.

Mr G Robinson said that there was concern about how much can be supported by the £250m reserves floor. He said that this had not been quantified, and it was important that this was brought out in the next report.

Mr G Robinson asked that it be recorded that he took no part in any discussion regarding the Shetland Recreational Trust.

Mr A Wishart referred to the process for the report on the capital programme, and suggested that the process had moved beyond the Financial Resources Member/Officer Working Group at this stage and personally he thought it should be reported back to the Council rather than through the Group.

Mrs L Baisley said that there was sometimes a tendency to panic spend before the year end in order not to be threatened with a reduction in budget. Regarding new build housing, Mrs Baisley said there was an expectation that this would be extended to rural and island areas where there was considerable lack of affordable housing.

Dr J Wills moved as an amendment that the limit for drawing on reserves, contained in recommendation 11.1.2 be reduced to £15m. This, however, received no seconder.

Accordingly, the Council approved the motion by Mr L Angus, as amended, namely

- To approve the recommendations in the report;
- That the Head of Finance produce a report to Council in due course regarding a review of the Pension Scheme in relation to Shetland Towage employees, setting out the detailed information and all options available;
- That any report on the review of the Pension Fund should also be submitted to the Pension Fund Management Consultative Committee; and
- That the Council continue to pursue efficiency savings and appropriate charging throughout all services, without detriment to the quality of delivery, and also by maintaining assessed needs.

The meeting concluded at 12.45 p.m..

....
A J Cluness
Convener