Agenda Item

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Shetland Islands Council 26 June 2013

Shetland Islands Council Medium Term Financial Plan	
F-034-F	
Report Presented by Executive Manager – Finance	**Corporate Services**

1.0 Summary

1.1 The purpose of this Medium Term Financial Plan (MTFP) is to set out the roadmap for Shetland Islands Council to achieve financial sustainability over the term of this Council and to align resources in accordance with the priorities of Members.

1.2 The plan asks Members to build upon the progress already made towards reducing expenditure, by agreeing the policies contained within the MTFP in order to allow the Council to develop a sustainable financial model that will secure a minimum level for reserves of £150m.

2.0 Decision Required

The Council RESOLVES to adopt the Medium Term Financial Plan by:

2.1 Approving the principles of the plan and the assumptions underlying the plan set out in Section 2.1 to 2.12 of Appendix 1;

2.2 Approve the continuation of the budget carry forward scheme as set out in section 2.13 to 2.16 of Appendix 1;

2.3 Approve the continuation of the policy of external funding as set out in section 2.17 to 2.19;

2.4 Approve the continuation of the principle of making spend to save funding available to assist with the budget savings work as set out in section 2.20 to 2.22 of Appendix 1;

2.5 Approve the proposed reserves policy as set out in section 5.5 to 5.9 which sets a “Tolerable Reserves Floor” of £150m;

2.6 Approve the introduction of a Reserves Equalisation Fund as set out at section 5.14 to 5.16 of Appendix 1;

2.7 Approve the transfer of reserves as set out at section 5.17 to 5.18 of Appendix 1;

2.8 Approve the continuation of the Economic Development loans scheme as set out at section 5.19 of Appendix 1;

2.9 Approve the proposed capital programme policy as set out at section 6 of Appendix 1;

2.10 Approve the policy of a sustainable revenue draw on the Housing Repairs and Renewals Reserve as set out at section 7.13;

2.11 Approve the budget model as set out at section 11.1 which limits net general fund expenditure at £107.442m in 2014-15, and anticipates a limit of £106.081m in 2015-16, £107.108m in 2016-17, £108.911m in 2017-18 and £111.401m in 2018-19;

2.12 Approve the Target Operating Budgets for each directorate for 2014-15 to 2018-19 inclusive, as set out at Section 12.9;

2.13 Approve the principle of seeking to maximise income from fees and charges as set out at section 12.14 to 12.17;

2.14 Approve to continue the freeze on Council Tax in 2014-15 and in principle for the medium term;

2.15 Approve the proposal to grant delegated authority to the Chief Executive to invoke contingencies measures if required, as set out in section 13.6;

2.16 Approve the safeguarding measure as set out at section 13.7 to 13.11; and

2.17 Approve the policy around consultation as set out in section 14.

3.0 Detail

3.1 The detailed Medium Term Financial Plan has been attached as Appendix 1 to this report.

3.2 In order to provide Members with assurance over the robustness of the Medium Term Financial Plan, SOLACE Enterprises undertook a short independent review of the financial modelling that underpins the plan.

3.3 This report was obtained on 18 June 2013 and contained a number of recommendations to strengthen the plan for future years and this will be taken forward by the Executive Manager – Finance.

3.4 However, the conclusion from SOLACE Enterprises was as follows –

Conclusions

4.1 The council and Executive Manager (Finance) must be congratulated in recognising and putting in place mitigation measures to ensure a sustainable budget will be delivered by 2016/17 although we recognise a lot of hard work is still needed to make this happen. Nevertheless, the council is clearly on the right path and is using the correct building blocks and techniques.

4.2 Our sensitivity testing indicates the greatest delivery risk is still around the ability of departments to make savings and manage budget pressures. Constant vigilance and monitoring will be needed in-year to ensure efficiencies and savings are delivered as planned.

4.3 In view of the great strides already made and the clarity and robustness of the documentation reviewed, we are satisfied the MTFP is deliverable provided savings can be delivered and budget pressures controlled. If this can be done, then we have no reason to believe the overall objectives of the MTFP will not be realised. This means;

- *Reserves are stabilised no lower than £150M;*
- *The budget eventually becomes self-financing and sustainable (reserves are not reduced through revenue or capital spending); and*
- *Department spending is reprioritised towards council priority areas.*

4.4 Summing up, in our independent view, the MTFP can be delivered.

3.5 A report will be presented to Members later in 2013 which will set out the detailed findings and recommendations from the SOLACE report and an Action Plan setting out how these will be addressed by officers.

4.0 Implications

Strategic

4.1 Delivery On Corporate Priorities
The development of a Medium Term Financial Plan contributes to the corporate objective of achieving financial sustainability which is also a priority work stream in the Single Outcome Agreement. The Target Operating Budgets proposed within the plan are consistent with the priorities in the Council's Corporate Plan.

4.2 Community /Stakeholder Issues – Refer to section 14 of the Medium Term Financial Plan which covers consultation.

4.3 Policy And/Or Delegated Authority
The Medium Term Financial Plan seeks to grant delegated authority to the Chief Executive to take contingency measures if they are required. More detail is included within section 13.

4.4 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 cost pressures (section 10), income assumptions and return on reserves (section 11).

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.

The largest individual risk is around the return that will be made on reserves. It is likely that as a result of uncertain global financial markets, that returns will fluctuate greatly and this could result in large swings in the value of the reserves.

The budget model estimates a 3.5% return on reserves in each of the next 5 financial years, which in 2014-15 results in an estimated return of £6.353m. However, every 1% increase or decrease on the budgeted return on reserves will result in a variance of £1.815m against the budgeted position. As a result, it is important to take a medium term view of the level of returns that might be expected, as opposed to looking at one year in isolation.

4.5 Equalities, Health And Human Rights – None.

4.6 Environmental – None.

Resources

4.7 Financial
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 becomes financially sustainable and can retain a level of reserves of £150m.

4.8 Legal – None.

4.9 Human Resources – None.

4.10 Assets And Property – None.

5.0 Conclusions

5.1 This Medium Term Financial Plan sets out the action that needs to be taken in order to ensure that the Council achieves a financially sustainable budget. In doing so, it will safeguard the future service provision, ensuring that there are reserves available to sustain an enhanced level of public services in Shetland.

5.2 The plan follows on from the work already undertaken that resulted in the 2013-14 budget being approved on 21 February 2013, which included budget reductions of £12.557m for the year.

5.3 Whilst work is progressing well towards delivering the 2013-14 budget, there are still significant challenges ahead for the public sector in Scotland. It is anticipated that it will take at least another decade before public sector spending levels reach the levels last seen in 2009-

10. Given that the Scottish Government core grant forms a significant part of the funding available to Shetland Islands Council, it is not possible for the organisation to be sheltered from the wider financial challenges facing every public sector body in Scotland.

5.4 In addition, the Council's reserves, which have provided a significant income stream to the Council over the past 20 years, are not immune from the global financial crisis.

5.5 When taking these two factors together, it is imperative that the Council delivers the recurring savings targets in this plan if it wishes to retain an acceptable level of reserves into the future.

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Appendix 1 – Medium Term Financial Plan 2013-2018

Appendix 1

Shetland Islands Council
Medium Term Financial Plan
2013-2018

Securing the Best for Shetland

Contents

Purpose

1.1 The purpose of this Medium Term Financial Plan (the Plan) is to set out the roadmap for Shetland Islands Council to achieve financial sustainability over the term of this Council and to align resources in accordance with the priorities of Members, as set out in the Corporate Plan.

1.2 The Plan combines all of the resources available to the Council relating to the General Fund, Harbour Account and Housing Revenue Account for both revenue and capital expenditure.

1.3 This document therefore acts as a tool for financial planning; setting out the financial resources available to the Council, describing the cost pressures over the period and therefore setting out the level of expenditure that the Council can reasonably afford on an annual basis.

1.4 In addition, the document is an integrated budget strategy and reserves strategy for the life of the current Council, ensuring that there is a clear understanding between the level of expenditure agreed for each year and the impact that this will have on the Council's reserves.

1.5 It is important to recognise that the Plan is a live document and will therefore be updated annually to reflect any changes in policy and/or changes in the level of funding available to the Council.

Benefits of the Plan

1.6 By taking a longer term view of the Council's finances over a period of five years it allows Members to work towards delivering a sustainable budget over a extended period of time, and to understand the role that each annual budget setting exercise contributes to the overall strategy of delivering financial sustainability.

1.7 It improves financial planning and financial management of the Council's revenue and capital resources.

1.8 It allows for the clear alignment of resources to the Council's spending priorities. The priorities of the Council will feed into the allocation of revenue and capital resources for each directorate over the period of the Plan and will be focused on the Council priorities set out in the Corporate Plan.

1.9 Ensuring that resources are aligned to priorities will ensure that the Council maximises the use of resources at its disposal.

1.10 Finally, this integrated Plan will help to ensure the delivery of the Council's Reserves Policy by clearly limiting expenditure to levels that comply with the policy on a Tolerable Reserves Floor.

Principles

2.1 The Plan is to be based on the following principles:

- The Council continues to be committed to achieving a level of spending that is financially sustainable during the course of the current Council term and beyond, thus safeguarding the future economic viability of Shetland Islands Council.
- The Council will determine the minimum level of reserves that it wishes to maintain by refreshing the Reserves Policy.
- The total level of expenditure available for each of the next five financial years will be determined by the level of incoming resources available and the level of reserves that Members determine to be the "Tolerable Reserves Floor".
- Members will set the level of capital expenditure to be funded from the reserves, recognising that this is at the cost of using that funding for day to day services.
- The Executive Manager – Finance will determine the level of funding required to manage significant cost pressures such as pay awards. A central allocation of funding will be set aside for cost pressures and will be allocated to directorates as required.
- These decisions will determine the level of expenditure that can be incurred on services for each of the next five years.
- Members will then be required to determine the level of resources available to each directorate for the next five years based on Council priorities.

2.2 Each directorate will know its target operating budget for 2014-15 and for the following four years.

2.3 Directors, working with their relevant Council Committee, are required to develop resourced directorate and service plans based on the target operating budgets across the Plan's timeframe.

2.4 Members will have the opportunity to review the spending proposals and options for each directorate prior to the end of 2013, and through a process of continuous assessment be able to adjust budgets at the margins to ensure that Council priorities are properly reflected.

2.5 A budget will be presented to Council in December 2013/January 2014 which sets out detailed directorate budgets for 2014-15 and indicative budgets for a further four years within the parameters in the Plan.

2.6 The Plan will subsequently be updated to reflect the approved 2014-15 budget and refreshed annually by Members during May/June each year to accommodate any shifts in Council priorities.

Assumptions

2.7 The starting point for setting a directorate's target operating budget for the year is the prior year budget. In practice what this means is that –

- If a directorate is under spent against its budget in a financial year, it will not be penalised by having the budget reduced by this amount in the next financial year;
- If a directorate achieves a higher level of recurring savings than budgeted through increased efficiency, these will be applied to the following year's target, thus giving that directorate a head start in the following year and embedding a culture of continuous improvement in service delivery;
- Similarly, if a directorate overspends against its budget, for the purposes of planning it will be assumed that the starting point for the next year was the prior year budget and not the actual spend. This will in effect mean that a directorate in this position will still be required to make the recurring savings it failed to deliver in the previous year, along with the new savings required for the new financial year.
- All savings targets to be delivered by each directorate are required to be recurring savings.

2.8 The Council sets the target operating budget for each directorate for each year. Directorates are required to prepare their budgets within these parameters. Cost pressures are managed centrally and there is a presumption against growth in budgets, thereby removing the need for directorates to seek additional funding from Members during the budget setting exercise.

2.9 The amount of funding made available to each directorate is linked to the priorities of the Council.

2.10 If a cost pressure arises during the financial year, there is a presumption against providing that directorate with additional funding. In the first instance the directorate is required to identify a saving to compensate for the additional cost and report this to Council.

2.11 There is a presumption that there will be no growth in service cost in the medium term.

2.12 In order to ensure that the annual revenue budgets are delivered, contingency measures may need to be put in place.

Budget Carry Forward Scheme

2.13 The Plan introduces a budget carry forward scheme in order to offer an incentive to services to under spend against their budgets.

2.14 If a service achieves a one-off 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.

2.15 This 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.

2.16 The conditions around the scheme are:

- A service will only be granted a carry forward if its directorate had 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.
- A carry forward will have to be applied to approved Council service priorities.

External Funding

2.17 Shetland Islands Council will seek all external funding opportunities where there is no additional financial commitment required by the Council.

2.18 Where an external funding opportunity is available to the Council, but it requires additional investment by the Council or an ongoing revenue commitment, the following criteria should be met in full –

- The project is consistent with the priorities of the Council; AND
- The project meets the criteria of a Spend to Save initiative; OR
- Savings will be identified elsewhere to ensure that the project is cost neutral to the Council.

2.19 If these criteria are not met the Council will recognise that by seeking the external funding it is diverting its own resources away from its priorities, and therefore will choose not to pursue the funding.

Spend to Save

2.20 The Council approved a Spend to Save scheme as part of the 2012-13 and 2013-14 budget setting exercises. The purpose of the Spend to Save 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.

2.21 One of the key principles of the scheme is that any funding awarded has to be recouped within 3 years from the savings that the scheme generates.

2.22 Given the need to make significant savings over the forthcoming years the Plan will make sufficient provision of Spend to Save funds to facilitate the changes necessary to deliver recurring savings. As a result the plan has made provision for £5m for spend to saved projects between 2013-14 and the end of the savings programme in 2016-17.

Context

3.1 The UK economy is struggling to recover from a double-dip recession with GDP (the country's economic output) still 2.75% lower than it was 5-years ago at the beginning of recession in the spring of 2008. This represents the most protracted period of economic decline in over a century, surpassing even the Great Depression of the 1930s.

3.2 Despite the relative strength of the Shetland economy in weathering the global and UK economic situation, Shetland Islands Council's financial situation continues to be adversely affected as a result of the reducing settlement that it is receiving from the Scottish Government each year. There is also a risk that the Council's returns from financial markets could falls below a historic average annual return of 5.75%, which would damage the value of the Council's reserves.

3.3 The UK's Public Finances have not improved at the rate at which the UK Government had projected, and therefore any recovery in Local Government's financial settlement will probably be beyond the term of the current Council. When this is coupled with the continuous cost pressures facing the Council, it is clear that further action is required to address the increasing natural drift between expenditure levels and available resources.

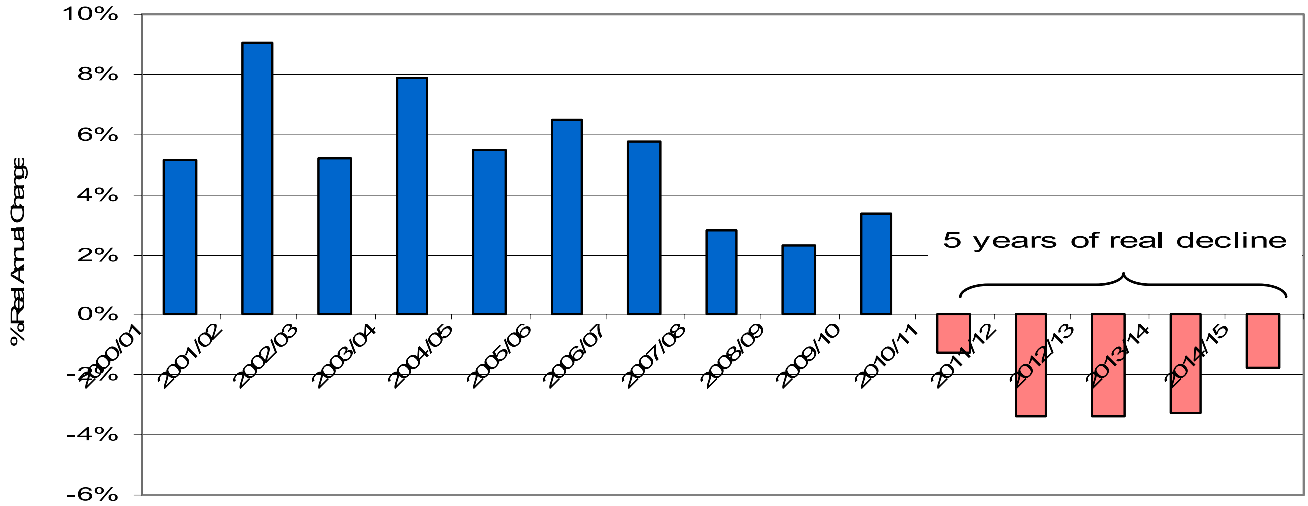
Scottish Government General Revenue Grant

3.4 The General Fund is the biggest part of the Council's activity. It represents all the revenue expenditure incurred across the Council's five directorates: Children's Services, Community Care Services, Corporate Services, Development Services and Infrastructure Services and the Chief Executive's office. General Fund net expenditure is funded from the Scottish Government General Revenue Grant, National Non-Domestic Rates Income and Council Tax. In addition, Shetland Islands Council draws on reserves to fund its General Fund Expenditure. In the future, the reserves will be enhanced by income received from the TOTAL Gas Plant.

3.5 It is important to recognise that the Scottish Government is responsible for determining the overall level of funding available to the Council from General Revenue Grant and National Non-domestic Rates (NNDR). Therefore, if there were to be an increase in the level of Non-domestic Rates coming into the Council, there would be a corresponding reduction in the level of General Revenue Grant to ensure the overall funding level didn't change. With the introduction of BRIS targets this may in the short term enhance the amount of NNDR income that the Council can retain.

3.6 The table below highlights the annual change in the amount of expenditure that the Scottish Government has had to spend on public services in the period from 2000/01 to 2014/15. The current year-on-year reduction in the amount of money that the Scottish Government has to spend has a knock on effect for Shetland Islands Council.

Real Change in Scottish Government Discretional Expenditure Limit (DEL) Expenditure



3.7 As part of the 2011 spending review, the Scottish Government determined the amount of funding that would be available to Local Government for the three year period; 2012-13 to 2014-15 inclusive. From this information the Scottish Government has set the amount of funding available to Shetland Islands Council to fund its General Fund expenditure.

3.8 The table below shows the reducing amount of revenue grant support that Shetland Islands Council has received from the Scottish Government over the past 2 years and what is known to be received for 2013-14 and 2014-15:

	2011-12	2012-13	2013-14	2014-15
	£m	£m	£m	£m
SIC funding allocation from Scottish Government	94.631	92.408	91.488	90.549

3.9 There are early indications that the one-year settlement for 2015-16 is likely to result in further downward pressure on budgets, which will have an impact on the Council's General Revenue Grant from the Scottish Government.

Returns on the Council's Reserves

3.10 The Council generated reserves during the 1980s and 1990s as a result of the excess income that it generated from the oil industry over the annual level of expenditure that it incurred.

3.11 The long term average return made on these reserves (i.e. the amount earned in interest, dividend payments and increases in the value of stocks and shares held by the SIC) over a period of 20 years has been 5.75% per year. However, in order to protect against inflation, it is prudent to assume a real rate of return as being 5.75% less inflation. Therefore, in this plan the annual income available for spending on services from the reserves is estimated at between 3% and 3.5% depending on the forecast inflation rate. A real return of 3% equates to £4.5m on £150m of reserves so is therefore a significant income stream to the Council.

3.12 It is important to recognise the significant impact that the Council's investments have on the overall value of the reserves. Due to a high percentage of the investments being in equities it results in large fluctuations in the returns, ranging from being large negative (over £20m) to large positive (Over £20m) returns in a single year. A revised Investment Strategy being proposed at this meeting will try to mitigate the fluctuations in returns.

Current Budget Gap

3.13 As a result of a widening disconnection between income received by the Council and the level of expenditure incurred by the Council over a number of years, a structural deficit had been created which peaked with expenditure being £35.6m higher than income during 2011-12. This deficit was met in full by drawing funds from the Council's reserves.

3.14 Significant work has already been undertaken to ensure that the 2012-13 budget was exceeded and a challenging budget has been set for 2013-14 which when delivered, will have ensured that the Council is over 70% of the way towards being financially sustainable.

3.15 In order to achieve a financially sustainable budget position, a further £10.5m of savings will be required over the next 3 years.

Council Priorities

4.1 The Council approved its Corporate Plan 2013-2017 on 12 June 2013. This sets out the Council's vision and priorities for the remainder of the current term.

4.2 The core priorities that have emerged are:

- ***Being a properly led and well managed council, dealing with the challenges of the present and the future, and doing that within our means;***
- ***Providing critical services for children and adults and the transport services we all need;***
- ***Mindful of how change could affect the vulnerable and disadvantaged;***
- ***Helping build a healthy economy and strong communities;***
- ***Working with all our partners to achieve the best results possible.***

4.3 This Medium Term Financial Plan seeks to compliment each of the priorities above. It sets out a pathway to ensuring that the Council lives within its means, and targets available resources at priority areas.

4.4 It is proposed that the core Council services of Children's Services, Community Care and Transport should be relatively prioritised as far as that is possible. This is a reflection on the Council's statutory obligations in these areas, the fundamental scale and cost of these services and the Council's political commitment to sustain key front-line services as a priority.

4.5 The proportions of the available budget allocated to Development, Corporate and Executive Services are proposed to decrease to allow as much spend as possible to be directed to the areas above.

4.6 These "Directorate Target Budgets" are set out in Section 12. The approved figures will be the ceilings that directorates will be required to plan against to show how services can be reconfigured to sustainably deliver the most effective and efficient outcomes possible in the medium i.e. covering the next five years.

4.7 Service plans will be developed through the planning and budgeting cycle that will start between now and October 2013, and formally reported to Council in November/December 2013.

4.8 These service plans will describe the proposals and options for service delivery within the "Directorate Target Budgets" and will also provide sufficient information for the Council to make any further adjustments between Directorates or Service areas.

4.9 Any such adjustment cannot however change the overall financial envelope; it could only be a movement of budget from one Directorate/Service to another. Any future movement between priorities would have to be done on the same basis.

4.10 These service plans will need to set out how the Council (and each Directorate / Service):

- Continue to meet any legal obligations (do what we must do)
- Seek to sustain, and if possible improve, key outcomes (key services)
- Identify and effectively manage risks (be safe and secure)

4.11 All service plans will be required to cover each of these areas; this work will need to be delivered on the timetable set out below:

- Medium Term Financial Strategy Agreed – 26 June 2013
- Directorates' Target Budgets for 2013- 2017 set – 26 June 2013
- Directorate / Service Priority Planning, Detailed Budget Planning and Strategic Risk Analysis – between August and October 2013
- Resourced and Risk Assessed Directorate / Service Plans for 2013 – 2017 communicated to Members – November/December 2013
- Resourced Directorate / Service Plans reported to Committees – November/December 2013
- Resourced Directorate / Service Plans and detailed 2014-15 Council budget reported to Council – December 2013/ January 2014

Reserves Policy

5.1 The Council had a long-standing Reserves Policy to have a "floor". This represents the minimum value that the Council is willing to accept on its Reserves. The Council's previous policy was to set this at £250m. It was recognised in 2011 that this Policy was set to be breached and therefore this was amended to build the reserves back up to £250m within 10 years (by 2021-22). In September 2012, Members agreed a new Reserves Policy of having a floor no lower than £125m.

5.2 There are two broad measures of the level of reserves held by the Council, one is an accounting measure and one is a cash measure. The table below shows the accounting value of the Council's reserves, as documented in the unaudited Statement of Accounts 2012-13:

Reserves	Opening Balance 1 April 2012 £m	Closing Balance 31 March 2013 £m
Capital Fund	(100.543)	(83.808)
Capital Efficiency/Spend to Save Reserve	(9.096)	(8.678)
Capital Fund (HRA contingency)	0.000	(10.000)
Reserve Fund	(57.128)	(18.095)
Reserve Fund (Harbour contingency)	0.000	(39.000)
Repairs & Renewals Fund	(51.577)	(44.644)
General Fund Balance	(3.000)	(3.000)
Revenue Efficiency/Spend to Save Reserve	(0.510)	(0.365)
Potential Contingent Liabilities	(0.849)	(0.865)
Discretionary Reserves	**(222.702)**	**(208.454)**
Marine Superannuation Fund	(2.021)	(1.805)
Pilot Boat Renewal Fund	(0.960)	(0.978)
Housing Repairs & Renewals Fund	(12.259)	(10.423)
Quarry Repairs & Renewals Fund	(0.153)	(0.156)
Insurance Fund	(0.293)	(0.221)
Council Tax Second Homes Receipts	(0.511)	(0.403)
Hansel Funds	(0.104)	(0.111)
School Funds	0.000	(0.087)
Central Energy Efficiency Fund	(0.043)	(0.003)
Ring Fenced Reserves	**(16.344)**	**(14.185)**
TOTAL	**(239.046)**	**(222.639)**

5.3 The cash measure of the reserves is the value of money that the Council has invested with Fund Managers. This stood at £205.7m at 31 March 2012. The significant difference between the two figures is largely as a result of the accounting figures including money that the Council has already borrowed from itself for Council House building and the purchase of tugs for the Harbour Account, but doesn't included the unrealised gains on the increase in the market value of the Council's investments.

5.4 Given the current financial situation the Plan will focus on the cash measure of reserves as only cash backed reserves can be used to keep the Council solvent.

Medium Term Financial Plan Reserves Policy

5.5 It is important to recognise that the “Tolerable Reserves Floor” set by the Council does not impact on the level of cuts required to deliver a balanced budget. Even if all reserves are utilised for the provision of services, the Council would then still have to cut expenditure to match its incoming resources in order to meet its statutory duty of setting a balanced budget.

5.6 Therefore the level at which Members decide to set the Tolerable Reserves Floor will only determine the speed of the cuts that are necessary to deliver a balanced budget and preserve a certain level of reserves for the future.

5.7 The 2012-2017 Medium Term Financial Plan sets a Tolerable Reserves Floor of £125m, measured on a cash basis. This means that Shetland Islands Council will ensure that it does not let its externally invested reserves drop below this value. However, due to the progress made with the savings programme it is now possible in the 2013-2018 Medium Term Financial Plan to increase the Tolerable Reserves Floor to **£150m** without altering the amount or timing of the savings that were proposed in 2012-2017 plan.

5.8 The Plan, when the reserves stabilise at £150m, is that the Council will **maintain this level** as opposed to seeking to build the reserves back up, as this would require an even higher level of cuts.

5.9 However, if the Council was to receive an unbudgeted windfall, the default position would be that it was used to increase the level of reserves.

Rationale for Proposed Policy

5.10 The Tolerable Reserves Floor of **£150m** balances the Council’s desire to retain as high a possible level of reserves as can be managed, whilst recognising the need to ensure that the budget gap is managed down in a realistic timescale.

5.11 It would prove to be extremely challenging to aim for a higher Tolerable Reserves Floor due to the speed required to make the necessary adjustments. Conversely, to take too long at addressing the budget gap would lead to the reserves dropping to a level where they are unable to generate the levels of return required to sustain significant additional expenditure on Council services.

5.12 In the medium term, the financial outlook remains challenging, with real increases in grant income from the Scottish Government looking unlikely during the period of this Council. Therefore in order to buffer this lost income, the Council will utilise all returns generated on its reserves in order to sustain as much expenditure as possible. It is for this reason that the Plan sets the sustaining reserves at a level of £150m in the medium term as opposed to a strategy to grow them, by not using the income that they generate.

5.13 However, the Tolerable Reserves Floor will continue to be reviewed on an annual basis and could be adjusted upwards in future if the Council delivers its savings programme on time, and the stock markets operate in a favourable way.

Introduction of an Equalisation Fund

5.14 The returns generated on the Council's invested reserves during 2012-13 were exceptionally high at 14.6%, against a long term average of 5.75%. There have been large returns on this scale in the past, but also large negative returns, which has balanced out to 5.75% over the past 20 years.

5.15 It is therefore proposed that a Reserves Equalisation Fund is established which accumulates the returns over 5.75% in order that these can be released in the years when the returns fall below 5.75%. The purpose of this is to artificially smooth the investment returns, to provide a higher level of confidence when undertaking financial planning into the future.

5.16 A sum of £15m was generated on the reserves in 2012-13, which was in excess of the long term average of 5.75%. It is therefore proposed to transfer this money into a separate Equalisation Fund so that it can be released in future years when the returns on investment fall below 5.75%.

Transfers between reserves

5.17 In order to ensure that there are sufficient funds in the General Fund reserve to meet the £21.067m draw on reserves which was approved in the 2013-14 budget, it is necessary to transfer money from other funds to meet this.

5.18 At present there is £3m in the General Fund reserve, meaning it is £18m short of what will be required in 2013-14. The plan therefore proposes to transfer £10m from the Capital Fund and £8m from the Repairs and Renewals Fund to the General Fund to meet planned expenditure.

Investing Council reserves in Economic Development loans

5.19 The Plan is to continue to invest up to £3m per annum in local businesses. However it must be demonstrated that:

- The loan will generate to 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.

Asset Investment Plan

6.1 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.

6.2 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. In addition, the Council previously had a policy to spend up to £5.6m per annum from reserves to fund the Asset Investment Plan. In total, this provides funding of roughly £10m to £11m per year to spend on capital expenditure.

6.3 The policy to draw up to £5.6m per annum from reserves to fund capital expenditure was based on the premise that this was a sustainable draw (i.e. could happen every year without negatively impacting upon the value of the reserve). However, given the current overall level of the draw on reserves, this figure is no longer sustainable.

6.4 Therefore the following Asset Investment policy was agreed by Members in the 2012-2017 Medium Term Financial Plan on 20 September 2012 –

- All capital expenditure to be focussed on the maintenance of existing assets rather than the creation/purchase of new assets, (with the exception of a new Anderson High School and high-speed broadband).
- To only use income from the Scottish Government, other capital grants and capital receipts to fund the Asset Investment Plan.
- To only make a draw on reserves for specific capital projects that are consistent with the priorities of the Council, i.e. a new Anderson High School and high-speed broadband.
- Before making a draw on reserves for capital projects, a full investment appraisal process should be completed considering whether use of reserves or borrowing provides the Council with the best value for money option.
- Focus on selling existing assets that are surplus to requirements to free up resources to fund new capital projects.

6.5 By adopting these policies the Council will reduce the capital draw on reserves which will result in a reduction of cuts to Council revenue services by a corresponding amount.

6.6 This 2013-2018 plan continues to endorse the policy at 6.4 above, and would propose the following addition –

- That all capital projects clearly demonstrate the revenue consequences arising from a capital spending decision to assist Members in understanding the full financial impact.

Harbour Account capital expenditure

6.7 Any capital expenditure incurred by the Harbour Account will be met from Capital Financed from Current Revenue (CFCR) on the revenue Harbour Account, borrowing, or capital receipts generated from the sale of Harbour Account assets. This is because the Harbour Account cannot access the Scottish Government capital grant, so any capital expenditure funded in another way would mean an unaffordable draw on reserves.

Housing Revenue Account capital expenditure

6.8 The Housing Revenue Account currently has debt of approximately £38.6m which is unsustainably high. With the abolition of Housing Support Grant, council house rents will be required to service and repay the debt.

6.9 The Plan is to stop new debt being taken out by the Housing Revenue Account to fund capital expenditure projects, whilst a solution is found to the current unsustainable level of debt carried by the HRA.

6.10 Therefore at present any new capital projects should be funded by revenue (CFCR) or through the sale of existing assets (capital receipts).

Borrowing for specific Capital projects

6.11 Shetland Islands Council was successful in securing two thirds government funding for a new Anderson High School in Autumn 2012.

6.12 The final cost for a new school will not be finalised until “financial close” estimated to be March 2014. Until now a figure of £12m has been set aside in the reserves for this cost. In order to allow for prudent financial modelling, this figure has been increased to £14m. However, this does not mean that the Council’s one-third share of the cost will be as high as this, and Members will receive full cost details prior to any decision to proceed.

6.13 Given the current historically low interest rates for borrowing, the Council should give full consideration to the option of borrowing for the new Anderson High School. A separate paper on borrowing will be presented to Members to set out the pros and cons of borrowing.

Housing Revenue Account

7.1 The 22 elected Members of Shetland Islands Council are collectively the largest landlord in Shetland, responsible for the letting and management of 1,754 properties as at 31 March 2013.

Accounting treatment

7.2 The Housing Revenue Account (HRA) is a statutory account that is completely separate from the General Fund. As such, it has to be financially self-sustaining as it is not possible for the General Fund to cross subsidise council house rents. All expenditure is funded by housing rents.

7.3 In addition, the HRA can only access its own ring-fenced reserve for repairs and maintenance expenditure, which had a balance of £10.423m at 31 March 2013.

7.4 As a result of the limitations on the HRA, it has had to borrow for a significant amount of its capital expenditure which has led to it currently owing the General Fund £38.6m at 31 March 2013. The HRA borrowing from another part of the Council is known as internal borrowing.

Housing Support Grant and Sustainability

7.5 The Scottish Government has abolished the Housing Support Grant, which has been made available to the Council's HRA to support it in making its interest payments on the debt. This grant was worth £0.8m in 2012-13. Without this grant, Shetland's council house tenants will be required to meet the full burden on interest charges on the outstanding debts through increased rents or reduced service levels. In order to raise an extra £0.8m from rents to cover the lost Scottish Government contribution, it would require a 13.6% increase in rents for 2014-15.

7.6 As a result of the level of debt and the lack of financial support from the Scottish Government the HRA is currently unsustainable. The 2013-14 HRA budget required a £2.5m draw on reserves to balance the budget, which equates to 25% of the entire reserve balance. Therefore this is only a temporary solution, as to continue with this approach would result in the HRA reserve being fully diminished within 4 years.

7.7 Work is still required to negotiate with the Scottish Government and Westminster for a viable solution to this issue. The future sustainability of the HRA is linked to taking a 30 year business planning approach, and this will be progressed during the current financial year.

HRA debt policy

7.8 As discussed in Section 6, the Plan proposes a policy of not taking out any new borrowing against the HRA until the current debt issue has been addressed.

7.9 In the meantime a £10m provision has been created for the potential write off of an element of the HRA debt. This does not represent a real cost to the Council. However, it represents the Council's commitment to addressing the debt issue and provides more options regarding reaching an agreement with national government, with a potential for a matched reduction in the debt between the Council and government.

7.10 If in the future, the Council decided to write off an element of the HRA debt, it would represent an opportunity cost in the sense that a future income stream of interest and debt repayment would be lost. This type of action has been referred to as the general fund offering "debt forgiveness" to the HRA.

7.11 The 2013-2018 Medium Term Financial Plan assumes that there will be an inflow of money into the general fund in 2014-15 in respect of the HRA debt. At present it is unknown whether this will be in the form of repayment of the debt by Scottish Government/Westminster, externalising the debt, or a combination of the two. What is absolutely clear is that inaction is not a financially viable option.

Revenue spending

7.12 The HRA has one reserve (the Housing Repairs & Renewals Fund), which provides an income stream to the HRA by the returns it makes on the markets. Given the current debt issue facing the HRA it would be prudent to ensure that the HRA reserve is maintained both as a source of generating income.

7.13 The Plan sets a policy of budgeting for no more than a sustainable draw on the Housing Repairs and Renewals Fund in the medium term. In effect, this means drawing no more than 3-3.5% of the balance from the reserve in any given financial year. However in this transition year where all expenditure is to be met from revenue (no borrowing), there is need to make provision to utilise the full 5.75% return (ie not inflation proof the return) for one year.

Harbour Account

8.1 The Harbour Account primarily represents the activity that takes place at Sella Ness, with the levels of activity dependant on the oil terminal at Sullom Voe. All surpluses generated on the Harbour Account are transferred to the Council's Reserve Fund.

8.2 The first priority of the accumulated surpluses in the Reserve Fund is to sustain the Harbour Account. The Zetland County Council Act 1974 states the purpose of the Fund as –

1. To cover any losses on the Harbour Account
2. To meet any claim or demand against the Council arising from the Harbour Account
3. To meet any capital expenditure required to maintain the Harbour Account
4. To meet any repairs and maintenance costs on the Harbour

8.3 The final provision in the Act is for the Reserve Fund 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".

Anticipated surpluses on the Harbour Account in the medium term

8.4 There are two main factors that will impact adversely over the level of surplus generated by the Harbour Account over the next 3 years:

- **Reduced income from the suspension of the Schiehallion Oil Field** – Approximately 40% of the Harbour Account's income comes from Schiehallion throughput. It is anticipated that this income will be lost to the Harbour Account until 2016-17.
- **Pensions Liability –** The Harbour Account has a pensions funding shortfall of approximately £8m as a result of the transfer of Shetland Towage employees to the Council. It had been agreed by the previous Council that this would be funded by a transfer from the Harbour Account to the Pension Fund of approximately £2m per annum from 2012-13 to 2015-16 inclusive.

8.5 As a result of these two factors, the Plan is budgeting for the Harbour Account to make only a small surplus in 2013-14 followed by modest deficits in each of the following 2 financial years, with a return to surpluses commencing from 2016-17.

8.6 At present, it is anticipated the Harbour Account will start to generate healthy surpluses in 2017-18 and 2018-19, but given that this is 4 to 5 years away, it is difficult to have a high level of certainty over this.

Reserve Fund Commitments

8.7 The Reserve Fund balance was £ 57.095m at 31 March 2013 and as stated above, its first use is to sustain the Harbour Account.

8.8 Following the approval of the 2012-2017 Medium Term Financial Plan a figure of £39m has been set aside from the Reserve Fund for future Harbour Account commitments. This means that the available balance on the Reserve Fund for general use was £18.095m at 31 March 2013.

8.9 The £39m commitments balance was calculated as follows:

Backlog maintenance costs	£1m	There is a build up of backlog maintenance work which has yet to be completed, and it is estimated that £1m still remains to be undertaken. The reason for this build up was that the Harbour had slowed down its investment as it anticipated closure in 2000, but as a result of new oil coming on stream, its life has been extended, but this gave rise to a backlog in maintenance.
Capital expenditure	£13m	It is now estimated that the Harbour will remain open for another 25 years. This means that the Council will be required to invest in capital infrastructure during this period to extend the life of the Harbour. This expenditure will largely be incurred on the replacement of Jetties.
Decommissioning costs c.2037	£25m	The Council owns the Harbour at Sella Ness and has a legal requirement to ensure that the site is returned to its original condition once the Harbour closes. This will involve the removal of all jetties and man-made structures at the sight. This is estimated to cost in the region of £13m. In addition to this, it is estimated that the Harbour will operate at a loss of approximately £12m over its final 3 years, as the Council will have fixed costs for maintaining the site and employing staff, whilst at the same time the income stream from oil tanker arrivals will have dried up significantly.
TOTAL	**£39m**	This represents the total provision that may be required in order to operate the Harbour Account until its closure, which is anticipated to be in the late 2030s.

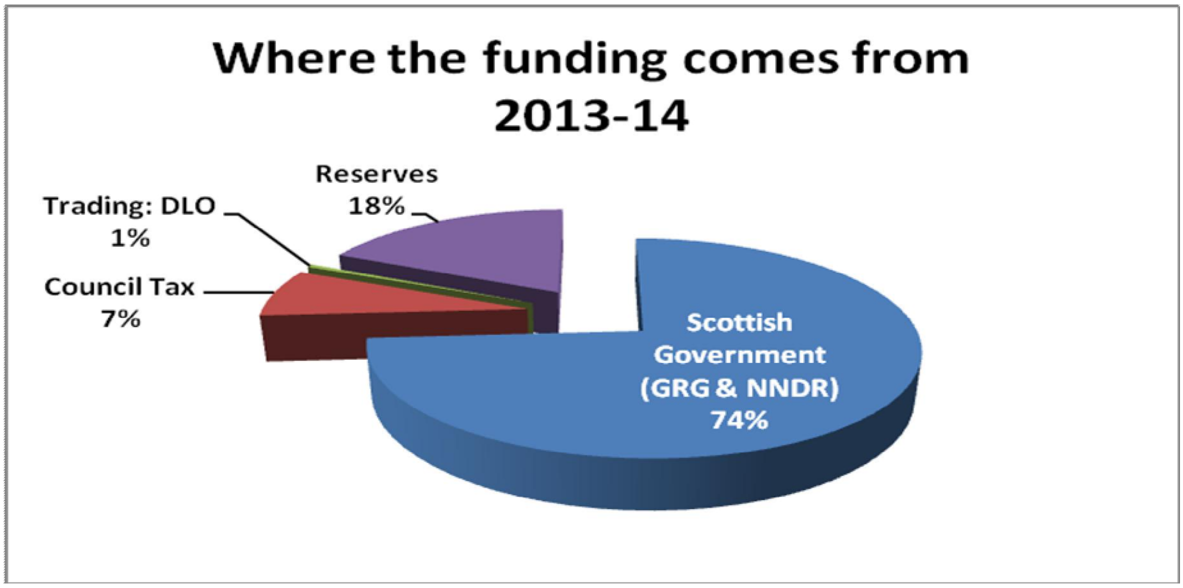
TOTAL Income

8.10 It is anticipated that the Council will start to receive a material income stream from the TOTAL Gas Plant in 2015-16, that will pick up in 2016-17 to around £5.5m per annum. However, the actual income stream is linked to the price of gas and throughput, so it is not possible to place a high level of confidence on these income figures at present. These will be reviewed each year to ensure that they are as accurate as possible with the available information. The income that is received will be processed through the Harbour Account.

Resources

9.1 In 2013-14 Shetland Islands Council's general fund will receive approximately 74% of its funding from the Scottish Government. This is made up of the core General Revenue Grant and the element of National Non-Domestic Rates that the Scottish Government grants to the Council.

9.2 The pie chart below shows where the funding comes from for the general fund budgeted expenditure in 2013-14:



9.3 The chart highlights the extent to which the General Fund requires reserves to make up the funding package. In order to achieve a fully sustainable financial position, reserves should only make up a maximum of 3% of the funding package. It is anticipated that this will be achieved during the Medium Term Financial Plan by reducing expenditure and benefiting from a recovery in the surpluses that can be generated from the Harbour Account, as well as a new funding stream from the TOTAL Gas Plant.

Estimated future resources available to the Council

9.4 The table below shows the estimated future resources available to the Council over the period of the Plan:

Source of Income	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	£000s	£000s	£000s	£000s	£000s	£000s
Scottish Government (GRG & NNDR)	-85,955	-85,455	-83,955	-83,455	-82,955	-82,455
Council Tax	-8,600	-8,686	-8,773	-8,861	-8,949	-9,039
DLO	-564	-500	-500	-500	-500	-500
Harbour Account Surplus	-222	71	218	-4,784	-8,396	-8,000
TOTAL Gas Plant contribution	0	-109	-2,600	-5,833	-5,749	-5,439
Total Funding	**-95,341**	**-94,679**	**-95,610**	**-103,433**	**-106,549**	**-105,433**

9.5 A number of assumptions have been made around the resources available to the Council. These are set out below –

- The Scottish Government core revenue grant has been set up to and including 2014-15. The assumption made in the following years is that underlying funding will remain fixed in cash terms, reflecting the challenging economic outlook. However, because of the diminishing level of notional loan charge support available to the Council, the overall result is that the core grant will reduce by approximately £0.5m year on year after 2014-15. In addition, it is anticipated that there will be a £1m reduction in core revenue funding in 2015-16 following the one-year spending revenue.

- The level of National Non-Domestic Rate income has been set by the Scottish Government up to and including 2014-15. The assumption in this model is that this income stream will remain at the same level in subsequent years on the basis that the economic outlook will remain challenging throughout this decade. However, depending on the timing of the next revaluation, the Council may receive a short-lived windfall from the new TOTAL Gas Plant as part of the BRIS scheme.

- As a result of the high collection rates for Council Tax in Shetland, the model budgets for a higher level of Council Tax income in 2013-14, reflecting the levels collected in previous years. Beyond 2013-14, it is expected that Council Tax income will rise by 1% per annum based on the assumption that the Council will continue with the national freeze, but due to natural increases in the property base of 1% per year income from this source will increase by that amount.

- Based on the latest understanding of when the Total plant will open, it is anticipated that this will provide an income stream to the Council from 2015-16. The level of income budgeted in the model reflects our best estimation of throughput and price of gas at that time. It should be noted that as a result of this, there is a certain level of volatility as to when this income will start to flow into the Council, and the exact amount that it might be.

- It is anticipated that the Harbour Account will fail to make a surplus in 2014-15 and 2015-16 as a result of falling income levels and increased costs. However, the model budgets for a recovery in 2016-17, which will strengthen in 2017-18 and onwards once the towage pension liability has been paid off. Again however, there is a certain amount of volatility when trying to estimate the income that might be generated from the Harbour Account several years into the future.

Business Rates Incentivisation Scheme

9.6 The Scottish Government has created a Business Rates Incentivisation Scheme (BRIS) which provides an opportunity for the Council to maximise its National Non-Domestic Rates income stream.

9.7 The way in which the scheme works is that the Scottish Government sets an annual target for the level of Business Rates (National Non-Domestic Rates) that Shetland Islands Council should collect during the year. If the Council collects more than its target, it is able to keep 50% of the additional income, with the other 50% going to the Scottish Government. Therefore, there is an incentive to the Council to generate economic development to increase the tax base. Opportunities should be sought to progress this scheme.

9.10 However, the rateable values of Non-Domestic Properties are revalued every five years, and new values are incorporated into the Council's target. Therefore, depending on the timing of the next revaluation, the Council may receive a limited windfall from the new TOTAL Gas Plant and the new hotel in Brae.

Cost Pressures

10.1 Despite the drive to bring down the overall level of expenditure in order to work towards achieving a financially sustainable position, there will be cost pressures each year that put upward pressure on the levels of expenditure incurred by the Council.

10.2 It is anticipated that there will be significant cost pressures in 2014-15, with an allowance of £2.662m being budgeted to account for these.

10.3 The table below sets out the recurring cost pressures that have been considered for the 2014-15 budget, and the level of provision made for each:

Cost Pressure	Quant-ification	Description	Allowance for Cost Pressure in 2014-15 budget (£)
Pay Award	1%	It is anticipated that there will be a pay award of 1% in 2014-15	£875,095
Bus Services	Estimate	The new arrangements to be agreed by Members for bus services may result in a cost pressure for the Council.	£500,000
Children & Young People's Bill	Estimate	Changes to statutory requirements will result in cost pressures in the care of looked after children, kinship orders, minimum qualifications for foster carers, corporate parenting responsibilities, training and expansion of early learning and childcare hours.	£347,368
Demographic Pressures	2.6%	Based on the rate of Shetland's ageing population, it is anticipated that there will be extra demand on Community Care resources.	£278,000
Ferry Fuel	Estimate	Cost pressure arising from anticipated increases in the fuel used by Ferries. This could be an issue over 2 financial years.	£250,000
Utilities	Estimate	This is the anticipated cost increases for Water, Electricity, District Heating and Gas Oil during 2014-15. Where possible Procurement Scotland estimates have been applied.	£211,000
Pathfinder Replacement	Estimate	The Council's internal internet infrastructure is provided by Cable & Wireless through the Pathfinder arrangement. This contract ends at 31 March 2014. The ongoing revenue costs associated with finding a local solution are estimated to be cheaper than extending Pathfinder, however, there will still be an increase in cost of £200k p.a.	£200,000
General Inflation	2%-3%	It is anticipated that inflation will fluctuate between 2% and 3% in 2013-14. No allowance has been made, as corporate procurement efficiencies should off-set this pressure.	£0
Fuel Inflation	0%	There is no evidence to suggest that fuel prices, which are already at a historically high level, will continue to increase during 2013-14.	£0
Contract Inflation	0%	The most significant element relates to the bus contracts, but given new contracts will be in place for 2013-14, it is not anticipated that there will be significant contract inflation during the year. Any other contract inflation will have to be managed within existing budgets.	£0
TOTAL			**£2,661,463**

10.4 An allowance of 2.5% has been made for budget pressures in all future years covered by the Plan. This reflects the fact that the largest cost to the Council is salaries, and it is anticipated that there will be only modest pay awards in the medium term. In addition, general inflation (CPI) is forecast to settle at around 2.3% in the medium term.

10.5 However, it is likely that there will be specific budget pressures in future years, and as a result, these assumptions will be updated on an annual basis.

10.6 The known potential future budget pressures for specific items are as follows:

- **Anderson High School** – the current level of maintenance expenditure on the Anderson High School is insufficient to keep the building in sufficient repair beyond the short-term. It is anticipated that a new school will require an increase in repairs and maintenance expenditure of approximately £0.415m from 2016-17 over existing levels, therefore this has been added as a specific cost pressure to the 2016-17 budget line over and above the 2.5% allowance. It should be noted that if there was no replacement school, repairs and maintenance expenditure would have to increase by approximately £1m per year to address the backlog maintenance issues at the current school.

- **Bus and Air Services contracts** – these contracts have an element of indexation contained within them and as a result there will be an ongoing cost pressure associated with them.

- **Welfare Reform** – There are two potential pressures which could arise after the phased introduction of Universal Credit from Autumn 2013. The first is that there may be additional administrative burdens placed on the Council with regards to the implementation, and ongoing support of, the new arrangements. The second potential budget pressure is the risk of falling housing rents income to the HRA as a result of the housing element of benefits being paid directly to claimants instead of to the Council.

- **Severance costs** – As a result of the likely reduction in the size of the Council's workforce over the forthcoming years, it is anticipated that this will result in an increase in one-off severance payments and will also increase future pension liabilities for the Council as the fund matures and moves towards a position of 100% funded.

- **Borrowing** – If the Council finds it more cost effective to fund capital expenditure by incurring external debt, this may give rise to an additional cost pressures on the relevant revenue service budget in the form of borrowing costs.

10.7 It is not yet possible to quantify the costs associated with each of the above due to a number of uncertainties, but as more information is known, these pressures will be costed in future refreshes of the Plan.

Budget Modelling

11.1 Based on the information gathered from the Medium Term Financial Planning process the following budget model has been produced:

	Description	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
		£000s	£000s	£000s	£000s	£000s	£000s
Expenditure	Prior year recurring general fund budget	122,626	111,703	107,826	108,192	109,420	111,911
	Savings requirement	-12,526	-6,539	-2,223	-1,720	0	0
	Non-recurring general fund budget (e.g. Carry-forwards and contingencies)	7647	2,616	889	688	0	0
	Budget Pressures	1,603	2,662	2,589	2,948	2,490	2,490
	Net-recharges out	-3,164	-3,000	-3,000	-3,000	-3,000	-3,000
	Total General Fund budgeted expenditure	116,186	107,442	106,081	107,108	108,911	111,401
Core Income	Scottish Government General Revenue Grant & Non-Domestic Rates income	-85,955	-85,455	-83,955	-83,455	-82,955	-82,455
	Council Tax	-8,600	-8,686	-8,773	-8,861	-8,949	-9,039
	DLO	-564	-500	-500	-500	-500	-500
	Total Core Funding	-95,119	-94,641	-93,228	-92,816	-92,404	-91,994
	(SURPLUS)/DEFICIT ON GENERAL FUND	**21,067**	**12,801**	**12,853**	**14,293**	**16,507**	**19,408**
Deficit Funding	Harbour Account Surplus	-222	71	218	-4,784	-8,396	-8,000
	TOTAL Gas Plant contribution	0	-109	-2,600	-5,833	-5,749	-5,439
	Draw on Reserves	-20,845	-12,763	-10,471	-3,676	-2,362	-5,969
	TOTAL DEFICIT FUNDING	**-21,067**	**-12,801**	**-12,853**	**-14,293**	**-16,507**	**-19,408**
Council Reserves	Opening Reserves Balance 1 April	205,730	169,134	187,966	183,197	185,559	189,816
	Equalisation Fund adjustment	-15,000					
	Return on Investment	6,172	6,353	7,002	6,838	6,919	7,066
	Debt repayment/Debt externalisation		41,242				
	Draw on Reserves - Revenue	-20,845	-12,763	-10,471	-3,676	-2,362	-5,969
	Draw on Reserves - Capital	-2,450	-14,000				
	Draw on Reserves - Housing Revenue Account	-2,473	-500	-300	-300	-300	-300
	Draw on Reserves - Spend to Save	-2,000	-1,500	-1,000	-500		
	Closing Reserves Balance 31 March (Minimum Target Balance £150m)	**169,134**	**187,966**	**183,197**	**185,559**	**189,816**	**190,614**

11.2 The purpose of the model is to set out the level of expenditure that is affordable each year, based on the total funding available and a desire to ensure that the Council's reserves stabilise as soon as possible without falling below £150m (at 2013 prices).

Assumptions

11.3 The following assumptions have been made in the budget model:

Total General Fund expenditure

- The starting point for each year will be the prior year start point, less savings and then budget pressures added on. For example, the start point for 2014-15 is calculated as follows-

Description	Amount £m
2013-14 General Fund expenditure before savings	122.626
Less: 2013-14 savings	-12.526
Add: 2013-14 Budget pressures	1.603
2014-15 General Fund expenditure before savings	**111.703**

- The savings requirements total the same as the 2012-2017 plan, the only difference is that they are profiled differently between 2013-14 and 2014-15 because the 2013-14 budget contained a higher level of savings that had been required in the plan. This has meant that the new savings requirement for 2014-15 has been reduced to account for the extra budgeted savings in 2013-14.

- An in-year contingency for slippage in the delivery of savings has been included for each year where there is a savings requirement. For the current 2013-14 financial year, this figure was calculated as part of the budget setting exercise. In subsequent years, an allowance of 40% of the overall savings target has been included as a contingency to cover the cost of exit packages and slippage in the implementation of service changes. It should be noted that this assumes that any savings shortfall in a given financial year will be made up in full in the following financial year ie it is purely a timing difference.

- An allowance for budget pressures has been built into the model. In 2013-14 this figure has been calculated as £1.609m. In subsequent years, this has been calculated at 2.5% of the in-year General Fund expenditure before savings figure. Further details of these calculations have been discussed in section 10 of the Plan.

- Any additional budget pressures, such as general inflation will be required to be met from service budgets.

- Net recharges out are estimated to remain constant based on an expectation that there will still be the same level of service delivered to the HRA and Harbour Account and Capital from the General Fund.

- If the plan is delivered, actual spending levels on the general fund will rise in the 2016-17 budget and there will be no requirement to deliver any savings in the final budget set by this Council in February 2017 assuming the external funding continues at a level indicated in paragraph 11.1.

Total funding

- The Scottish Government core revenue grant has been set up to and including 2014-15. The assumption made in the following years is that underlying funding will remain fixed in cash terms, reflecting the challenging economic outlook. However, because of the diminishing level of notional loan charge support available to the Council, the overall result is that the core grant will reduce by approximately £0.5m year on year after 2014-15. In addition, it is anticipated that there will be a £1m reduction in core revenue funding in 2015-16 following the one-year spending review.

- The level of national non-domestic rate income has been set by the Scottish Government up to and including 2014-15. The assumption in this model is that this income stream will remain at the same level in subsequent years on the basis that the economic outlook will remain challenging throughout this decade.

- It is expected that Council Tax income will rise by 1% per annum based on the assumption that the Council will continue with the national freeze, but due to natural increases in the property base of 1% per year income from this source will increase by that amount.

- Based on the latest understanding of when the TOTAL Gas Plant will open, it is anticipated that this will provide an income stream to the Council from 2015-16. The level of income budgeted in the model reflects our best estimation of throughput and price of gas at that time. It should be noted that, as a result of this, there is a certain level of volatility as to when this income will start to flow into the Council, and the exact amount that it might be.

- It is anticipated that the Harbour Account will fail to make a surplus in 2014-15 and 2015-16 as a result of falling income levels and increased costs. However, the model budgets for a recovery in 2016-17, with a surplus of £4.8m, rising to £8.4m in 2017-18 once the towage pension liability has been paid off and throughput recovers.

Reserves

- The budget model builds in a return on investments of 3% to 3.5% for each financial year covered in the Plan. The long term average return over the past 20 years has been 5.75% so once inflation is removed from this total, a figure of 3% to 3.5% appears prudent.
- The model removes £15m from the reserves in 2013-14 to set up a separate Equalisation Fund which will be used to smooth out the impact volatile investment returns in future years.
- An injection of £41.2m will be made into the reserves at the start of 2014-15, either as a result of the government repaying the housing debt and/or the Council externalising the debt.
- After 2013-14, the only draw on reserves budgeted for capital spend is a figure of £14m for a new Anderson High School. It is assumed that apart from this item, all capital expenditure will be funded from core government capital grant, capital receipts from the sale of assets and CFCR.
- An amount of £0.5m is anticipated to be drawn from the Housing Repairs and Renewals Reserve each year after 2013-14.
- A figure of £5m will be available to fund spend to save projects between 2013-14 and the end of the savings programme in 2016-17.

Summary

11.4 In summary, over the course of the Plan it is anticipated that the reserves will generate income of approximately £40m and the total draws on reserves will total £82.5m.

11.5 If this Plan is delivered, the Council will retain a level of reserves of £150m and will have achieved a financially sustainable position.

Addressing the Budget Gap

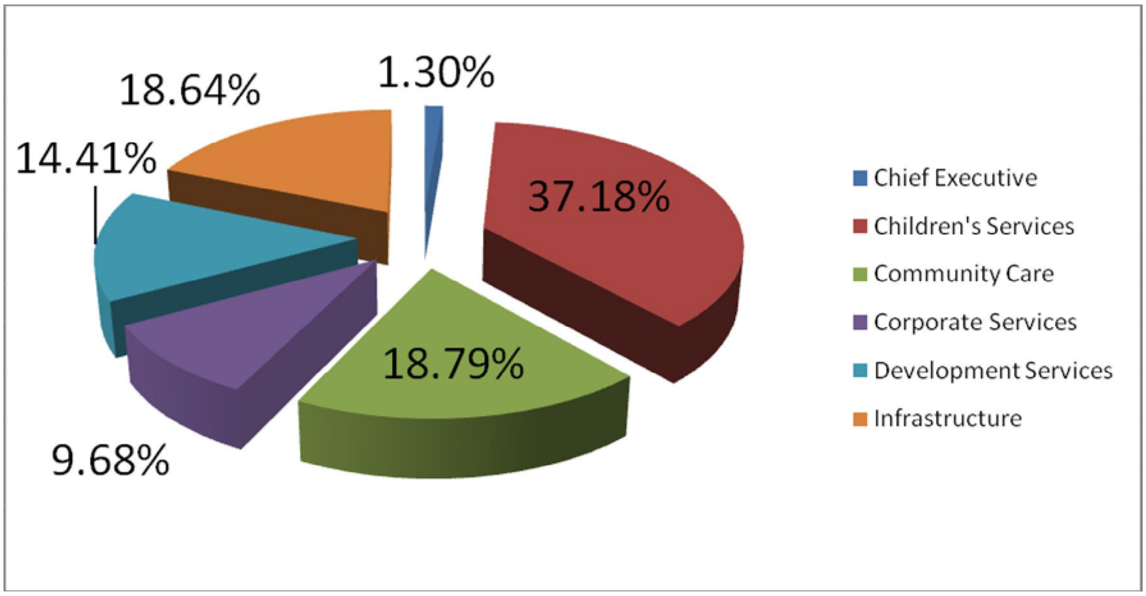
12.1 Based on the modelling performed in Section 11, the budget gap for the next 5 years is as follows:

Description	2014-15 £000s	2015-16 £000s	2016-17 £000s	2017-18 £000s	2018-19 £000s
Gap to be met by directorates	6,539	2,223	1,720	0	0

12.2 The budget gap can only be made up through a combination of increasing fees and charges and reducing costs across the Council.

12.3 It is important that the budget gap is addressed based on Members' priorities. In effect, this means that the priority directorates receive the greatest level of protection against the cuts.

12.4 The base year for the Medium Term Financial Plan was 2012-13 when the general fund budget was divided amongst directorates as follows:



12.5 Section 4 of this report describes the themes around Members' priorities and this has been used at the basis for determining an initial resource allocation to allow Target Operating Budgets to be set for each directorate across the timeframe of the Plan.

12.6 It is important to understand the Target Operating Budgets provide directorates with a financial envelope for developing a budget, but an iterative process will take place throughout the Autumn, whereby Members will have the chance to adjust directorate budgets based on the proposed budgets developed by directorates.

12.7 However, it is important to note that in order to operate within the overall financial envelope that is affordable to the Council, if Members agree to award more funding to one directorate or service, it will have to be at the cost of reducing a budget elsewhere.

12.8 Based on Members' priorities documented in the Corporate Plan, this financial plan seeks to protect Children's Services and Community Care Services and Transport. Members also expressed a desire to ensure that there were sufficient resources available to run a well managed organisation.

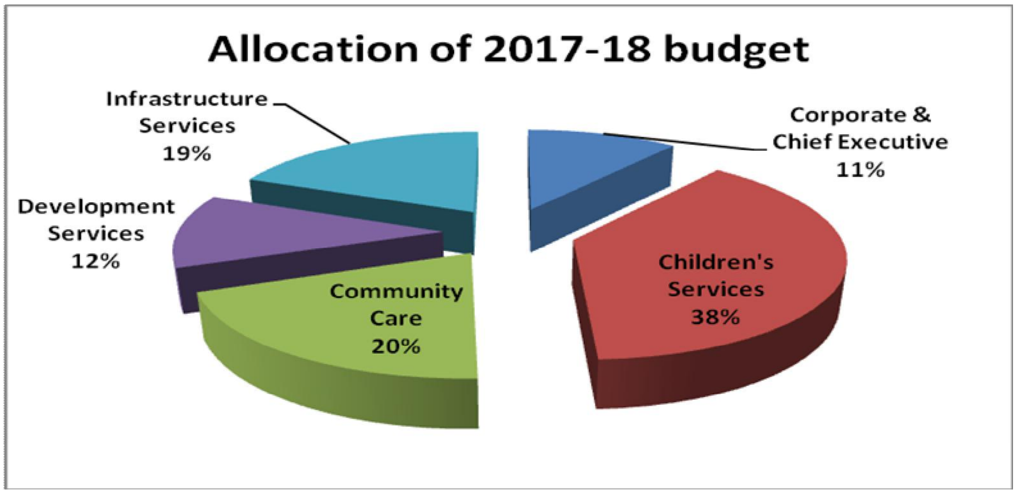
12.9 By applying these priorities and working within available resources the following Target Operating Budgets and associated budget gaps are proposed for each directorate:

2013-14 £000s	Directorate		2014-15 £000s	2015-16 £000s	2016-17 £000s	2017-18 £000s	2018-19 £000s
12,072	**Corporate & Chief Executive**	**Target Operating Budget**	**11,120**	**10,735**	**10,735**	**10,735**	**10,735**
		Budget gap	(952)	(385)	0	0	0
41,262	**Children's Services**	**Target Operating Budget**	**40,429**	**39,714**	**37,994**	**37,994**	**37,994**
		Budget gap	(833)	(715)	(1,720)	0	0
20,524	**Community Care Services**	**Target Operating Budget**	**20,114**	**19,712**	**19,712**	**19,712**	**19,712**
		Budget gap	(410)	(402)	0	0	0
13,878	**Development Services**	**Target Operating Budget**	**12,039**	**11,698**	**11,698**	**11,698**	**11,698**
		Budget gap	(1,839)	(341)	0	0	0
21,530	**Infrastructure Services**	**Target Operating Budget**	**19,025**	**18,645**	**18,645**	**18,645**	**18,645**
		Budget gap	(2,505)	(380)	0	0	0

12.10 The table below shows how the Target Operating Budgets per directorate reconcile back to the Total General Fund expenditure figure included in the budgeting model in Section 11:

	2013-14 £000s	2014-15 £000s	2015-16 £000s	2016-17 £000s	2017-18 £000s	2018-19 £000s
Corporate & Chief Executive	12,072	11,120	10,735	10,735	10,735	10,735
Children's Services	41,262	40,429	39,714	37,994	37,994	37,994
Community Care Services	20,524	20,114	19,712	19,712	19,712	19,712
Development Services	13,878	12,039	11,698	11,698	11,698	11,698
Infrastructure Services	21,530	19,025	18,645	18,645	18,645	18,645
Total directorate budgets	**109,266**	**102,727**	**100,504**	**98,784**	**98,784**	**98,784**
Cumulative Cost Pressures	1,603	4,265	6,854	9,802	12,293	14,783
Fund Manager Fees	834	834	834	834	834	834
Carry-forwards & Contingency	7,647	2,616	889	688	0	0
Total Spending	**119,350**	**110,442**	**109,081**	**110,108**	**111,911**	**114,401**
Less: Recharges Out	(3,164)	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)
TOTAL GENERAL FUND EXPENDITURE	**116,186**	**107,442**	**106,081**	**107,108**	**108,911**	**111,401**

12.11 By adopting these Target Operating Budgets the relative proportion of General Fund spending would be adjusted as follows by 2017-18:



Directorate	2012-13 % of General Fund (exc Police and Fire)	2017-18 % of General Fund	Movement in % share of funding between 2012-13 and 2017-18
Corporate & Chief Executive	10.98%	10.87%	-0.11%
Children's Services	37.18%	38.46%	1.29%
Community Care	18.79%	19.95%	1.16%
Development	14.41%	11.84%	-2.57%
Infrastructure	18.64%	18.87%	0.23%
TOTAL	100%	100%	0%

Addressing the budget gap

12.12 Directorates will be required to address the budget gap set out in 12.9 above, in order to deliver budget proposals that are within the Target Operating Budgets set in 12.9 above.

12.13 There are 2 options available to directorates to fill budget gaps; identifying savings and introduce or increase existing fees and charges. In practice a combination of both options will be adopted by directorates where there is scope to do so.

Fees and Charges

12.14 Shetland Islands Council has budgeted to achieve income of £12.8m from fees and charges levied on customers in 2013-14. This represents a significant amount of income and increasing these charges and creating new charges could make a significant impact on bridging the budget gap within directorates. The table below shows the breakdown of the income:

Category	Amount (£)
Sales	2,808,349
Fees & Charges	8,982,215
Rental Income (excluding Housing)	1,041,905
TOTAL	**12,832,469**

12.15 This means that for every 1% increase in fees, charges and rents, based on the current charging bases, almost £128,325 would be raised.

12.16 In relation to fees and charges there is an expectation in the Plan that:

- Where these are already levied, consideration will be given to increasing them;
- Where there are concession fees and charges, consideration will be given to reducing these or scrapping them altogether;
- Where the Council provides a service that could be provided by the private sector, consideration is given to introducing charging in instances where this doesn't already exist.

12.17 Any decisions around fees and charges should be undertaken in compliance with the Council's charging policy.

Council Tax

12.18 It is possible for the Council to increase Council Tax in order to contribute towards bridging the budget gap, but this would be in contravention to the concordat agreement between Scottish local authorities and the Scottish Government.

12.19 The Scottish Government provides an element of additional funding to Shetland Islands Council in its financial settlement as an incentive not to increase Council Tax. This funding would be lost if the Council were to increase Council Tax.

12.20 Council Tax provides limited scope for generating income for the Council. A 1% increase in Council Tax would generate approximately £85,000, so a significant increase would be required in order to make an impact on the budget gap.

12.21 As a result of these factors, the Plan assumes that Council Tax will remain frozen for the remainder of this Council term.

Safeguards and Contingencies

13.1 There is a risk to any organisation that its budget may not be delivered. It is therefore important to ensure that there are appropriate contingency arrangements in place that can be used in order to help put the organisation back on track for delivering its budget.

13.2 This will be important to Shetland Islands Council, particularly over the next 10 months to ensure that by 31 March 2014, the organisation is clearly working towards its objective of financial sustainability by meeting its set expenditure levels. By that stage, the recurring draw on reserves for the year should be approximately half their 2011-12 levels at £13.5m, and the 2014-15 budget should include savings that will ensure that general fund net spending is no higher than £106m.

13.3 Therefore this paper sets out a number of options available regarding contingency measures to ensure that the objectives of the Plan are delivered throughout the next five years.

13.4 As a safeguard to the future viability of the Council, it would be appropriate to consider setting a date, and determining a set of measures in order to perform a “financial health check” on the Council.

13.5 It would be at this point, that if the Council failed to meet the indicators set in the health check, it would result in an escalation of the approach to dealing with the financial situation.

Contingency Measures

13.6 The Plan proposes to grant delegated authority to the Chief Executive to invoke the following measures if they are required –

- Taking decisions to make minor alterations to the level of service provision in order to stop the need to recruit to a post;
- Closing the purchase ledger as required (except for essential payments e.g. utilities);
- Removing access to ordering systems;
- Centrally close down non-essential budgets;
- Cancel training (with the exception of instances where there was a legal requirement);
- Temporary recruitment freeze (except for essential posts);
- Ban non-contractual overtime
- Stop third party grant payments
- Delaying the commencement of contracts or cancelling them
- Stopping all capital purchases (such as PCs etc)

Safeguarding Measures

13.7 Members will be provided with an annual overview of the financial position in the form of the provisional outturn report. However in addition to this, a key date should be determined for assessing whether the Plan is on course for delivery. It is recommended that this date be set as 30 June 2014.

13.8 By this time it will be clear whether the levels of savings required are being delivered and the impact that this is having on the reserves.

13.9 A financial health check would be the mechanism for assessing the Council's progress against the plan.

Financial Health Check

13.10 The key measures of the financial health check are –

- **The level of Reserves** – The level of reserves would be measured against the Medium Term Financial Plan projection. The variance threshold would be 10%. If the reserves were over 10% lower than the projection, an investigation would be undertaken to assess the factors that have caused this. If a reasonable explanation cannot be found the Council will have failed against this indicator.

- **The size of the General Fund deficit** – The size of the annual General Fund deficit would be measured against the Medium Term Financial Plan. The variance threshold would be 10%. If the deficit was over 10% larger than the planned deficit an investigation would be undertaken to assess the factors that have caused this. If a reasonable explanation cannot be found the Council will have failed against this indicator.

- **The projected draw on reserves for 2014/15 as at 30 June 2014** – Should the projected draw be over 10% greater than planned an investigation would be undertaken to assess the factors that have caused this. If a reasonable explanation cannot be found the Council will have failed against this indicator.

13.11 If the Council failed the financial health check then Members would have to consider a number of options to address this.

Consultation

14.1 Consultation and communication of the Plan and the resulting reviews will be essential if the Plan is to be implemented, and be successful in reducing expenditure but at the same time minimising the inevitable impact on services delivered to the Community.

14.2 The Plan will impact on services, communities and staff. To ensure there is a consistent and robust approach to service reviews, it is vital that consultation is part of the process. The Council has in place and is currently utilising the Community Consultation and Engagement Guide and Communications Plan. This can be found on the Council's website: http://www.shetland.gov.uk/communityplanning/documents/CommunityConsulationEngagementGuide.pdf.

14.3 Managers have also been provided with an in-depth review guide, which incorporates advice on the appropriate level of consultation. This guide ensures that issues such as risk assessment, equalities impact assessments, environmental and economic impacts etc are properly considered.

14.4 It should be recognised that the over-riding factor, in any consultation exercise is "the Council has to reduce expenditure" and expectations from any consultation exercise needs to bear this in mind.

Conclusion

15.1 Good progress has been made since the 2012-2017 Medium Term Financial Plan was adopted by Members in September 2012. The 2012-13 budget was exceeded and Members agreed a challenging 2013-14 budget that when implemented will mean that the Council will be over 70% of the way towards becoming sustainable. This has resulted in the Council being able to increase its Tolerable Reserves Floor to £150m and set aside £15m in a new Equalisation Fund which will help to smooth out future investment returns.

15.2 However, the Council continues to overspend at a rate that is unsustainable, and this updated plan follows in the footsteps of the 2012-2017 plan, which seeks to address this issue. In order to achieve that, it is important that the Council finds £10.5m of savings over the next 3 years.

15.3 The scale of the overall savings required remains unchanged from the 2012-2017 plan, as is the method of apportionment of the savings between directorates. Children's Services, Community Care and Transport continue to receive a level of protection from budget cuts at the expense of Development Services, Corporate Services and the Chief Executive's Office.

15.4 The Council has now formally adopted its Corporate Plan and the proposals in the Medium Term Financial Plan compliment that plan and target resources to ensure that it can be delivered.

15.5 The medium term future of UK Public Finance remains bleak, but by following this plan the Council will be in a far stronger financial position than it has been for many years, and will require no further savings after 2016-17 as it will be in a financially sustainable position.

Agenda Item

2

Shetland Islands Council

Special Shetland Islands Council **26 June 2013**

Shetland Islands Council Investment Strategy 2013-2018	
F-35-F	
Report Presented by Executive Manager – Finance	**Corporate Services**

1.0 Summary

1.1 The purpose of this report is to present a proposed Investment Strategy for the Council's reserves that compliments the Medium Term Financial Plan. The current Investment Strategy was agreed during the last Council and therefore does not reflect the current financial policies of the organisation.

1.2 In addition, the Council took a decision on 9 February 2012 (Min. Ref. 14/12) to seek to reduce fund manager fees by a minimum of £150,000. This report puts forward a proposal that will meet that requirement.

1.3 If Members agree this overarching Investment Strategy, a number of changes to the current fund manager structure will be required to implement it.

2.0 Decision Required

The Council RESOLVES to adopt the Investment Strategy 2013-2018 by:

2.1 Approving the proposed Investment Strategy at section 3.1 to 3.4 of Appendix 1;

2.2 Approving the draw on reserves structure as set out in section 3.6 to 3.7 of Appendix 1;

2.3 Approving the fund manager structure as set out in section 3.8 to 3.14 of Appendix 1; and

2.4 Granting delegated authority to the Executive Manager – Finance to implement the policy by making the necessary changes to fund manager arrangements.

3.0 Detail

3.1 The Finance Service started a review of the Council Investment Strategy in June 2012. Given the importance of the reserves to the Council and its financial well-being it was necessary to contract external investment consultants to provide professional advice, and to perform financial modelling to test various proposals.

3.2 KPMG were appointed to assist with this review following a mini-tendering exercise. One benefit of bringing in investment consultants who hadn't previously worked with the Council meant that they were able to provide a fresh perspective and to be fully independent during the exercise. Investment Consultants from KPMG will be in attendance at the Council meeting to answer any questions that Members might have on the proposed strategy.

3.3 The detailed Investment Strategy 2013-2018 paper has been attached as Appendix 1 to this report.

4.0 Implications

Strategic

4.1 Delivery On Corporate Priorities
The Investment Strategy compliments the Medium Term Financial Plan which is key for assisting with the implementation of the Corporate Plan. In addition, the Investment Strategy will deliver the £150,000 in fund manager fees that was required after a Council decision on 9 February 2012.

4.2 Community /Stakeholder Issues – None.

4.3 Policy And/Or Delegated Authority
Section 2.1.3 (I) of the Council's Scheme of Administration and Delegations states that approval of the Investment Strategy is a matter reserved to the Council. The Investment Strategy seeks to grant delegated responsibility to the Executive Manager – Finance to implement the policy by making the necessary changes to fund manager arrangements.

4.4 Risk Management
There are a number of assumptions made regarding future expected performance of the reserves that are based on the best information available to date.

Financial investments are volatile in their nature, but the proposed strategy seeks to reduce the level of volatility that the Council currently faces with the existing policy. Therefore the proposed strategy seeks to reduce the overall risk level to the Council without compromising investment returns.

4.5 Equalities, Health And Human Rights – None.

4.6 Environmental – None.

Resources

4.7 Financial
The Investment Strategy is estimated to reduce fund manager fees by approximately £300,000 per year, whilst targeting the same level of investment return as the present strategy.

Financial investments can go down as well as up. Any large reductions in the value of the reserves would impact upon the level of the draw on reserves that is sustainable. However, the proposed policy seeks to reduce the risk of significant reductions in the value of the reserves by reducing volatility, but this still cannot guarantee negative returns from investments.

4.8 Legal – None.

4.9 Human Resources – None.

4.10 Assets And Property – None.

5.0 Conclusions

5.1 The Investment Strategy seeks to introduce changes to the current strategy that seeks to compliment the Medium Term Financial Plan and reduce fund manager fees.

5.2 The strategy proposes a less volatile approach, which provides certainty over the value of the money that will be required to fund services over the medium term (the draws on reserves), whilst using a balanced approach between risk and return for the longer term investments.

5.3 It is estimated that the proposed strategy will provide the same level of return as the current strategy (when fees are considered) but will have a lower risk of large negative returns, and therefore provides a more rounded approach that should address the Council's requirements.

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List of Appendices
Appendix 1 – Investment Strategy 2013-2018
Appendix 2 – KPMG Investment Strategy Report – November 2012
Appendix 3 – KPMG Summary of Investment Advice – June 2013

Appendix 1

Shetland Islands Council

Investment Strategy

2013-2018

Securing the Best for Shetland

Contents

Introduction

1.1 The purpose of the Investment Strategy 2013-18 is to set out the overarching investment approach to compliment the Medium Term Financial Plan.

1.2 It does not replace the requirement for the Council to produce an annual Investment Strategy document which is central to the consent issued by the Scottish Ministers under The Local Government Investments (Scotland) Regulations 2010. The consent states, "Local Authorities are required to prepare an Annual Investment Strategy before the start of the financial year and an Annual Investment Report after the financial year end. The requirement for local authorities to produce an annual strategy and annual report is also reflected in the CIPFA Treasury Code".

1.3 The Scottish Minister's consent also states that a local authority can produce a single strategy covering capital, treasury management, the setting of prudential indicators and the requirements of the regulations and consent. Therefore an Annual Investment Strategy will continue to be produced annually and will cover all aspects of Treasury's investment activities.

1.4 The strategy will also be updated on an annual basis to test whether the overarching objectives of the investment strategy compliment the objectives of the Medium Term Financial Plan.

Medium Term Financial Plan policies on reserves

1.5 The Medium Term Financial Plan has the following policies on reserves –

- To preserve reserves at a level no lower than £150m and ensure that this figure is protected against inflation;
- To reach a point in 2016-17 where the reserves are effectively treated as an endowment fund. This means that the Council would only spend the returns made from the reserves each year, and not spend the capital value of the reserves;
- To target an average return of at least 5.75% per annum;
- To draw either £67.7m and £81.7m on reserves between 2013-14 and 2018-19 depending on whether the Anderson High School contribution is funded from reserves or by borrowing; and
- To establish an Equalisation Fund to attempt to smooth investment returns for financial planning purposes.

1.6 In addition, a Council decision taken on 9 February 2012 requires the investment strategy to consider the level of fund manager fees with a view to trying to reduce these by £150,000 per year.

1.7 As a result, a review of the Council's investment strategy has been undertaken to incorporate the points at 1.3 and 1.4 above, and external support was obtained from the Treasury Services department of KPMG.

1.8 This strategy paper proposes some changes in the way in which the Council invests its reserves in order to better reflect the Medium Term Financial Plan's objectives and to bring down fund manager fee levels.

Current Investment Strategy

2.1 The current investment strategy has been in place since 2010-11 and has a strong focus on long term growth with 75% of the invested reserves in equities and 25% in bonds.

2.2 The fund managers who invest the reserves on behalf of the Council in the stated asset classes and per the benchmark percentages are as follows:

Manager	Fund	% of Reserves
Insight	Bonds	25%
GMO	Equities	37%
Baillie Gifford	Equities	38%

2.3 The percentages above are the initial benchmark percentages agreed after the reorganisation in 2010/11. Throughout 2012/13 these percentages varied depending on withdrawals, market movements and investment returns. These fluctuations are expected over the short term.

2.4 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. The fund managers continue to invest during 2013/14 as per their investment percentage position, until the outcome of the current investment strategy review is known and approved.

Fund Manager Structure

2.5 The investment percentage position is constantly monitored by the Council's Treasury function. The current percentage of funds under management for each fund manager at the 7th June 2013 was:

Insight	26%
GMO	31%
Baillie Gifford	43%

2.6 The equity / bond split is therefore 74% to 26%, one percent different to the initial asset split of 75% and 25%.

2.7 Insight's mandate is invested into two different unitised bond products. The Broad Market Bonds Plus Fund is a fund split between UK Government Gilts and corporate bonds and has 80% of the mandate, and the Bonds Plus Fund is set against a cash return and has 20% of the mandate.

2.8 GMO's mandate is invested into two unitised equity products, with 60% in a UK Equity Fund and 40% in a World Ex-UK Equity Fund.

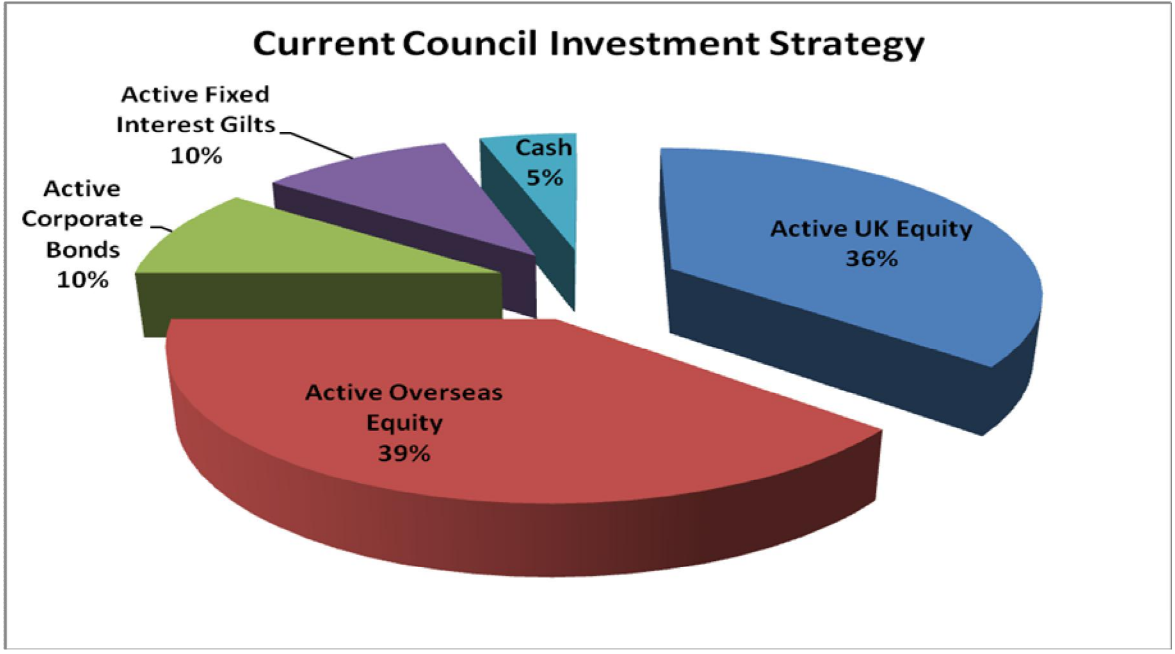
2.9 Baillie Gifford's mandate is invested into two unitised equity products, with 39% in a UK Equity Fund and 61% in a Global ex UK Equity Fund.

2.10 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 to ensure the efficient operation of Council activities.

2.11 All long-term investments 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) are used to evaluate the performance of each investment against their investment market, with large deviations both above and below these markets questioned similarly.

2.12 All of the long-term investments are active mandates where the fund manager has a 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.

2.13 The pie chart below sets out the current strategy –



Proposed Investment Strategy

3.1 The Council's Treasury Service and Executive Manager – Finance worked with KPMG to develop a proposed strategy that compliments the Medium Term Financial Plan.

3.2 This resulted in KPMG preparing an initial report in November 2012 which is attached at Appendix 2. Following the report, the Treasury Service and Executive Manager – Finance developed a proposed model for the Council's investments using the advice provided. After several iterations of the proposed strategy, KPMG produced a second report which specifically provides analysis of the proposed strategy and compares this to the current strategy. That report has been attached as Appendix 3.

3.3 The proposals in the strategy are –

- **Volatility** – Reduce the overall volatility of the invested reserves in light of the fact that the Council will draw up to £81.7m from reserves in the medium term (over the next 5 years). This is to avoid a situation whereby the Council has to sell investments to meet current expenditure demands at a time when the value of the investments could be at a low point. This can be achieved by reducing the Council's exposures to equities. **Proposal *– to reduce the overall allocation of equities investments from 75% to 55%*.**

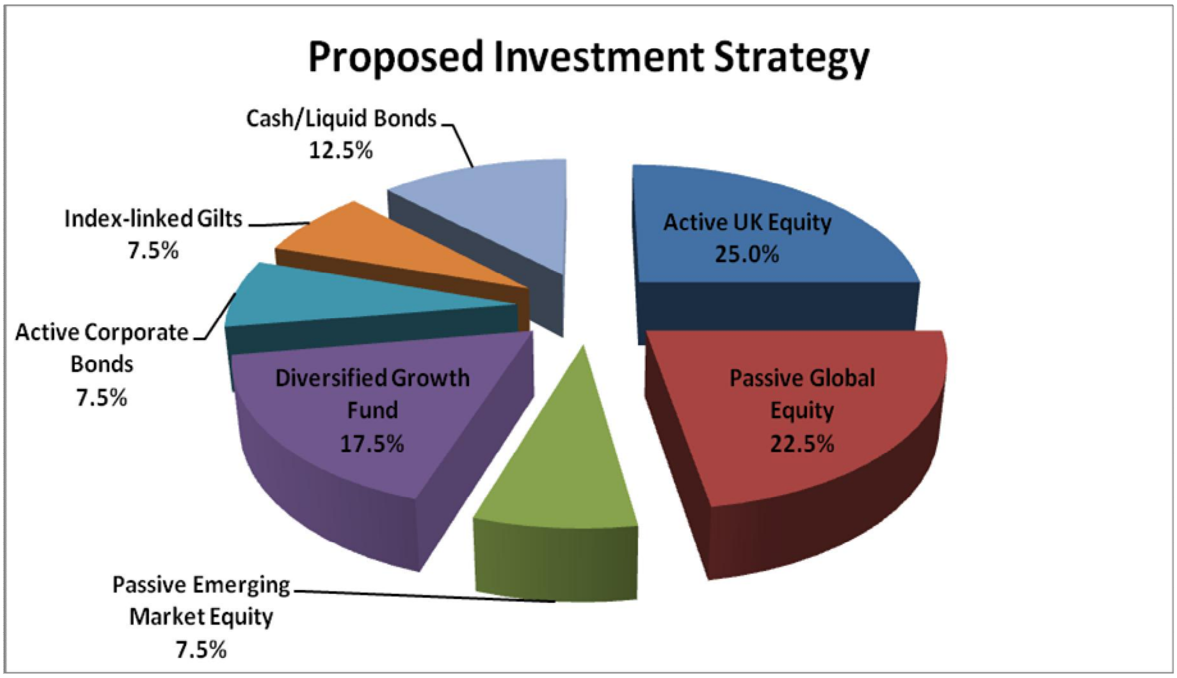
- **Diversification** – To spread the Council's reserves over different types of asset class in order to seek a smoother annual return, and have the flexibility to exploit short term opportunities in volatile markets. **Proposal *– to introduce a diversified growth manager and allocate 17.5% of invested reserves for this purpose***.

- **Protection against inflation** – It is important to ensure that the reserves are protected against inflation so that their future purchasing power for Council services is not eroded over time. For example, if Members wish to maintain a minimum floor of £150m for its reserves in 2013, then with an inflation rate of 2.3%, the Council would require to have £188m in reserves in 2023 in order to have the same purchasing power as £150m today. **Proposal *– to introduce a 7.5% allocation of Index-linked gilts into the asset portfolio to provide an element of direct inflation protection to the strategy*.**

- **Security over future draws on reserves** – The Council will draw up to £81.7m from its reserves over the next 5 years. It is therefore prudent financial management to gain certainty over the value of that money to avoid a situation whereby an investment was sold with a negative return or didn't achieve the return that was expected. **Proposal *– to introduce a 12.5% allocation of cash (and short dated bonds) into the asset portfolio to provide certainty over achieving a positive return on the invested reserves that will be utilised to fund services in the medium term***.

- **Fund Manager Fees** – The main driver for the cost of fees is whether investments are managed actively or passively. Passive management fees are significantly lower than active, but there is a risk that you lose the added value that fund managers may be able to provide. At present, all the Council's invested reserves are managed actively and there has been mixed success. **Proposal –** ***to introduce passive management for some equity investments, to that 30% of the entire investment portfolio is in passive equities (split between passive global 22.5% and passive emerging markets 7.5%) with a view to reducing the overall fund manager fees by approximately 30% (c.£300,000 per annum)***.

3.4 Based on the rationale above, the pie chart shows the proposed investment strategy –



3.5 Further details about each asset class can be found in the KPMG report attached at Appendix 2 to this report.

Draw on Reserves structure

3.6 It is anticipated that the Council will be in a financially sustainable position from the 2016-17 financial year. One of the objectives of the Medium Term Financial Plan is to stabilise the reserves at a level no lower than £150m, and ensure that this value is protected against inflation.

3.7 It is therefore proposed to adopt payment structure 4 from the KPMG report at Appendix 2, Page 9 from 2016-17. What this proposes is to set an annual draw on reserves at 2% of their opening value as a minimum, and 6% as an upper limit (if the return for the year was in excess of RPI + 6%). By adhering to this policy it will maintain the real value of the reserves into the future.

Fund Manager Structure

3.8 In order to implement the proposed strategy, a number of changes would be required to the existing fund manager structure.

3.9 Included within the KPMG report at Appendix 3 is a section on Manager Structures (Page 4). This provides a good analysis of the fund manager structure required to deliver the proposed strategy effectively.

3.10 The proposed new strategy can be delivered by using the fund managers who already have investment management agreements with the Council. This will not only help save costs but also reduce the time taken in the reorganisation of the investments from the current arrangements to the proposed arrangements. There are no procurement issues regarding this approach.

3.11 From the suggestions in the KPMG report at Appendix 3 the proposed fund management structure to implement the new strategy is proposed as follows (subject to finalisation of a decision as to whether to select passive or active index-linked gilts):

Baillie Gifford	-	Active Equities	25%
		Diversified Growth Fund	17.5%
BlackRock	-	Passive Equities	30%
Insight	-	Bonds	15%
		Cash/Liquid Bonds	12.5%

3.12 In line with the new investment strategy and fund management structure one fund manager, GMO will have their active equity mandate terminated. GMO's level of performance since 2008 when it was appointed has delivered a benchmark market return. This effectively means that the Council has received a "passive" management performance but has paid for an "active" management performance which was to perform 1% above the benchmark market rate.

3.13 GMO does not provide a passive equity management and therefore it is proposed to use BlackRock for the management of the passive equities.

3.14 It is anticipated that the new arrangements can be put into place within 3 to 4 months maximum.

Comparison between current and proposed strategy

4.1 The table below sets out the financial modelling that was performed by KPMG in relation to the expected future results of both the existing investment strategy at Section 2 and the proposed strategy as set out in Section 3 –

	Current Strategy	Proposed Strategy
Expected Return (p.a.)	6.5%	6.4%
Expected volatility (p.a.)	16.3%	13.8%
Reserves in 5 years (1 in 20 bad outcome)	£82m	£93m
Reserves in 5 years (Expected) excluding fund manager fees	£174m	£173m
Estimated annual fund manager fees	£0.925m	£0.650m
Estimated cumulative fees over 5 years	£4.625m	£3.25m
Reserves in 5 years (expected) including fund manager fees	£169.375m	£169.750m

4.2 The information was taken from Page 3 of the KPMG report attached as Appendix 3 to this Investment Strategy paper. The proposed strategy is Option 2 of the table in the KPMG report. Option 1 has been disregarded as being the weakest option of the three because it offers less expected benefits that Option 2, but the fund manager fees would be higher.

4.3 The table above shows that the proposed strategy is expected to earn 0.1% less per year than the current strategy, which over a period of 5 years would result in the reserves having a value of £173m, as opposed to £174m under the current strategy. However, when fund manager fees are factored in, the proposed strategy would have expected fees of £3.25m over 5 years, which is expected to be £1.375m less than the fees anticipated under the current strategy, so overall the proposed strategy would result in an overall better net position.

4.4 In addition to being more cost effective, the proposed strategy has less volatility than the existing strategy and as a result, in the 1 in 20 bad case scenario, the reserves would be estimated at having a £93m value, compared to £82m under the existing value. Therefore, the proposed strategy carries less risk than the existing strategy.

4.5 KPMG conclude that "the existing strategy is inefficient in terms of risk and return. By spreading the risk across a wider range of growth markets (beyond equity), the Council can achieve a less volatile portfolio without sacrificing the expected return required to deliver the distributions that are desired."

Responsible Investment

5.1 The issue of responsible and ethical investment is challenging for all local authorities. This is because of the competing objectives of complying with legislation to ensure that Members seek the highest returns possible, but at the expense of being able to promote a truly ethical policy, because the highest returns often come from those companies that Members may not find socially desirable.

5.2 As a result, the Council is limited in this regard. However, the following policy statement is proposed for Shetland Islands Council which seeks to promote a responsible approach, whilst still ensuring that the statutory duty to achieve the best returns is adhered to –

Whilst the Council's 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 Council's fund managers must 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 fulfill 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.

Any fund manager employed by Shetland Islands Council must act in accordance with this policy.

KPMG

cutting through complexity™

Shetland Islands Council

Investment Strategy

Investment Advisory

November 2012

Contents

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Introduction

The Council wishes to review the investment strategy employed for the reserve in order to develop a sustainable strategy for the future.

This report considers the level of distributions from the reserves, the investment strategy employed and the level of fees paid to active managers.

We recommend that the Council considers adopting a revised investment approach.

Addressee

- This report is addressed to the Shetland Islands Council (the "Council") and considers the investment strategy for the Council's reserves (the "reserves").

Background

- The Council currently has reserves of circa £180million invested with a number of fund managers. These reserves have fallen from a figure of around £465m (in today's prices) in 2000.
- The Council wishes to review the current investment strategy with a view to moving the strategy towards a policy that is sustainable for the long term.
- The Council expects to draw down around £63million from the reserves over the next 5 years as it moves towards a balanced position where reserves can be maintained.
- We understand that the Council wishes to review the existing strategy in order to fully understand:
  - The risks inherent in the current strategy;
  - The level of payments that can be delivered whilst maintaining the real value of the reserves in the long term;
  - The investment strategy that best meets the Council's requirements.
- We also understand that the Council has a desire to reduce the fees paid to external fund managers.

Scope

- This report provides our views on the existing investment arrangements and considers the following specific areas:
  - The sustainability of different distribution strategies on the expected value of reserves over the next 10 years;
  - The suitability of the current investment strategy;
  - The suitability of different investment structures and our views on how the strategy should be changed in order to ensure it meets the Council's objectives; and
  - Investment manager fees and the potential for these to be reduced.
- We have undertaken analysis in order to enable us to illustrate the projected development of the reserves and the risks inherent within the different investment strategies.
- Our analysis is based on the reserve value as at 30 September 2012. We have not incorporated the anticipated draw downs in this analysis and consider the assets already earmarked for spending at the end of the report.

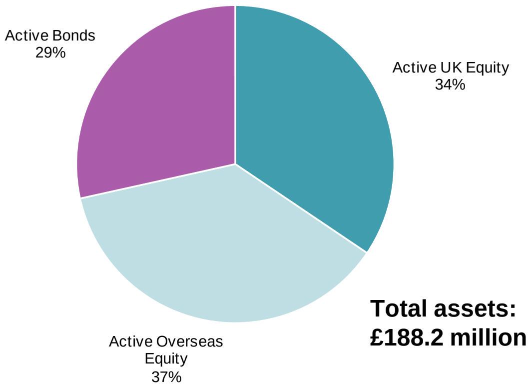
Shetland Islands Council

Current position

The current investment strategy relies heavily on equity markets for growth and could be diversified in order to reduce risk without sacrificing the return expected.

The existing strategy is consistent with seeking to maintain the level of reserves in real terms and paying out distributions of 4% p.a. if the long term return expectations are delivered.

Asset allocation as at 30 September 2012



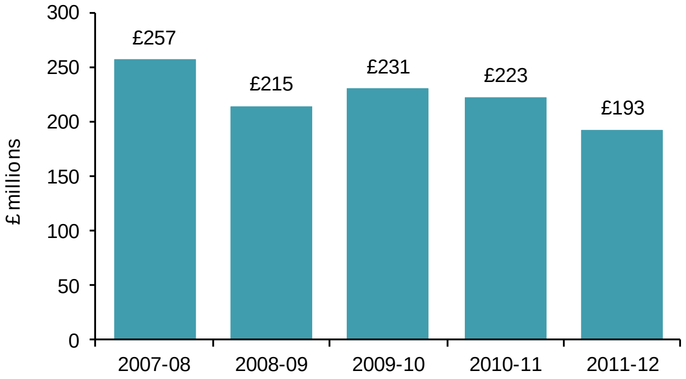
Total assets: £188.2 million

Source: Investment Managers

Asset allocation

- The Council currently adopts an investment strategy with 75% invested in growth seeking assets (equities) and 25% invested in more stable assets (bonds).
- The current strategy offers limited diversification; relying heavily on equity markets to deliver the returns required. The reserves are very volatile given the nature of the equity market.
- The decision on the allocation to growth assets is the most significant decision to be made by the Council and will dictate the majority of the outcome in terms of return and the volatility of the reserves over time.
- The assets are currently invested with 'active' managers. These manager's objective is to deliver higher performance than the agreed market benchmark (after allowing for the fees that they are paid).

Reserve progression over the last 5 years at financial year ends



Source: Shetland Islands Council

Objectives for reserves

- The Council wishes to employ an investment strategy that maintains the reserves over time. This requires:
  - The reserves to grow in line with inflation in order to maintain their real value over time; and
  - The reserves to grow to pay for the annual distributions.
- The reserves must therefore grow at the level of inflation plus the anticipated distributions in order to maintain their real value over time.
- The expected return from the current strategy is expected to deliver returns of RPI[1] + 4% over the long term, i.e. inflation plus 4%. This strategy is consistent with paying 4% p.a. in distributions if the long term return expectations are delivered.
- The Council believes that a minimum payment each year of 2% of reserves is desirable and has a target to grow the reserves significantly in excess of this.

---

[1] Retail Price Index ("RPI") is a widely quoted measure of inflation

Strategy for distributing reserves

Sustainability of distributions

Developing a sustainable strategy requires the level of payments out of the reserve to be structured appropriately.

We have assessed 4 different distribution strategies against the objective of maintaining the reserves real value over time.

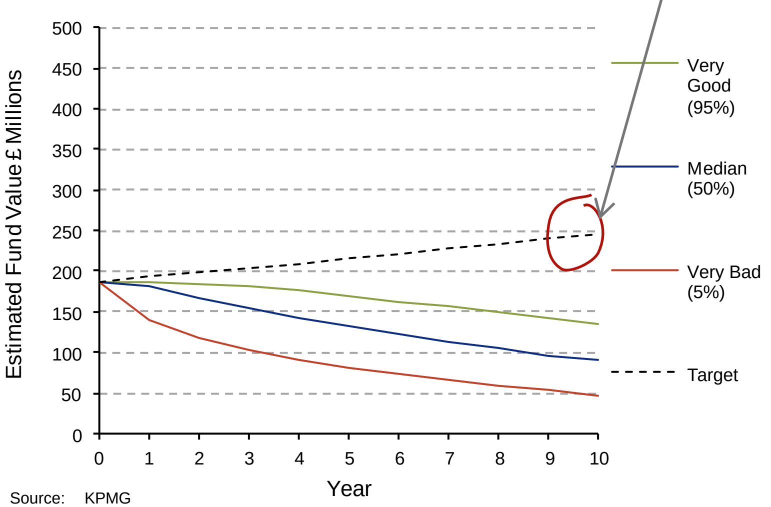
Payment structures

- We have undertaken analysis in order to assess the sustainability of a variety of approaches to distributing the annual income of the reserve in order to assess whether these are consistent with the Council's objective of maintaining the reserves real value in the longer term.
- We have modelled both the expected development of the reserve and the potential spread of outcomes. The Council should review these structures and the level of risk to confirm that it is comfortable with this. We provide a more detailed assessment of the strategy in a subsequent section of the report.
- The payment structures considered are summarised in the table below.

Approach	Description	Details
1.	Full return paid out, subject to a minimum of 2%	● Pay out all investment return accrued that year with no limit ● A minimum of 2% is paid out regardless of the level of investment return
2.	Any return in excess of RPI is paid out, subject to a minimum of 2%	● Pay all investment return accrued on the reserve above RPI with no cap ● Minimum of 2% of the reserve value is paid out regardless of the level of investment return
3.	Flat payment of 4%	● Flat payment of 4% of the value of the reserve each year regardless of return
4.	Any return in excess of RPI is paid out, subject to a minimum of 2% and a maximum of 6%	● Pay all investment return accrued on the reserve above RPI, subject to a maximum of 6% ● Minimum of 2% of the reserve value paid is out regardless of the level of investment return

Payment structure 1: All growth paid out with minimum of 2%

Projected development of reserves



Target is to grow value of reserves in line with inflation

Source: KPMG

Key characteristics	3 years	10 years
Target reserve value (growth in line with inflation)	£204m	£247m
Expected reserves	£155m	£90m
Reserves (very bad level)	£103m	£46m
Expected annual payments	£25.3m	£20.2m
Annual payments (very bad)	£3.5m	£9.0m

Source: KPMG

Note: Please see accompanying risk warnings in Appendix 7

Observations

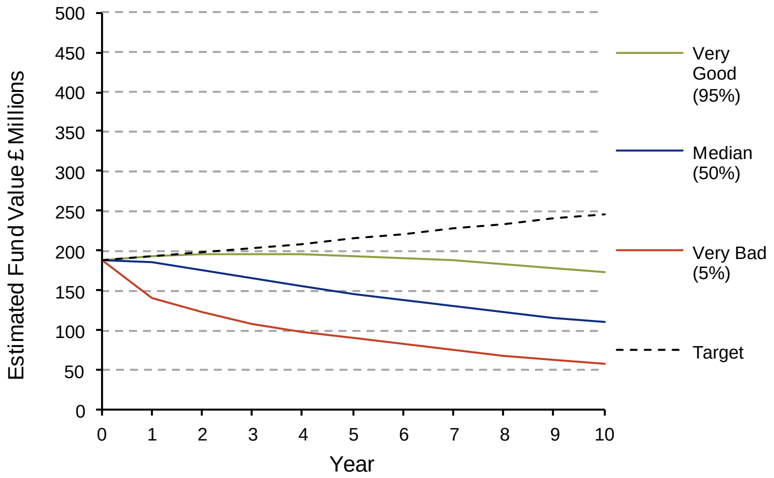
- The chart above illustrates the projected development of the reserves over the next 10 years.
- The blue line shows the expected level of reserves (e.g. 50:50 chance).
- The green line shows a very good outcome (1 in 20 chance) and the red line a very bad outcome (1 in 20 chance).
- The distributions that are paid out using this approach result in the reserves falling over time.
- The reserves are expected to fall to £90m in 10 years time, significantly behind the target of growing reserves to £247m to retain their real value (allowing for inflation).

KPMG Investment Advisory View

- This payment structure is **<u>not sustainable over the long term</u>**.
- Since all investment return is paid out at the end of the year, nothing is retained in good years to pay for the distributions that are still paid in bad years and the reserve will not increase with inflation.
- In good years very high distributions are paid out.
- The reserves will decline in nominal terms and fall significantly in real terms.

Payment structure 2: Growth in excess of RPI paid out with minimum of 2%

Projected development of reserves



Source: KPMG

Key characteristics	3 years	10 years
Target reserve value (growth in line with inflation)	£204m	£247m
Expected reserves	£165m	£110m
Reserves (very bad level)	£108m	£57m
Expected annual payments	£22.3m	£19.0m
Annual payments (very bad)	£3.3m	£7.6m

Source: KPMG

Note: Please see accompanying risk warnings in Appendix 7

Observations

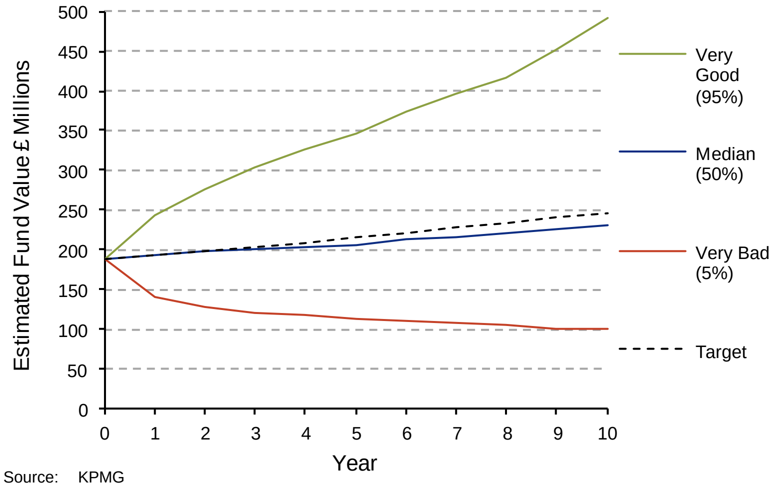
- The difference from payment structure 1 is that only returns above RPI are paid out.
  - If RPI is 4% in a year and the reserve grows by 8%, the payment from the reserve would be 4%;
  - The reserves fall marginally less quickly relative to payment structure 1 which would pay out 8% under the same scenario.
- The reserves are expected to fall to £110m in 10 years. This is significantly behind the target level of £247m.

KPMG Investment Advisory View

- This payment structure is **not sustainable over the long term**.
- No savings are retained in good years to pay for the minimum 2% distributions that are still paid in bad years. In good years very high distributions are paid out.
- In order for a minimum payment to be made and for the reserve value to be broadly maintained there needs to some form of payment cap in place.
- The reserves will decline in nominal terms and fall significantly in real terms.

Payment Structure 3: Fixed 4% payment

Projected development of reserves



Source: KPMG

Key characteristics	3 years	10 years
Target reserve value (growth in line with inflation)	£204m	£247m
Expected reserves	£200m	£231m
Reserves (very bad level)	£121m	£101m
Expected annual payments	£8.3m	£9.3m
Annual payments (very bad)	£5.6m	£5.2m

Source: KPMG

Note: Please see accompanying risk warnings in Appendix 7

Observations

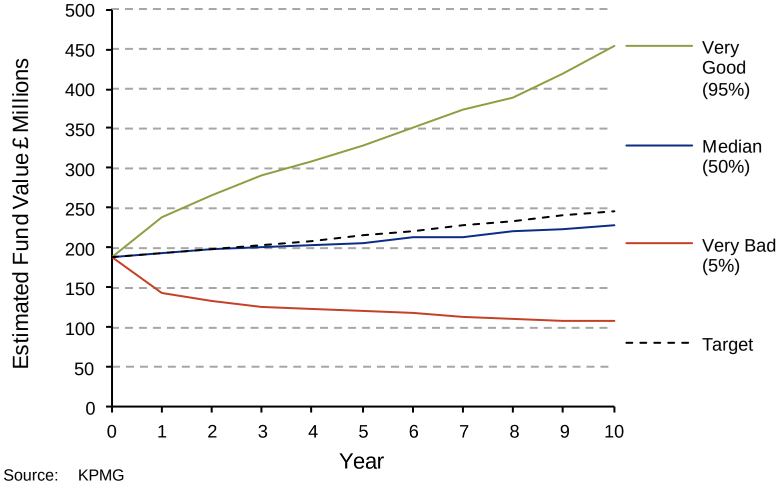
- This structure delivers a fixed 4% payment.
  - If the return over the year is 8%, 4% is paid out and the remaining 4% is retained for future periods where performance may be weaker.
- The reserves are expected to broadly grow in line with the target, i.e. the reserves keep pace with inflation.
- The underlying investment strategy required to generate the return required is running a significant degree of risk to generate the return.
- There is an estimated 1 in 20 chance that the reserves could have fallen to around £100m in 10 years time.

KPMG Investment Advisory View

- This structure is an improvement on Structures 1 and 2 as the real value of the reserves is expected to be broadly maintained over time.
- This is largely due to the investment strategy targeting RPI+4% and distributions effectively being capped at 4%.
- A fixed 4% payment has the benefit of being simple and straightforward to implement.
- Payments are not reduced below the 4% in bad years and this may be desirable in order to simplify the budget forecasting of the Council.

Payment Structure 4: Excess over RPI, min 2% / max 6%

Projected development of reserves



Source: KPMG

Key characteristics	3 years	10 years
Target reserve value (growth in line with inflation)	£204m	£247m
Expected reserves	£200m	£227m
Reserves (very bad level)	£125m	£107m
Expected annual payments	£8.9m	£9.8m
Annual payments (very bad)	£3.3m	£4.7m

Source: KPMG

Note: Please see accompanying risk warnings in Appendix 7

Observations

- This is similar to Payment Structure 2, but here we cap any payments out at 6% of the reserve value.
- Should the return exceed inflation, this is redeemed up to a maximum of 6%, for example:
  - If RPI is 3% and the Fund return is 8% the payment will be 5%.
  - If RPI is 3% and the Fund return is 12% the payment is capped at 6%.
- Effectively the 6% payment cap funds the 2% payment floor.

KPMG Investment Advisory View

- The real value of the reserve is expected to be broadly maintained over time.
- Poor scenarios are less damaging than for Structure 3, since the payment is reduced down to the 2% minimum level when investment returns are poor.
- The downside of this payment structure is the slightly more complex calculation of the payment given the RPI linkage and the payment cap and floor.
- We believe that the flexibility and explicit allowance for RPI of Structure 4 is preferable to Structure 3

Summary

A flat payment structure distributing 4% of the value of the reserve each year (Structure 3) appears to be broadly sustainable in the long term.

A structure that permits the Council to reduce payments in bad years and improve them in good years may be desirable and Structure 4 delivers this in a broadly sustainable manner.

Key statistics over 10 years

	Structure 1	Structure 2	Structure 3	Structure 4
Target reserve value (growth in line with inflation)	£247m	£247m	£247m	£247m
Expected reserves	£90m	£110m	£231m	£227m
Reserves (very bad level)	£46m	£57m	£101m	£107m
Expected annual payments	£20.2m	£19.0m	£9.3m	£9.8m
Annual payments (very bad)	£9.0m	£7.6m	£5.2m	£4.7m

Note: Please see accompanying risk warnings in Appendix 7

Summary

- Payment Structures 1 and 2 are clearly unsustainable in the long term.
- Payment Structures 3 and 4 have an expected 50:50 chance of achieving the objective of maintaining the real value of the reserves over the longer term. With reserves of £180m, these approaches would be expected to deliver long term distributions of around £9-10m per annum if the long term expected returns are delivered.
- There is an estimated 1 in 20 chance that the reserves could fall to £100m or less with Structure 3. The variable payments offered by Structure 4 is expected to improve the 1 in 20 risk to £107m.
- We believe that the explicit allowance for inflation in Structure 4 makes it more attractive than Structure 3, e.g. if inflation were to be substantial at high levels and the assets failed to keep pace, it would be helpful to have a mechanism to reduce payments.
- We believe that it is possible to reduce risk by restructuring the growth portfolio and we consider this in the next section of the report.
- If the Council is uncomfortable with the risk of the reserves falling to these levels, it will be necessary to consider targeting distributions of less than 4% per annum.
- For ease of comparison, we analyse different investment strategies assuming that a flat 4% payment structure is employed (i.e. using Structure 3).

Investment strategy

Investment strategy

The current strategy is heavily reliant on equity markets to deliver growth.

The focus on equities means that the risk is concentrated and that the value of reserves is more volatile than it needs to be.

We believe that the Council should seek to allocate assets to a variety of different markets that are more aligned with their objectives.

Current investment strategy

- The current investment portfolio is invested in equity markets (75%), fixed interest government bonds (10%), bonds issued by companies (10%) and cash (5%).
- The Council relies heavily on equity markets to drive the investment growth.
- The existing strategy is inefficient in terms of risk and return. We believe that by spreading the risk across a wider range of growth markets, the Council can achieve a lower risk profile without sacrificing the expected return that is required to deliver the distributions that are desired.
- The existing investment portfolio is very volatile given the exposure to equities and provides very limited direct exposure to inflation. We believe that introducing assets that are more stable and that provide returns with a more direct link to inflation would be beneficial.
- We also believe that the introduction of a manager with the ability to move the asset allocation to exploit short term opportunities in volatile markets and to provide an increased focus on capital preservation would be beneficial.

Proposed changes

- Given the Council’s desire to reduce investment manager fees, we believe that the equity allocation should be passively managed. Whilst we do believe that it is possible to find active equity managers that can deliver performance in excess of the fees charged, we believe that any budget for manager fees would be better spent in areas where passively managed (index tracking) options are not available.
- A number of opportunities have arisen as a consequence of the financial crisis and the withdrawal of bank finance from many areas. We believe that a number of these opportunities fit with the requirements of the Council and we provide a brief summary below.
- We suggest that the Council considers an allocation to:
    - **Long-lease property:** Long-lease property provides a secure, inflation-linked income stream with a significant additional yield (expected return). These funds are offering yields that are around 3% higher than the equivalent index-linked gilt yield. Given the desire to retain the reserves real value and the long term nature of the investment, we believe that an investment in long lease property is appropriate.
    - **Diversified credit fund:** These are bond funds that invest in a wider range of bonds than the existing corporate bond allocation. These funds will invest in higher yielding bonds, emerging market debt and company loans.

      We believe that this allocation offers a diversified portfolio of credit, delivering better risk-adjusted returns than a traditional corporate bond allocation.
    - **Diversified growth:** These funds invest in a variety of asset classes and will often have a focus on capital preservation. In the current market environment these characteristics are particularly attractive, enabling managers to move between asset classes and use a variety of tools to preserve value during periods of market stress.
- We summarise the current allocation and the proposed strategy on the following pages.

Current allocation

Strengths of current strategy:

- **Likely to benefit significantly if there is a strong economic recovery**
- **Focus on liquid assets despite long term investment horizon**
- **Simple**

Weaknesses of current strategy:

- **Reliance on equities (weak diversification)**
- **Limited inflation protection in short to medium term**
- **Uncertain cashflows**

Currently low exposure to assets offering inflation protection.

Generally liquid assets and low allocation to illiquid opportunities.

Allocation	Asset Class	Term (years)	Inflation protection	Certainty of cashflows	Active management	Illiquidity premium	Strong recovery	Slow and weak global recovery	Depression
75%	Global equities	-	Low	Low	Mid	Nil	★★★	★★	
5%	Cash	-	Low	High	Low	Nil	★	★★	★★
10%	Fixed interest gilts	0 - 50	Nil	High	Low	Nil	★	★★	★★★
10%	Corporate bonds	0 - 15	Nil	High	High	Low	★★	★★	★

Significant potential upside but limited allocation to assets with more certain cashflows and return expectations.

Proposed strategy has emphasis on requirement for a strong recovery.

How could the strategy be enhanced?

Inflation protection could be improved by introducing a long-lease property allocation.

We believe that a shift in emphasis towards a strategy that is more robust in a slow and weak recovery is appropriate.

We believe that an increase to wider credit opportunities at the expense of traditional corporate bonds and gilts would be beneficial.

Proposed changes

Allocation	Asset Class	Term (years)	Inflation protection	Certainty of cashflows	Alpha	Illiquidity premium		Strong recovery	Slow and weak global recovery	Depression
↓ 35%	Equities	-	Low	Low	Medium	Nil		★★★	★★	-
↓ 10%	Fixed interest gilts	0 - 50	Nil	High	Low	Nil		★	★★	★★★
↑ 20%	Long lease property and other similar long dated inflation linked investments	20 - 30	High	High	Low	High		★★	★★	★
↑ 15%	Diversified growth funds	-	Low	Low	High	Low		★★	★★	★
↓ 5%	Cash	-	Low	High	Low	Nil		★	★★	★★
↓ 10%	Corporate bonds	0 - 15	Nil	High	Medium	Low		★★	★★	★
↑ 15%	Diversified credit	1 - 10	Nil	Medium	Medium	High		★★	★★★	-

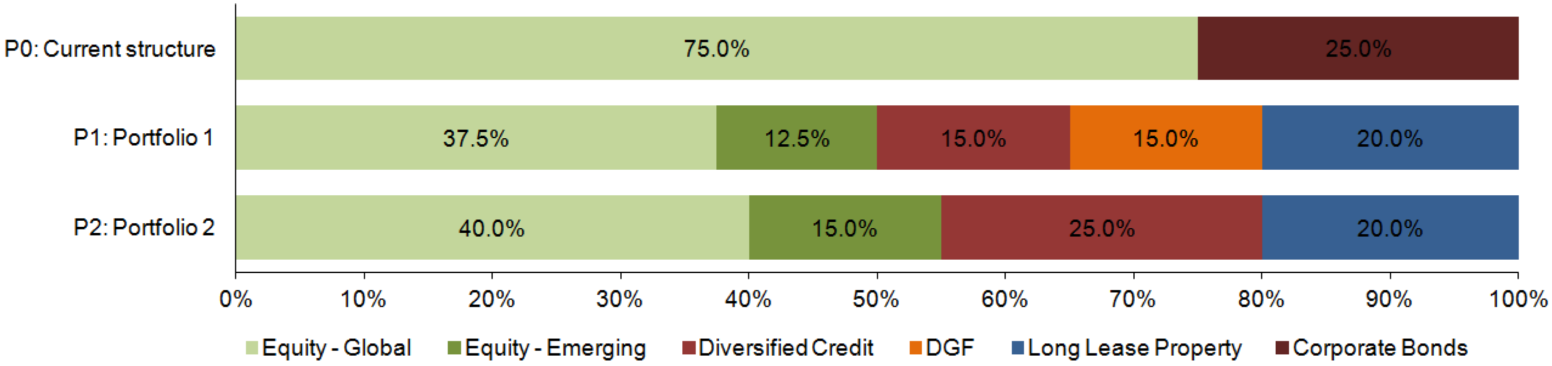
Alternative investment strategies

We have modelled 3 different asset portfolios in order to compare and contrast the expected development in the value of reserves and the risk reduction offered.

Risk / return analysis

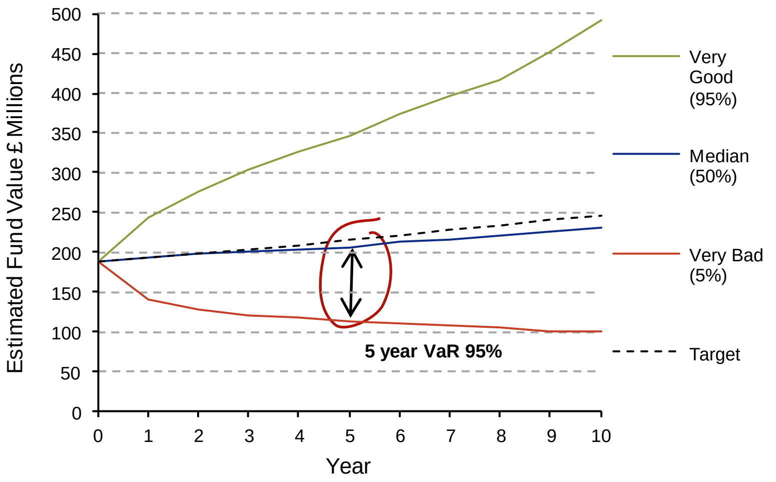
- We have analysed the risk and return offered by the current investment strategy and compared this to two alternative strategies;
  - Portfolio 1 represents the structure we would propose if there were no constraints on the fees paid to active managers;
  - Portfolio 2 provides a compromise where we seek to reduce the fees paid to active managers.
- Detailed commentary on the proposed asset classes is included in the Appendices to the report.
- Both of the portfolios considered have been constructed to deliver a similar level of return to the current strategy. For this reason, the proposed strategies deliver a sustainable level of distributions consistent with the Council's objectives.
- In order to compare the strategies, we consider a particular measure of risk referred to as "Value at Risk". This measures the anticipated level of loss in reserves with a given probability and enables us to assess the risk reduction delivered by the proposed approach.

However, we do not believe that investment strategy should be set blindly with reference to the results of a modelling exercise. Rather we think that the output of our models should be used simply as a starting point to illustrate the general characteristics of different investment strategies for further discussion.

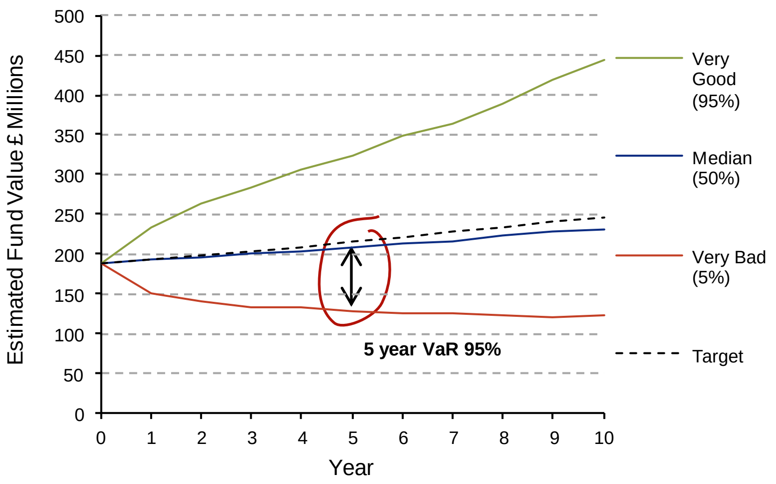


Investment strategies side by side

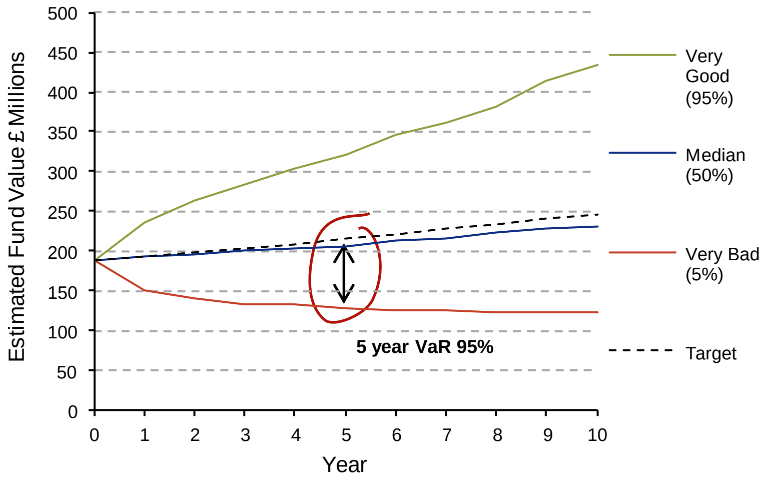
P0: Current Structure



P1: Proposed strategy



P2: Proposed strategy (further reduced fees)



	Current	Portfolio 1	Portfolio 2
Expected reserves in 10 years	£231m	£231m	£231m
Reserves (very bad level)	£101m	£122m	£122m
Expected return above gilts	3.8%	3.6%	3.5%
1 in 20 chance we are this far behind target in 5 years (VaR)	£93m	£79m	£79m
Estimated fees p.a. £	£876k	£753k	£649k

Source: Investment managers and KPMG calculations.

Note: Please see accompanying risk warnings in Appendix 7

Summary of fees

We summarise the anticipated fees that would be paid for each of the portfolios considered.

These should be treated as illustrative, as the terms for any new mandates would need to be tendered and agreed.

P0: Current Structure

Asset Class	Weight %	Fee p.a. %	Fee p.a. £
Global Equity	73%	0.35% - 0.55%	£624k
Bonds	27%	0.40% - 0.50%	£252k
Total	**100%**	**-**	**£876k**

P1: Proposed strategy

Asset Class	Weight %	Fee p.a. %	Fee p.a. £
Global equity	37.5%	0.20%	£141k
Emerging market equity	12.5%	0.30%	£71k
DCF	15.0%	0.60%	£169k
DGF	15.0%	0.85%	£240k
Long Lease Property	20.0%	0.35%	£132k
Total	**100%**	**-**	**£753k**

P2: Proposed strategy (reduced fees)

Asset Class	Weight %	Fee p.a. %	Fee p.a. £
Global equity	40%	0.20%	£150k
Emerging market equity	15.0%	0.30%	£85k
DCF	25.0%	0.60%	£282k
Long Lease Property	20.0%	0.35%	£132k
Total	**100%**	**-**	**£649k**

Note: Actual management fees may vary depending on the final mandate size.
Source: Investment managers and KPMG calculations.

- Passively managed equities aim to track a specified index such as the FTSE 100 – no outperformance (or underperformance) of the index is expected.
- Passive equity management exposes the reserve to the equity market at a low fee level. The market exposure is expected to drive the majority of the returns. Active manager fees are higher as there are costs associated with trying to outperform an index.
- In P2 we have omitted DGF, noting the Councils desire to keep fees as low as practically possible.

Other issues to consider

We propose that assets earmarked for spending in the next 2 years are separated from the main strategy.

We believe that it will be possible to drive efficiencies if the Pension Fund or Charitable Trust wish to consider the investment strategies discussed in this report.

Assets already earmarked for drawdown

- We understand that the Council has plans to draw on around £63million of the existing reserves over the next 5 years as it moves towards a more sustainable position.
- We believe that a proportion of the anticipated short term requirements should be separated from the existing reserves and held in short term cash and bond instruments.
- We propose that the assets earmarked for drawdown over the next 2 years should be separated from the existing reserves, i.e. £36m should be held in less volatile cash and bond funds.
- The existing Insight mandate is c.£53m and we suggest that the £36m is drawn from this mandate. We would be happy to work with the Council to review the investment strategy for its short term cash requirements as previously discussed.

Driving efficiency

- We believe that the investment ideas raised in this report will be relevant to both the Charitable Trust and the Pension Fund. The combined purchasing power across all of the Council funds could be used to significantly reduce the fee structure for managing the assets.
- We would be happy to share our thinking with representatives from the Pension Fund and Charitable Trust if appropriate.
- A number of other Council's are seeking to drive efficiencies and we understand that there have been a number of discussions about using framework agreements to drive down the cost of managing investment portfolios.
- At this stage we are not aware that any Council has progressed this approach sufficiently far. If Shetland wish to pursue this, we would be happy to work with you to develop this idea.

Summary and next steps

The Council should confirm its views on the distribution strategy and investment strategy for the reserves.

Summary

- We believe that the Council should adopt a strategy to distribute the Fund that is consistent with its desire to maintain the real value of the reserves.
- We believe that an approach that pays out any growth in excess of inflation with a minimum payment of 2% and maximum payment of 6% is sustainable and provides an appropriate approach.
- The Council should confirm that it is comfortable with the risks inherent in seeking to achieve these payments, i.e. that it is comfortable with the risk of reserves falling to much lower levels.
- We believe that it is possible for the Council to employ an investment strategy that is more aligned with its objectives and which is expected to be more robust in a wider range of economic scenarios.
- We have proposed an approach that is expected to reduce active manager fees and which is expected to provide a lower risk strategy for the Council. While this is undoubtedly more complex, we believe that this is justified by the more robust nature of the portfolio.

Next steps

- The Council should confirm:
  - It is comfortable with the objectives set out in this report, i.e. to seek to maintain the real value of the reserves in the long term whilst targeting distributions of 4% p.a. from the reserve in the long term;
  - Its view on the Payment Structures discussed; and
  - Its view on the proposed investment strategy and whether there is an appetite to adopt either of the alternatives proposed;
- The Council should also consider whether efficiencies can be delivered by using the combined purchasing power of the Council, the Charitable Trust and the Pension Fund and whether it wishes to consider engaging with other Council's to explore whether further efficiencies can be delivered by working together.
- We look forward to discussing this report with the Council.

Appendices

Appendix 1:

Diversification

What is diversification?

- Diversification simply means not putting all your eggs in one basket. In the context of investment, it means holding a range of assets.
- In principle, the **more diverse your holdings, the less likely it is that adverse market conditions will severely impact the value of the portfolio**. This is because it is considered unlikely that markets would fall across all the asset classes simultaneously and to the same extent.
- The chart to the right illustrates how a portfolio can reduce volatility over time by moving away from an equity/bond portfolio and diversifying into alternative asset classes.
- In order to understand how this works, we need to examine some underlying investment concepts.

Return

- Return is the performance achieved by an asset, generally through a rise in value or the payment of income, or both. Clearly, high returns are a good thing. However, there is no such thing as a free lunch. Return comes at the price of risk.

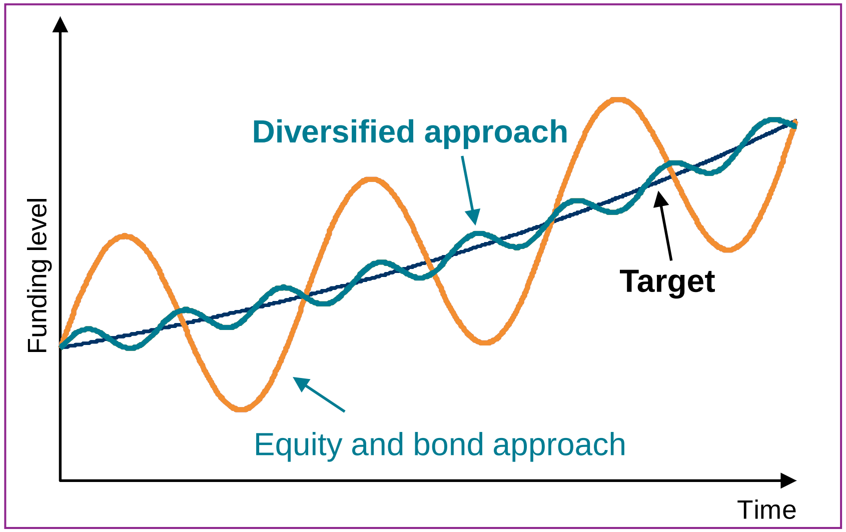
Risk

- All assets come with a degree of risk. This is the danger that the asset will perform badly. In investment terms, risk is usually defined as volatility.

Correlation

- The correlation of assets is a measure of how much their returns move together (see Appendix 5).
- For example, two assets are strongly correlated if whenever one rises or falls, the other also rises or falls respectively. Correlation values range from 100%, for assets in complete lock-step, down to 0% for assets whose returns are totally independent. Negative correlation would mean that one asset tends to rise while the other falls, and vice versa.
- By investing across a wide range of asset classes with varying correlations, investors can reduce their overall portfolio risk for a given level of return.

Reduce risk (volatility) via diversification



Achieving diversification

- A portfolio can **increase diversification by moving away from a single return driver and diversifying across asset classes**:
  - Reducing over reliance on the equity risk premium as a return driver.
  - Taking advantage of alternative investments such as property and hedge funds to maximise rewarded risk and diversification.

Observations on current arrangements

- All of the Fund’s return generating assets are allocated to equities.
  - Consequently there is an over reliance on equity assets to deliver returns and the current level of diversification is low.
  - This high allocation to equity carries significant risk.
- Options to diversify the Fund’s arrangements have been considered in this report.

Appendix 2:
Long Lease Property

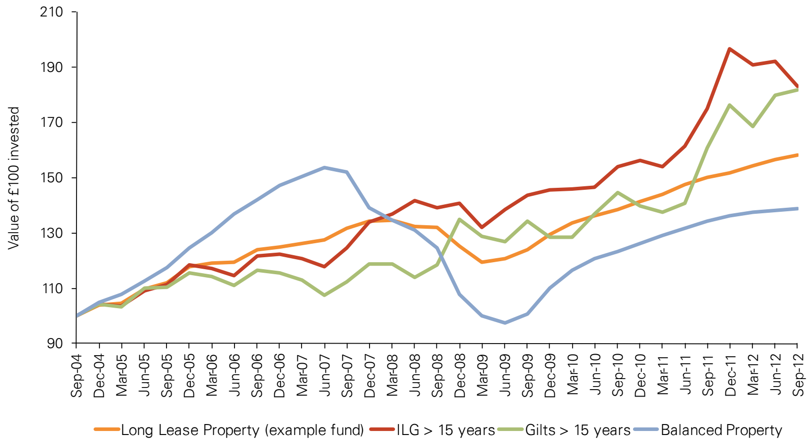
Opportunities in property

- Long lease property funds are designed to produce secure, long term, inflation proofed income streams, which are generally desirable to long term institutional investors.
- Long length leases, providing some interest rate sensitivity (similar to that of credit assets);
- Inflation proofed, rather than fixed income;
- Income streams agreed with new acquisitions are increasingly LPI rather than RPI linked i.e. with 0% floors and 5% caps. These better match LPI liabilities and also provide a floor in the case of deflation (which index-linked gilts do not);
- Potential for additional gain from increases in the value of the underlying properties (a reasonable assumption over a 15 year plus timeframe);
- Underpin of property value and resumption of rental income should the tenant default (compared to a recovery rate on investment of only c.30% for credit assets).

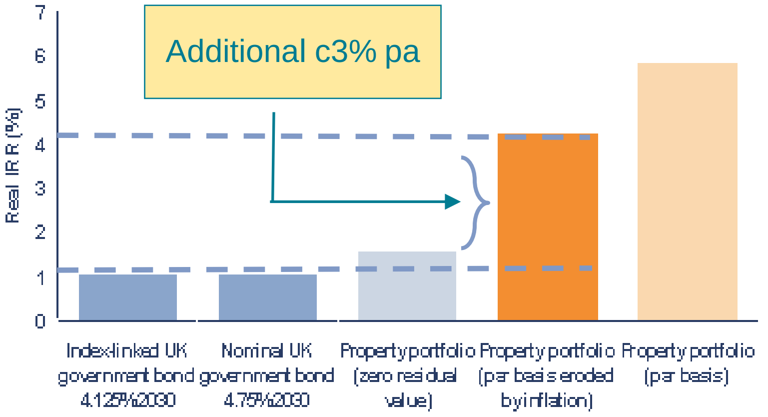
Points to consider

- **Transaction costs** (buying property involves a cost of c.5%). This will reduce the first year's relative return and implies having a long term holding to spread the costs.
- **Low liquidity**. Whilst it is possible to exit these funds, dealing dates may be limited and any illiquidity in the underlying assets could extend to the fund level.
- Despite potentially 90% of the value of the investment residing in the income stream (rather than the residual property value), these funds can still be affected by **general property market movements.**

Long lease property return comparison



Indicative comparison of returns to 2030 – implied RPI 3.25%



Source: M&G

Appendix 3:

Diversified Growth Funds

Background

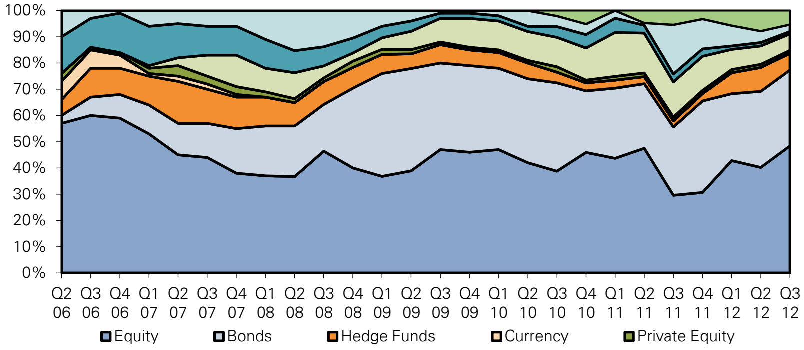
- One of the key goals for institutional investors is usually to reduce risk, defined as the volatility of investment returns, and one of the main ways of reducing risk is to increase the diversification of the scheme's holdings by investing in a range of asset classes. This may include "alternative assets" such as property, hedge funds, commodities, private equity, and so on.
- The problem with this approach is that some asset classes, e.g. hedge funds, are the province of specialist managers. Obtaining a widely diversified portfolio may therefore necessitate the appointment of several investment managers.
- Fund managers have responded to this challenge by launching funds which access diversification within a single pooled vehicle. These "diversified funds" invest in a wide range of asset classes and investment strategies, with the broad aim of delivering an equity-like level of return but with much lower volatility.

Strategic rationale for investment

- The old-style "balanced funds" also invest in a range of asset classes. But they are not now considered to be a good solution for institutional investors and not recommended by KPMG Investment Advisory. Compared to "balanced funds".
  - **diversified funds tend to have specific risk/return objectives** and are not measured in comparison to a peer group median. A major problem with balanced funds was that in an effort to outperform the median, managers tended to increase the proportion held in equities, thus creating a "vicious circle" as the average weight in equities kept increasing.
  - **diversified funds invest in a greater range of asset classes**. Balanced funds tend to include very little investment in alternative assets, with only c.1% in property on average and almost nothing in hedge funds, commodities, etc. In contrast, significant inclusion of alternative assets is a key feature of diversified funds (with an average total of 35%, based on five representative managers). Conversely, diversified funds rely much less on traditional quoted equity. Within asset classes, diversified funds will generally have greater diversity, e.g. bond holdings may include High Yield and Emerging Market debt.
  - **diversified funds have more dynamic tactical decisions**. In order to achieve more stable returns Diversified Growth managers actively change the asset allocation (see opposite). They try to limit exposure to markets they believe are likely to fall in value.

Historical DGF allocation

The chart below shows how the asset allocation has developed over time for an example DGF manager.



KPMG Investment Advisory view

While we believe that diversified funds have some merit in constituting a relatively straightforward way of accessing returns with good diversification, the following caveats should be noted:

- Diversified funds are a relatively new product, so do not yet have a meaningful record of meeting their objectives;
- Annual fees and entry/exit costs are often higher than traditional pooled funds, due to the significant proportion invested in alternative assets;
- If the fund manager manages all the assets in-house, then as no manager is strong in all asset classes, there could be dilution of the benefit due to underperforming active components;
- Investors need to be comfortable with all the underlying asset classes (which may change over time at the discretion of the fund manager).

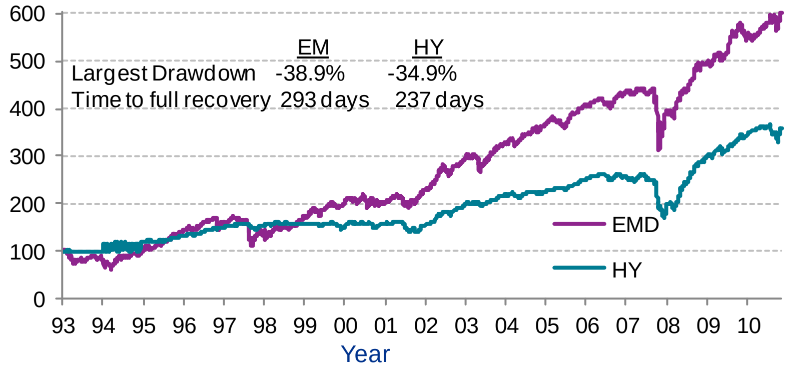
Appendix 4:

Diversified Credit Funds

Opportunities in Fixed Income

- The current stage in the economic cycle offers an attractive investment opportunity in non-traditional parts of credit such as High Yield and Emerging Market Debt.
- Manager skill and manager specific risks are key considerations in this type of investment.
- Current broad based widening in credit spreads and general risk aversion has created an entry point that seems attractive relative to long term averages.
- Investors with an investment horizon of 3+ years are well placed to capitalise on attractive opportunities with expected returns of c.3% above government bonds and a volatility materially lower than that of equities.

Total Return (rebased to 100 in 1993) for HY and EMD



Characteristics of a potential diversified credit investment	
Benchmark	Depending on fund, could be a mix of EMD, High Yield, Asset Backed Securities, Investment Grade and / or other sub-asset classes
Active Management	In each underlying segment and potentially active allocations between segments
Return expectations (Relative to government bonds)	2.0%- 4.0% (p.a.)
Volatility	7.0% – 10.0% (p.a.)
Management Fee	0.4% -0.7%
Investment Horizon	3 years or longer
Liquidity	Weekly, Monthly

Appendix 5:

Medium term views – October 2012

This table provides our views of how we expect asset classes to perform over the medium term (3 years) relative to their long term (10 years) assumptions.

These views were set on 11 October 2012, using data to 30 September 2012.

Asset Class	Sector	Outlook	Comments
Equities	Global Developed	Neutral	- While developed market equity valuations continue to remain attractive relative to historic averages, significant downside risks remain. Key concerns are the ongoing European sovereign debt crisis, the potential impact of post election fiscal tightening in the US and the risk of a further slowdown in global GDP. Equity markets are likely to remain driven by macroeconomic data and could display further volatility as this information becomes available.
	Global Emerging	Neutral ▽	- Although equity valuations in emerging markets remain below their 10 year averages we anticipate that a number of headwinds (including slowing economic growth and rising input costs) could suppress equity valuations over the medium term. We believe that emerging markets are more likely to produce returns in-line with our long-term assumptions than exceed them.
Hedge Funds	Multi Strategy FoHF[(a)]	Neutral	- The market environment remains challenging given prevailing macro economic uncertainties. Against this backdrop we expect FoHFs to provide diversification, although the extent of this will be dependant on the specific drivers of any market volatility. Given underlying allocations, we expect fixed income strategies to be a key driver of returns. The impact of other strategies will be heavily dependent on market conditions – e.g. equity long/short will benefit if intra-stock correlations fall (typical of a more "normal" environment).
	Global Macro	Positive	- We believe that global market conditions are favourable towards global macro strategies over the medium term, as differing policy responses, fluctuations across markets and differences between emerging and developing markets are expected to present opportunities. The recent market environment has been challenging for global macro (e.g. lack of clear trends for systematic strategies and high uncertainty for discretionary strategies). However, on a three year view we expect conditions to improve sufficiently for global macro strategies to benefit from the prevailing market dislocations. We note that this view is not predicated on positive macro outcomes, but improved clarity whether negative or positive.
Private Equity	Broad Market	Positive	- We maintain a positive long-term view of the asset class and we view the current stage of the market cycle as a sensible time to invest in private equity, although we note that manager selection is key. While credit markets in the EU continued to suffer amidst uncertain economic conditions, credit availability in the US improved considerably and this gave a boost to the private equity buyout sector in terms of deal flow. Valuations have been on the rise in the US but remain protracted in Europe. Private equity managers maintain focus on the quality of assets purchased and see attractive opportunities in sectors such as energy and healthcare. Although the current market environment poses challenges to the private equity industry, it also creates some attractive opportunities in some strategies such as secondaries and special situations.
Property	UK Balanced	Negative	- Rents have been falling at an increasing rate since the beginning of the summer and capital values have been written down for 10 consecutive months. Combine these factors with a reduction in real estate lending, which is drying up the transaction market, and we find plenty of evidence to maintain our negative rating on Balanced Property.
	Long Lease	Very Positive △	- We are upgrading LLP to very positive as we believe now is an especially attractive time for clients to invest in this asset class due to the additional yield that can be earned above Index-Linked Gilts and the fact that new funds coming to market will reduce the time that clients will have to sit in a queue.
	Global Secondary Funds	Very Positive	- Secondaries offer the benefit of global diversification and reduced cyclical exposure of the portfolio as it performs well when other growth assets are not. From a tactical angle, the same arguments as put forward in 2009 still exist (i.e. market distress), however regulatory factors are adding to the supply in the market making it a particularly favourable time to invest.

Note: (a) Fund of hedge funds

Key:

- 🟩 Very Positive
- 🟩 Positive
- 🟫 Neutral
- 🟥 Negative
- 🟥 Very Negative
- △ Upgraded from last quarter
- ▽ Downgraded from last quarter

Appendix 5:
Medium term views – October 2012

The medium term views for Fixed Interest and Index-Linked Gilts are relative to the movements priced in by the market as implied by the relevant forward curve.

Our views on Credit based assets are views on the potential excess return over Fixed Interest Gilts relative to our long term assumptions.

Key:

🟩 Very Positive
🟩 Positive
🟫 Neutral
🟥 Negative
🟥 Very Negative

△ Upgraded from last quarter
▽ Downgraded from last quarter

Asset Class	Sector	Outlook	Comments
Bonds & Swaps	Fixed Interest Gilts	Neutral △	▪ Despite nominal government bond yields remaining flat over the quarter we have upgraded our view to reflect a slow-down in the Bank of England's quantative easing program and evidence that any unwinding of the program could be protracted. The BoE's decision not to increase the amount of quantative easing and keep the size of the program at £375bn surprised many analysts who believed that an increase in quantative easing and/or a reduction in UK base rates appeared likely. ▪ We have previously considered upward surprises in inflation to be a likely driver of higher future yields. However, deflation has become of more concern than previously, reflecting dampened prospects of future spikes in inflation.
	Index-Linked Gilts	Neutral	▪ Since the announcement of the review by the Office of National Statistics into the calculation of RPI, breakeven inflation has fallen, leading to a rise in government real yields. It is not possible to distinguish how much of this fall can be attributed to the potential change in the RPI methodology, and how much is due to recently released figures that indicate that global economic growth (and therefore inflation pressure) is likely to be muted. ▪ Despite breakeven inflation currently being at low levels, we consider inflation to be fairly priced, rather than attractive. This is due to the low growth outlook for the economy and potential measurement changes to further reduce RPI.
	LDI Swaps	Negative	▪ Nominal and real swap yields remain below gilt yields at longer maturities, as such gilt-based solutions in our view remain preferable to swaps for both nominal and real hedging. However we believe that swaps can be used to help tailor the implementation of an LDI solution.
Credit	Investment Grade (Sterling)	Positive	▪ Credit spreads tightened over Q3 with positive announcements from Euro policy makers appearing to reassure investors. Our positive view reflects the fact that current spreads are sufficiently above long term averages with room for further tightening. However, we note that considering the illiquidity in credit markets and prolonged macro uncertainty, the recent narrowing of credit spreads is pushing levels closer to fair value.
	Diversified credit	Neutral ▽	▪ **High Yield and Loans**: We retain our neutral stance on High Yield as credit spreads tightened over Q3 with current spreads inside or broadly in-line with long term averages. Default rates have edged upwards, but are not expected to increase significantly in the near future. We also note that over the last few quarters, leverage (Debt/EBITDA) has increased and the rating agencies have downgraded more credits than they upgraded. However, we expect the current low-yield environment and ongoing monetary policy intervention to offer support for the asset class and maintain the appetite for higher yielding instruments. ▪ Loans benefitted from the "risk on" environment in Q3 and the return of collateralised loan obligation issuance in the US. In spite of the rally, loans still trade at a lower price than high yield bonds and look more attractive than high yield given the higher position in the capital structure. We maintain our positive rating on loans. ▪ **EMD:** The strategic case for EM still holds, but recent news from several key players including Brazil, India, China and Asia in general indicate signs of an economic slow down. EM currencies have also come under pressure in recent times and the respective central banks are less incentivised to intervene in the near term given the need for currency depreciation to support exports and growth. The asset class has enjoyed tremendous support in the past decade and spreads on hard currency ($) debt and local currency debt are currently trading below long term averages. We believe that some of the risks are not fully priced in and are moving our rating from positive to neutral.
	Distressed	Positive	▪ The extended low interest rate environment has allowed many companies to refinance in the short-term and for banks to retain non-performing loans on their balance sheets. However, the ongoing European debt crisis and imminent changes to banking regulations are expected to lead to distressed opportunities in particular sectors. Given the specialised nature of these opportunities, it is likely that skilled managers pursuing for-control strategies will be best placed to take advantage of the distress.
Cash	Broad Market	Negative △	▪ We believe that, whilst on an absolute basis cash is expected to return poorly, cash can be used as a tactical holding vehicle to allocate assets to during volatile trading conditions until attractive opportunities arise.

Note: (b) Emerging Market Debt

Appendix 6:

Return and volatility assumptions — 30 June 2012

This page shows our current asset class return and volatility assumptions

Where these assumptions are used within asset-liability modelling, please note that the model's projections are sensitive to the starting position and the econometric assumptions. Changes to the assumptions can have a material impact upon the output.

Introduction to the assumptions

- These are our “best estimate” asset class return, volatility and correlation assumptions. We believe there is a 50:50 chance that the actual outcome will be above/below our assumptions.
- The assumptions are long-term estimates for a 10-year period. Our medium-term views are available separately.
- Return assumptions are:
  - Annualised (i.e. geometric averages), net of fees;
  - Expressed relative to the expected return on long-dated fixed-interest gilts (Over 15 Year index).
- Volatility assumptions are based on the standard deviation of absolute annual returns over a 10-year period.
- Please note that the **assumptions have a subjective element**, particularly regarding alternative asset classes (e.g. fund of hedge funds) due to the limited data history and rapidly evolving markets.
- SOFIA (our asset and liability model) does not simply assume the normal distribution for equities and fund of hedge funds — i.e. it allows for the expected non-normal return distributions of these asset classes. It also allows for the instability of correlations between asset classes in times of high volatility.
  - This means that we assume extremely poor outcomes occur more frequently than the normal distribution predicts; and
  - Correlations between asset classes change in extremely poor conditions — e.g. the correlation between equities and bonds reduces and the correlation between equities and fund of hedge funds increases.

Asset Class	Sector [1]	Return [2]	Volatility [3]
Equities	Global Developed (passive)	4.0%	20.0%
	Global Developed (core active)	4.5%	20.5%
	Global Developed (unconstrained)	5.0%	21.0%
	Global Emerging (passive)	6.0%	30.0%
Hedge Funds	Multi-Strategy Fund of Funds	3.5%	11.5%
	Global Macro	4.0%	14.0%
Private Equity	Broad Market	8.0%	30.0%
Property	UK Balanced	3.5%	13.0%
	Long Lease	2.0%	8.0%
DGF	Diversified Growth Funds	3.8%	12.5%
Gilts	Fixed Interest Gilts (passive)	0.0%	9.0%
	Index-Linked Gilts (passive)	0.0%	7.0%
Credit	Investment Grade (passive) [4]	1.6%	10.5%
	Diversified Credit [4]	2.3%	10.0%
	Distressed Debt	6.0%	24.0%

Notes:
[1] Includes active management except where specified as passive
[2] Expected return per annum, net of fees, relative to long-dated fixed-interest gilts
[3] Expected standard deviation of absolute annual returns
[4] Includes an allowance for downgrades/defaults (0.3% for passive Investment Grade)

Source: KPMG

Appendix 6:

Correlation assumptions — 30 June 2012

This page shows our current asset class correlation assumptions

Correlation Matrix	Equity (Developed Mkts)	Equity (Emerging Mkts)	Fund of Hedge Funds	Global Macro	Private Equity	Property (UK Balanced)	Property (Long Lease)	Diversified Growth Funds	Fixed Interest Gilts	Index-Linked Gilts	Corp Bonds (Inv Grade)	Diversified Credit	Distressed Debt
Equity (Developed Mkts)	-	80%	55%	40%	70%	25%	40%	80%	35%	25%	50%	35%	70%
Equity (Emerging Mkts)	80%	-	45%	30%	55%	20%	30%	65%	25%	20%	35%	45%	55%
Fund of Hedge Funds	55%	45%	-	70%	35%	15%	25%	45%	20%	20%	25%	20%	40%
Global Macro	40%	30%	70%	-	25%	10%	15%	35%	15%	15%	20%	15%	30%
Private Equity	70%	55%	35%	25%	-	15%	25%	55%	20%	15%	30%	25%	70%
Property (UK Balanced)	25%	20%	15%	10%	15%	-	85%	20%	20%	20%	20%	15%	20%
Property (Long Lease)	40%	30%	25%	15%	25%	85%	-	30%	60%	65%	60%	50%	25%
Diversified Growth Funds	80%	65%	45%	35%	55%	20%	30%	-	25%	20%	40%	30%	60%
Fixed Interest Gilts	35%	25%	20%	15%	20%	20%	60%	25%	-	75%	75%	60%	20%
Index-Linked Gilts	25%	20%	20%	15%	15%	20%	65%	20%	75%	-	55%	45%	15%
Corp Bonds (Inv Grade)	50%	35%	25%	20%	30%	20%	60%	40%	75%	55%	-	80%	30%
Diversified Credit	35%	45%	20%	15%	25%	15%	50%	30%	60%	45%	80%	-	25%
Distressed Debt	70%	55%	40%	30%	70%	20%	25%	60%	20%	15%	30%	25%	-

Note: These figures represent estimated median correlations of annual returns over a 10-year period. The underlying model contains provision for correlations to vary according to market conditions, e.g. correlations between asset classes typically increase in times of high volatility.

Source: KPMG

Where these assumptions are used within asset-liability modelling, please note that the model's projections are sensitive to the starting position and the econometric assumptions. Changes to the assumptions can have a material impact upon the output.

Appendix 7:

Risk warnings

- This report has been prepared for the sole benefit of the Shetland Islands Council and is based on their specific facts and circumstances and pursuant to the terms of KPMG LLP's Services Contract. It should not be relied upon by any other person. Any person who chooses to rely on this report does so at their own risk. To the fullest extent permitted by law, KPMG LLP accepts no responsibility or liability to that party in connection with the Services.
- The output from our modelling is based on a large number of underlying assumptions. Changes to these assumptions can have a material impact on the results of the modelling.
- The outcomes shown are not intended to be the best possible, or worst possible outcomes. The actual outcome could be better than the 5th percentile, or worse than the 95th percentile.
- The modelling analysis is based on portfolios containing a wide range of asset classes and different approaches to fund management. Clients should not make decisions to invest in these asset classes or approaches to fund management based solely on the modelling analysis.
- Past performance cannot be relied upon as a guide to the future.

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Shetland Islands Council

Summary of Investment Advice

Investment Advisory

June 2013

Introduction

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Addressee

- This report is addressed to the Shetland Islands Council (the "Council") and provides a high level summary of the recent review of the investment strategy and our views on the proposed and some alternative strategies for the Council's reserves (the "reserves").

Background

- The Council currently has reserves of c. £200m. These reserves have fallen from a figure of around £465m (in today's prices) in 2000.
- The Council wishes to review the current investment strategy with a view to moving to an approach that is sustainable and aligned with its long term objectives.
- The Council expects to draw down around £90m from the reserves over the next 5 years as it moves towards a balanced position.

Objectives for reserves

- In the longer term, the Council wishes to employ an investment strategy that maintains the reserves over time. This requires:
  - The reserves to grow in line with inflation in order to maintain their 'real' value over time; and
  - The reserves to grow to pay for the annual distributions.
- The reserves must grow at the level of inflation plus the anticipated distributions in order to maintain their real value over time.
- The expected return from the current strategy is expected to deliver returns of RPI[1] + 4% over the long term, i.e. inflation plus 4%. This is consistent with paying 4% p.a. in distributions if the long term return expectations are achieved.
- The Council believes that a minimum payment each year of 2% of reserves is desirable and has a target to grow the reserves significantly in excess of this.

Scope

- The council engaged KPMG to carry out a review on the existing investment strategy and provide views on the existing investment arrangements.
- KPMG conducted analysis on the following areas:
  - The risks inherent in the current strategy;
  - The level of payments that can be delivered whilst maintaining the real value of the reserves in the long term;
  - The investment strategy that best meets the Council's requirements.
- The Council also expressed a desire to consider reducing the annual investment management fees payable to external fund managers – KPMG has explored strategies that would reduce overall fees payable.
- This report introduces the revised investment strategy to be proposed to the Council, including a recommendation on how the council could implementation this strategy.

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[1] Retail Price Index ("RPI") is a widely quoted measure of inflation

Shetland Islands Council

Proposed investment strategy

The current strategy is heavily reliant on equity markets to deliver growth.

The value of reserves is more volatile than it needs to be given the concentration of risk in equities.

This is extremely important when reserves are being drawn down. Negative performance in the short term can be extremely damaging to longer term objectives (the diminishing fund size makes it difficult to recover losses).

We believe that the Council should seek to allocate assets to a variety of different markets to align the strategy with their objectives.

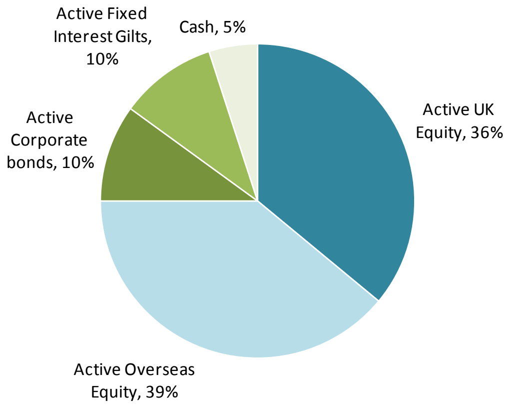
Comments on the existing investment strategy

- The existing strategy is inefficient in terms of risk and return. By spreading the risk across a wider range of growth markets (beyond equity), the Council can achieve a less volatile portfolio without sacrificing the expected return required to deliver the distributions that are desired.
- The existing investment portfolio is more volatile than it needs to be given the concentration in equities and provides very limited direct exposure to inflation (which is important given the objective to maintain the real value of reserves).
- Diversifying into assets that are more stable and that provide returns with a more direct link to inflation would be beneficial.

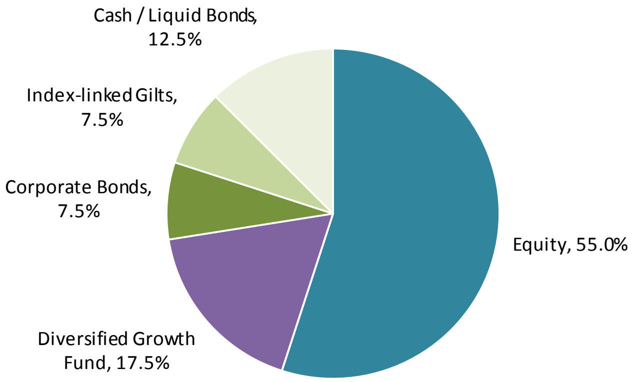
Proposed investment strategy

- The proposed strategy has been developed based on KPMG's advice and subsequent discussions with the Council to refine the strategy. Detail on KPMGs initial proposal is provided in the strategy paper, dated November 2012.
- The proposed approach seeks to diversify the strategy and reduce volatility by reducing the equity exposure in favour of a diversified growth mandate.
- The introduction of a diversified growth manager with the ability to move the asset allocation to exploit short term opportunities in volatile markets and to provide an increased focus on capital preservation will be beneficial and help provide a more 'robust' strategy.
- The move to introduce index linked gilts introduces an element of direct inflation protection to the strategy.
- The proposed allocation to cash (and short dated bonds) recognises that significant draw downs are planned and seeks to strike a balance to ensure that a sufficient proportion of the fund is held in cash without damaging the long term return expectations.
- The proposed equity exposure will reduce the current bias to UK markets in favour of a more global approach and incorporates an allocation to emerging markets. We believe that a split between passive and active management is preferable in order to reduce fees (we believe active management skill is easier to capture in diversified growth funds).

Current Investment Strategy



Proposed Investment Strategy



Shetland Islands Council

Proposed structure – active vs. passive

The Council has had longstanding relationships with Baillie Gifford, GMO and Insight.

The Council wishes to consider measures to reduce investment management charges.

We believe that the Council should focus its spend on areas where active management has a demonstrable track record of adding value.

We believe that introducing an actively managed diversified growth fund and moving components of the equity and bond portfolios to a passive approach provides a reasonable compromise.

Proposed investment strategy: Implementation options

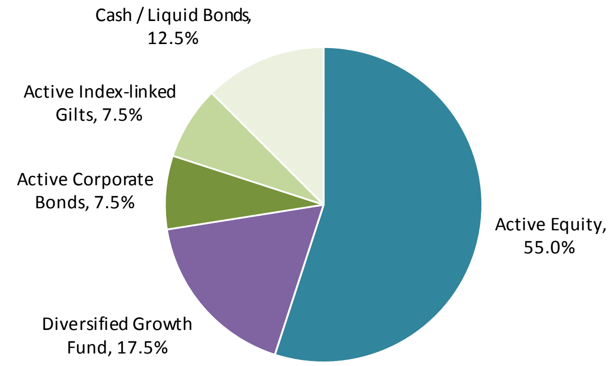
- Active management targets higher expected return, but significantly increases investment management fees. The existing strategy is actively managed and has had mixed success.
- The two options illustrated opposite contrast retaining an active management approach (retaining all active mandates) against a lower cost passive management approach, where there is less scope for investment managers to add value through active management.
- The table below summarises the differences on the basis that the active managers employed achieve their performance targets.
- The changes to the strategy are the key drivers of risk and return and the contribution from active management is much more marginal. There is a significant difference in the estimated fund management fees.
- We provide more detailed comment on the manager structure overleaf.

Key statistics: Comparison of current versus both proposals

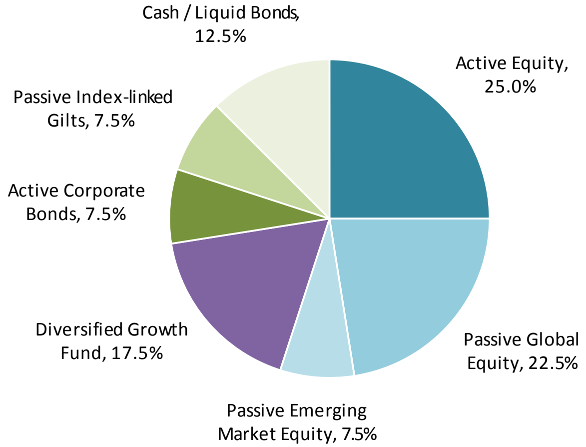
	Current	Option 1	Option 2
Expected return (p.a.)	6.5%	6.4%	6.4%
Expected volatility (p.a.)	16.3%	14.0%	13.8%
Reserves[1] in 5 years (Expected)	£174m	£173m	£173m
Reserves[1] in 5 years (1 in 20 bad outcome)	£82m	£91m	£93m
Estimated investment management fees (p.a.)	£925k	£810m	£650k

[1] Projected reserves include the anticipated drawdowns of c. £94m over next 5 years but do **not** include investment management fees

Option 1: Retain all active mandates



Option 2: Introduce passive management



Manager structures

Active management should be taken where this is expected to add value. Introducing an element passive management will reduce investment management fees.

Within equities, we believe that active management is best deployed by truly unconstrained managers with a global portfolio. We believe imposing constraints will limit the managers ability to deliver outperformance.

We believe that gilt markets are efficient and it is therefore difficult for managers to add value in this market.

Equity allocation:

- Under the existing investment strategy, the Council invests across two active equity managers – Baillie Gifford and GMO – which have complimentary investment style bias (growth and value respectively).
- We understand the Council's desire to retain the existing active mandate with Baillie Gifford given the value this has delivered. We therefore propose that the mandate is retained by reduced from c 40% to 25% to fund the diversified growth allocation.
- We propose that the active equity mandate with GMO is terminated in favour of a passive global equity mandate (22.5%) and a passive emerging markets equity allocation (7.5%).
- Removing GMO does create a (growth) style bias. This is diluted to a degree from the passive allocation. The Council could also consider using an alternative (fundamental) index to address the growth bias.
- GMO has outperformed in UK equities, however, we believe that it is difficult for active managers to consistently add value in the concentrated UK market.

Diversified growth fund ("DGF") allocation:

- These funds invest in a variety of asset classes and will often have a focus on capital preservation. In the current market environment these characteristics are particularly attractive, enabling managers to move between asset classes and use a variety of tools to preserve value during periods of market stress.
- The Council's active equity manager, Baillie Gifford, offers a credible and highly regarded DGF. This fund is currently closed to new investment, but Baillie Gifford have agreed to 'create' capacity for the Council given the wider relationship.
- We note that a DGF allocation with Baillie Gifford will include active equity investment – hence increasing the Council's exposure to Baillie Gifford's market views. To address this point and also address the style balance, the Council may wish to consider splitting the DGF mandate between two providers.

Bonds allocation:

- The existing bonds assets are actively managed by Insight across two different funds which allocate to corporate bonds and fixed interest gilts.
- We support the corporate bond allocation as we see significant scope for investment growth in this market. However, we believe that the existing gilt exposure should be switched to index-linked gilts, to provide an explicit link to inflation.
- We believe that there is significant opportunity to add value in active corporate bond management given the broad spectrum of companies, credit ratings, industrial sectors, markets and global regions. We believe that an actively managed corporate bond allocation is appropriate and propose that the investment guidelines are expanded to provide more scope to access a wider range of credit opportunities. As such, we propose that the corporate bond allocation is retained with Insight and managed on an active global basis.
- We believe that that the index-linked gilt allocation offers limited scope for added value through active management and believe that this should be managed passively to reduce costs.

Cash / liquid bond allocation:

- The Council expects to significant draw down from the reserves over the next five years. The cash / liquid bond allocation is in place to fund these draw downs in the short term. There are two core objectives for this allocation:
  1. Capital preservation – the Council does not want to risk the fund fluctuating significantly in value.
  2. Liquidity – the fund must be able to fund draw downs as required
- Given the core objectives above and the volume of funds involved, we believe that a cash or cash *plus* fund would be appropriate. We highly rate the Insight Liquidity Plus Fund which the Council proposes to utilise.

cutting through complexity™

Agenda Item

3

Shetland Islands Council

Shetland Islands Council **26 June 2013**

Shetland Single Outcome Agreement 2013	
Report No: IP-14-13-F	
Report by Executive Manager Performance and Improvement	**Corporate Services**

1.0 Summary

1.1 This report presents the 2013 Shetland Single Outcome Agreement, (Appendix 1).

1.2 The Agreement has been prepared by the Shetland Community Planning Partnership and is now being considered by the individual members through each organisations governance arrangements.

2.0 Decisions Required

The Council RESOLVES to;

2.1 Endorse the objectives and actions contained in appendix 1 - Shetland Single Outcome Agreement – 2013.

3.0 Detail

3.1 The Shetland Single Outcome Agreement describes how local agencies and partners will deliver their key shared objectives, what their improvement targets are and how progress will be measured.

3.2 It is focused on delivering and developing high quality services that meet the medium and long term needs of individuals and communities in Shetland. It has been developed in conjunction with Shetland Partnership Community Planning partners.

3.3 Councils are required to lead and sustain Community Planning in their area including leadership in the development of Single Outcome Agreements. This latest round of agreements has been developed in the light of the public service reform agenda and they are expected to play a key role in driving it forward.

"Effective community planning arrangements will be at the core of public service reform. They will drive the pace of service integration, increase the focus on prevention and secure continuous improvement in public service delivery, in order to achieve better outcomes for communities. Community planning and SOAs will provide the foundation for effective partnership working within which wider reform initiatives, such as the integration of health and adult social care and the establishment of single police and fire services, will happen."

(Scottish Government/COSLA Statement of Ambition, 15 March 2012)

3.4 Guidance for this round of development was that Single Outcome Agreements should have a local focus on the priorities most relevant to the area. In addition they should also have a common and sharp focus on some shared key priorities where the aim should be to achieve transformational, not incremental, performance improvement. These key national priorities are:

- Economic recovery and growth;
- Employment;
- Early years;
- Safer and stronger communities, and reducing offending;
- Health inequalities and physical activity; and
- Outcomes for older people.

3.5 Once approved by partners the Single Outcome Agreement will be signed off between the Scottish Government and the Shetland Partnership and launched at the Shetland Partnetship summit planned for August.

3.6 Progress on delivery of the Single Outcome Agreement will be reported to Executive Committee at least every six months.

4.0 Implications

Strategic

4.1 Delivery On Corporate Priorities – The Shetland Single Outcome Agreement is a prime policy document that describes and communicates shared Shetland priorities. There is a very strong alignment between the key priorities in the Shetland Single Outcome Agreement and the Councils recently approved Corporate Plan.

4.2 Community /Stakeholder Issues – The Shetland SOA has been developed from the Shetland Community plan and by the various strategic groups that make up the Shetland Partnership.

4.3 Policy And/Or Delegated Authority –

4.3.1 The Councils constitution – Part A Governance reserves decision making authority for the Single Outcome Agreement to the full Council.

4.4 Risk Management – The Council is charged with a community leadership role, failure to develop and articulate vision with partners through the Shetland Single Outcome Agreement would increase the risk of the Council and its partners working inefficiently and being subject to further negative external scrutiny.

4.5 Equalities, Health And Human Rights – The Single Outcome Agreement undertakes to make sure that equalities, health and human rights issues have been protected and improved.

4.6 Environmental – The Single Outcome Agreement commits the Council to develop and deliver sustainability, carbon management and waste management arrangements to ensure we protect, and where possible enhance, our stunning environment.

Resources

4.7 Financial – The Shetland Single Outcome Agreement has been developed within the context of constrained partner budgets and specifically for the Council within the limits of it's Medium Term Financial Plan. It reaffirms the requirement to deal with challenges and spending pressures within the limits of that plan.

4.8 Legal – None.

4.9 Human Resources - None.

4.10 Assets And Property – None.

5.0 Conclusions

5.1 Through the new Shetland Single Outcome Agreement, the Shetland Partnership will mobilise public sector assets, activities and resources, together with those of the voluntary and private sectors and local communities to deliver a shared 'plan for place'.

The new Single Outcome Agreement will:

- Use an evidence based approach, underpinned by disaggregated data, to drive improvement in meeting the differing needs of local populations;

- Include clear performance commitments that will lead to demonstrable improvements in people’s lives;
- Focus upon reducing outcome gaps within populations and between areas – and promote early intervention and preventative approaches in reducing outcome inequalities; and
- Identify priorities for interventions and include plans for prevention, integration and improvement to promote better partnership working and more effective use of resources.

For further information please contact:
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Date: 16th June 2103

List of Appendices

Appendix 1 – Shetland Single Outcome Agreement

Shetland Partnership: Community Plan 2013

Introduction

Community Planning is about public, private and voluntary organisations working together, and with communities, to plan and deliver better services which make a real difference to people's lives. Shetland, with its ancient heritage, distinctive culture and remote geographical position, has a long history of community involvement in local government, the development of services and local projects. Community Planning aims to enhance this involvement.

The Shetland Partnership is the local Community Planning Partnership for the Shetland Islands Council area. Partners have a responsibility to provide strategic leadership and to ensure that they reflect the priorities detailed in the community plan within the plans and strategies of their own organisation.

How we use available resources will be key to influencing our success in the short- to medium-term. Service and financial planning continues to take place against a challenging environment for public sector spending. Strengthening community involvement through community planning will help to ensure that available resources are used more effectively and sound decisions are taken for the benefit of Shetland.

This community plan and Single Outcome Agreement commit us to the achievement of identified and shared outcomes and targets. Community planning in Shetland will build on our achievements to date and this Community Plan demonstrates how we will continue to bring about improvements in our communities and impact on the issues that affect them in the period 2013 – 2020.

Shetland in Context

Shetland has a unique character, a uniqueness born from geographic isolation, the necessity for self-sufficiency and the confluence of differing social and cultural influences. The key characteristic of Shetland's geography is proximity to the sea, and over the centuries this has presented Shetlanders with opportunities to exploit and challenges to overcome. Shetland's position at a similar distance from Aberdeen and Oslo has meant that Shetland's culture and heritage has drawn heavily on influences from Scotland and Scandinavia, while remaining clearly distinct from both. Shetland has always required that local challenges be met with local solutions. It is important that this unique character, reflected in Shetland's culture, heritage, economy, landscape and community, is fully recognised in a Community Planning process which ensures that decisions are taken and resources used in a way that most benefits Shetland.

Shetland is situated 170 km from the Scottish Mainland and is a similar distance from Norway. Shetland covers 1468km^2 in area and has over 2700 km of coastline. Lying at the interface between the Northern North Sea and North Atlantic makes for a sometimes harsh climate but also affords us a privileged position as a hub for energy interests as well as fishing and aquaculture. Our remoteness makes us reliant on transport links but has also led to the development of strong, safe communities with a rich heritage, language and culture that are a product of Norse, Scottish and many other influences. Community planning in Shetland reflects these challenges and opportunities and aims to build on that which makes Shetland unique while also developing resilience for the future.

The 2011 census figures give the total population of Shetland as 23,200, an increase of 5.5% from 2001 (21,988)[1]. The population's age profile is 18% under 15, 64% 15-64 and 18% aged over 64[2]. The number of people aged over

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[1] 2011 Census Release, National Records of Scotland, 2013

[2] 2011 Census Release, National Records of Scotland, 2013

64 has increased by over 20% since 2001[3]; however, the local age profile is broadly similar to the Scottish age profile. This indicates that, with an increasing population, there will be an increasing proportion of older people in the future and this is reflected in our community planning objectives and single outcome agreement.

The increase in population since 2001 has likely been influenced by Shetland's strong economic performance in that time. Between 2003 and 2011 Shetland's economic output has grown by 3.5% annually on average, from around £860M per year to over £1BN[4]. This growth can be traced to expansion in both the private and public sectors, with fisheries and aquaculture identified as key growth areas in the private sector. Sustaining this growth and promoting economic resilience and diversity are key priorities for community planning in Shetland, and this is reflected in local economic priorities such as renewable energy and broadband development, which seek to promote control of local resources.

The long-term strategic direction for Shetland is informed by factors such as those described above and by our communities' understanding of where we are now and where we want to get to. This has been developed following a scenario-planning exercise carried out in 2011 and discussed in the next section.

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[3] 2011 Census Release, National Records of Scotland, 2013

[4] Shetland Input-Output Study/Regional Accounts 2010-11, Report to SIC Development Committee, May 2013

Scenario Planning

The scenario planning process was designed to explore and test alternative futures as a way of strengthening the focus of the community planning partnership.

The process aimed to define key drivers for positive change in Shetland and use those to build a number of alternative futures that describe what life would be like in Shetland in 2030. This exercise mapped out an ambitious but achievable future for Shetland, and identified both potential opportunities and threats along the road to this future.

In order to build our knowledge of the present, we gathered information from the following sources:

- 27 interviews (involving a total of 37 people) with a variety of individuals chosen to represent different aspects of Shetland life, e.g. enterprise, energy, transport, health, voluntary sector, young people, local government, crofters, agriculture and aquaculture

- 15 group workshops (involving over 200 people), covering trade unions, public sector, cadets/apprentices, young people at school, fishing, tourism, construction, renewables, migrants, NHS, voluntary sector, community councils

- An e-survey, to which 448 people responded

This work provided very rich and detailed data including an overview of Shetland's current economic, social and environmental conditions, future opportunities and uncertainties. It also identified Shetland's key drivers for change:

- Connectivity

- Spirit / Culture

- Energy Costs

- Ageing Population
- Population Migration
- Reduction in Public Sector Funding
- Degree of Control
- Natural Resources
- Community Funds (old and new)

We shared the data with partners at a scenario-building event, and reactions to these key drivers formed the potential scenarios, which could be realised in the area over the next 20 years.

Four scenarios were developed, all of which have informed the thinking behind this community plan.

- Got'n a Grip – describing strong local decision making and a good economic balance
- Joost da Wye o' It – describing strong local decision making, but a lack of economic balance
- Keeping on Knappin – describing poor local decision making, but a good economic balance
- In a Right Slester – describing poor decision making and a weak economic balance

Got’n a Grip is the scenario that is most desirable, ensuring that sound decisions are made, which will in turn lead to the most effective use of the available resources in the future. Sound decision making and effective use of resources are key priorities for the Shetland Partnership and underpin the whole community planning strategy in Shetland – this is demonstrated in the section entitled Our Priorities and in the Single Outcome Agreement.

More information about scenario planning can be found at:
http://www.shetland.org/2030/scenario-planning

National Context

The Scottish Government's purpose is sustainable economic growth.

Success is monitored using seven purpose targets: economic growth; productivity; participation; population; solidarity; cohesion and sustainability.

The Scottish Government's five national strategic objectives, which describe where the government will focus action, are:

- **Wealthier & fairer**
- **Smarter**
- **Healthier**
- **Safer & Stronger**
- **Greener**

Underpinning these are 16 key national outcomes, which set out what the government wants to achieve. The government tracks progress towards the outcomes using 50 national indicators. The Scottish Government's outcomes and indicators can be recognised in this Community Plan and the associated Single Outcome Agreement.

Audit Scotland have also recently published findings relating to how well Community Planning Partnerships in Scotland are performing; the report, entitled 'Improving Community Planning in Scotland'[5] also contains guidance to improve the impact of community planning in demonstrable ways – this is represented in the diagram below:

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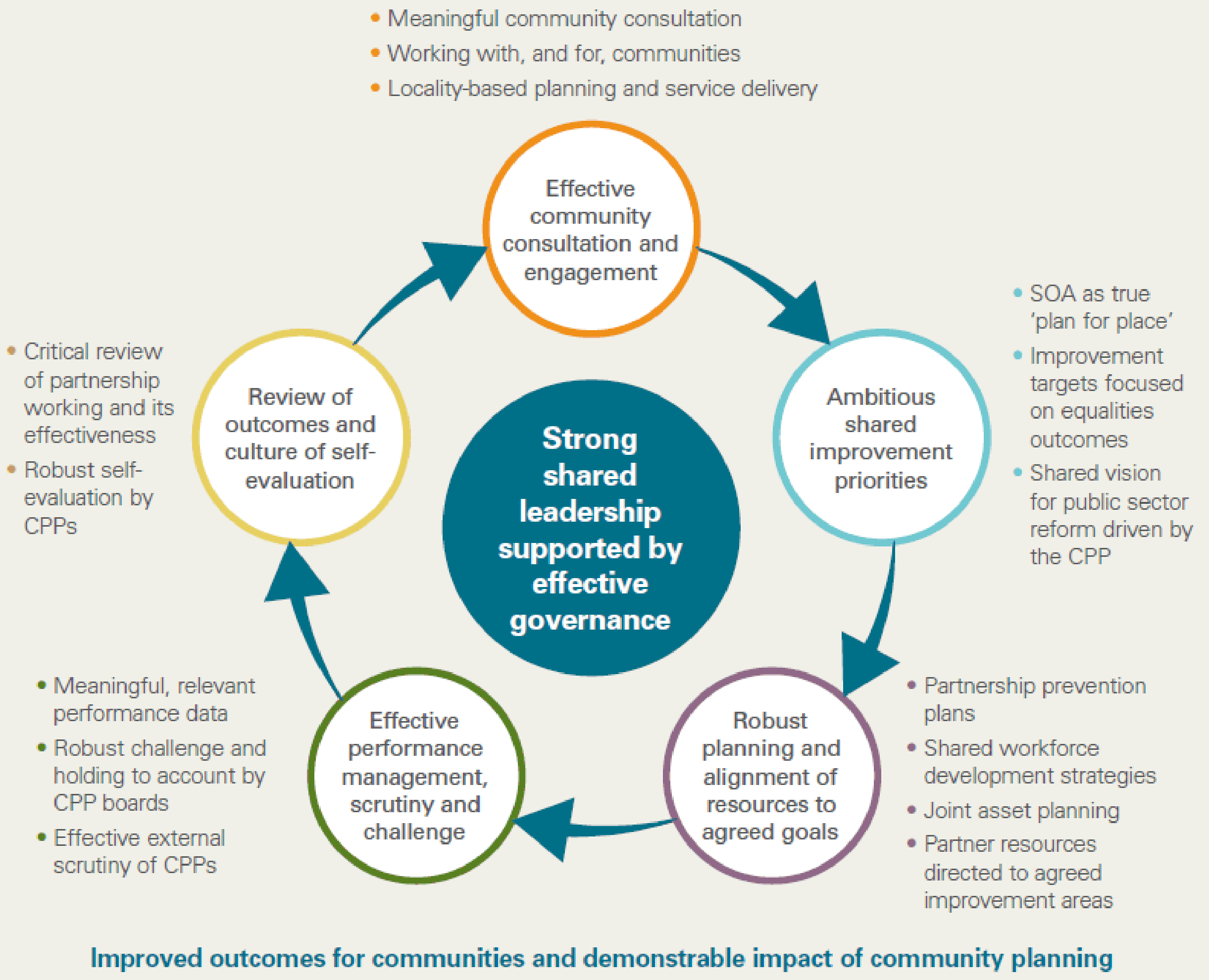
[5] Improving Community Planning in Scotland, Audit Scotland, March 2013

A virtuous cycle of continuous improvement in community planning



Source: Audit Scotland

The above process is reflected in the way Community Planning in Shetland is led and governed (discussed in the sections 'Working Together' and 'Structure') and in the outcomes and indicators described in the Single Outcome Agreement.

Working Together

The Shetland Partnership leads community planning in Shetland. The partnership brings together the major public and voluntary sector agencies in the area. Its members are:

Statutory Partners

Shetland Islands Council
NHS Shetland
Police Scotland
Scottish Fire and Rescue Service
HIE Shetland
ZetTrans

Non-statutory partners

Association of Community Councils
Care Commission
Childcare and Pre-School Providers
(private, public and voluntary)
Citizen's Advice Bureau
Community Alcohol and Drugs Team
Community Energy Scotland
Crown Office and Procurator Fiscal's Service
Department of Work and Pensions
Disability Shetland
Energy Saving Trust
Family Mediation
Historic Scotland
Hjaltland Housing Association
KIMO
Lerwick Port Authority
Maritime and Coastguard Agency
Promote Shetland
North Atlantic Marine Centre
Royal Society for the Protection of Birds
Shetland communities and community groups
Scottish Ambulance Service
Scottish Civic Trust
Scottish Environmental Protection Agency
Scottish Natural Heritage
Shetland Amenity Trust
Shetland Arts
Shetland Charitable Trust
Shetland College
Shetland Pre-School Ltd
Shetland Recreational Trust
Shetland Children's Reporter and Children's Panel
Shetland Youth Information Service
Skills Development Scotland
Victim Support Shetland
Visit Shetland
Voluntary Action Shetland
Women's Aid

Our Purpose

The purpose of the Shetland Partnership is:

To work together and with communities to make Shetland a place where people want to live, because of our quality of life, employment opportunities, our strong sense of community and our stunning environment.

Our Commitments

We will use resources efficiently and effectively and work together to improve our services especially in relation to priority areas such as:

Equalities

We will actively monitor equal opportunities, and adhere to statutory duties

Sustainability

We will make sustainable decisions and work to ensure that our actions meet our present needs without impinging on future generations

Community engagement

We will support the development of strong, active and inclusive communities that are involved in decision-making

Prevention and early intervention

We will work together to prevent problems for individuals arising in the first place, and to stop problems becoming more serious that are already evident

Our core values

Behind this purpose are a set of core values, which underpin the work of the partnership:

Accountability

We will regularly monitor performance and be accountable to the Shetland community by publicising the results.

Fairness

We will work together to close the opportunity gap between disadvantaged individuals or communities and the rest of Shetland, and will focus resources on the areas where exclusion is greatest.

Openness

We will work openly with each other and achieve progress through consensus

Partnership

We will work together and with the Shetland community in a smarter way to find new solutions and will encourage communities to recognise their important role in community planning work

Structure

The structure for governance of community planning and ensuring that priorities are delivered is outlined below:

- The Shetland Partnership Board sets the strategic direction for community planning in Shetland. The membership includes all statutory partners, and key non-statutory partners, including representatives from the Voluntary Sector and the Charitable Trust – a full list of partners (statutory and non-statutory) is included on page **XX**.

- The Shetland Partnership Performance Group oversees the development and supports the delivery of the single outcome agreement. Membership is open to the most senior officers from member organisations, and representatives from each strategic partnership as invited.

- Existing and new strategic partnerships have lead responsibility for each outcome in the Single Outcome Agreement (see table below). Their role is to develop and ensure delivery of the relevant policy areas and associated outcomes of the single outcome agreement. Strategic Partnerships are also responsible for gathering necessary performance information, reporting progress to the Performance Group, and taking a lead role in the development of single outcome agreements.

Outcome area	Strategic partnership with responsibility
a – children and young people	Integrated Children & Young People Strategic Planning Group
b – adults and older people	Community Health Partnership
c – health	Community Health Partnership
d – safer	Community Safety Board
e – economy	Development Partnership
f – fairer	Fairer Shetland Partnership
g – environment	Environment Team Carbon Management Group
h - balance	Project Board (change

	programme?) Voluntary Action Shetland

A more detailed breakdown of the outcome areas listed above is included in the section ‘Our Priorities’ and the Single Outcome Agreement. The Partnership structure is represented in the diagram on page **XX**. Further details about the Partnership governance arrangements can be found in the Partnership Guide at:

http://www.shetland.gov.uk/communityplanning/community_planning.asp

Our Priorities

Our priorities reflect the Shetland context (our geography, demographics and economy), the purpose and commitments of the Shetland Partnership, the outcomes from the Scenario Planning exercise in 2011 and the Scottish Government's objectives for Community Planning.

Community Planning in Shetland aims to create communities that are:

- **Wealthier & Fairer**
- **Learning & Supportive**
- **Healthy & Caring**
- **Safe**
- **Vibrant & Sustainable**

Our priorities define the strategic direction for Community Planning in Shetland and this is translated into the outcomes in the Single Outcome Agreement associated with this Community Plan. The Single Outcome Agreement has been agreed by all members of the Shetland Partnership and details the key outcomes that the Partnership aims to achieve to support and improve life in Shetland now and in the future. The outcomes are described briefly in the table below:

SOA Outcome	Description
a	Shetland is the best place for children and young people to grow up
b	We live longer healthier lives
c	People are supported to be active and independent throughout adulthood and in older age
d	Shetland stays a safe place to live, and we have strong, resilient and supportive communities
e	Shetland has sustainable economic growth with good employment opportunities and our people have the skills to match, good places to stay and the transport people and businesses need

f	We have tackled inequalities by ensuring the needs of the most vulnerable and hard to reach groups are identified and met, and that services are targeted at those most in need
g	We deliver all our services in an environmentally sustainable manner to safeguard and enhance our outstanding environment which underpins all our actions and our economic and social well being
h	We have financial sustainability and balance within each partner; and a better balance between a dynamic private sector, a strong third sector and efficient and responsive public services

Further details on all of these outcomes can be found in the Single Outcome Agreement together with the indicators that will be used to measure success in achieving the aims they represent. The Single Outcome Agreement also contains details of how the Shetland Partnership is using prevention and early intervention to achieve outcomes. The Single Outcome Agreement also encourages partners to think about what actions and commitments they may require from the Scottish Government to achieve outcomes.

Involving communities in Community Planning is another priority as this is a key element in ensuring that outcomes are achieved and that measurement of success is based on sound evidence – this also forms a key element in the Single Outcome Agreement, asking partners how they will use community engagement and capacity building to achieve outcomes. The scenario planning exercise has been extremely valuable with regard to involving communities, helping the Partnership set the strategic direction for Community Planning and define the outcomes described above; however, there is clearly a need to sustain the involvement of communities in the process to ensure that outcomes still accurately reflect their needs and that the development of policy translates to meaningful action and tangible results for the people of Shetland.

An understanding of how to best involve communities in planning and decision making is therefore crucial. To this end, the Shetland Partnership Board commissioned a research project in 2013 to explore how to strengthen community involvement in Shetland. Further details of this research and its outcomes are included in the section ‘Community Planning in Shetland’.

Developing a rigorous, evidence-based approach to community planning that accurately responds to the needs of communities will help to ensure that the priority areas listed above, together with the outcomes described in the Single Outcome Agreement, are achieved through sound decision making and effective use of resources – the two crucial priorities that emerged from the Scenario Planning process.

Community Planning in Shetland

Building on a strong historic tradition of communities and agencies working together, Community Planning has been formally established in Shetland since the publication of the Shetland Resolution (an earlier version of the community plan) in 2004. This section details some examples of how Community Planning works in Shetland, some of the outcomes achieved through community planning and ongoing work to enhance community planning in Shetland.

Fairer Shetland - tackling poverty and inequalities

Shetland has allocated £265,000 to help tackle poverty and inequalities, through the Disadvantaged & Social Inclusion Fund. Some of this has been allocated to the Shetland Befriending Scheme, Shetland Community Bike Project, Voluntary Action Shetland to develop and deliver Parent Link Shetland, the Moving On Employment Project and Citizen's Advice Bureau and some to assist individuals and families to achieve their outcomes

Participatory Budgeting

Wir Community, Wir Choice and Sound Choices are two projects that gave communities an opportunity to say what needed to change in their communities and then allocate money to projects, to make those changes a reality.

this section should have a bit more material shortly

Brucehall Terrace

Brucehall Terrace Extra Care Housing is an exciting development managed between the Council's Housing Service and Social Care Services. The aim of the project is to enable tenants to remain as independent as possible, in the knowledge that staff are on hand at all times to provide appropriate care and support. Care and support on site is equivalent to that available in a residential setting. The difference at Brucehall Terrace is that individuals continue to enjoy the benefit of holding their own tenancy.

Tenants are supported to maintain links with friends and relatives and to pursue their own interests. A core house on site provides a 'hub' where individuals can meet to enjoy social activities and organised events. The core house also provides a staff base to which there will be direct links for tenants at all times.

Poverty is Bad – Let's Fix It!!

A youth led peer research project designed and implemented to explore young people's perceptions and experiences of poverty, social exclusion and inequality. The key messages, which need to impact on our ways of working, are:

- Young people feel the lack of and expense of transport prevents them from accessing opportunities, which leads to seeking excitement through alcohol and drugs.
- Young people feel the lack of transportation and its cost are factors leading to isolation, which can cause mental health and substance abuse issues.
- Young people in Shetland find it hard to be an individual due to peer pressure and adult judgement.
- Stigmatisation and labelling due to the 'Shetland Grapevine' have very negative impacts on young people.
- Young people feel there are limited career choices in Shetland.
- Shetlanders are not aware of poverty on the islands.
- Young people are not aware of support services.

Strengthening Community Involvement

This research draws from a broad evidence-base, involving consultation with a wide range of agency representatives, elected Council members and community council representatives. The report describes the conditions under which communities and agencies are working well together to plan and deliver services in Shetland and also those instances where there is less effective community involvement. There are a number of lessons to be learned but the aim must be for community involvement to always be effective and meaningful and a crucial element in strategy development, service planning and decision-making.

There are a number of recommendations in the report as to how this aim may be achieved. The report was presented to the Shetland Partnership Board on 16th May 2013 and the recommendations endorsed by partners, the Shetland Partnership Board also agreed to take on a leadership role in delivering strong community involvement in the future. A working group has been set-up to explore how best to implement the recommendations, priorities will include: using existing structures in Shetland (such as Community Councils), developing a clear process for community involvement, exploring methods for both formal and informal engagement with communities and involving hard-to-reach members of the community.

Minimum Income Standard

The Shetland Partnership was among the project sponsors for a recent report into ‘a minimum income standard for remote rural Scotland’[6]. Earlier research has defined a minimum income standard as: ‘a minimum standard of living in Britain today includes, but is more than just food, clothes and shelter. It is about having what you need in order to have the opportunities and choices necessary to participate in society.’

The report is an evidence-based assessment of the Minimum Income Standard for remote and rural Scotland and how it compares to the standards in other parts of the UK. The research used discussions with 24 groups of 8 – 12 participants, including 4 groups from Shetland.

Key findings include:

- The budgets that households need to achieve a minimum acceptable living standard in remote rural Scotland typically are 10-40 per cent higher than elsewhere in the UK

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[6] Reference here (to be published July 2013)

- These premiums vary greatly by location and household type. For pensioners living in mainland towns, they are only just over 10 per cent higher than in rural towns or urban areas elsewhere in the UK. For singles or couples with children living in remote small settlements, on the other hand, they are 30-40 per cent higher than in urban England and 10-15 per cent higher than in small English settlements

- For some households, the differences are even greater. Those living in remote island locations too far from towns to make regular shopping trips and those relying on heating oil in older homes are particularly vulnerable.

- The three principal sources of this premium are:
    - The higher prices that households must pay for food, clothes and household goods
    - Much higher household fuel bills, influenced by climate and fuel sources
    - The longer distances that people have to travel routinely, particularly to work

- The influence of these three factors varies considerably by household type. For singles, the most important factor is the cost of a long commute, which is particularly high relative to the budget for a single person. For pensioners, it is a combination of higher household fuel bills and having to buy many goods locally or by mail order. These differences reflect the different costs incurred by more and less mobile households.

- These costs make it much harder for people on modest incomes to make ends meet. A single person in a Highland town for example would need to earn nearly 90 per cent of average earnings to reach a minimum living standard, whereas in an urban area of England they could reach that standard on two thirds of average earnings.

- A single person in a minimum wage job in remote rural Scotland ends up with at most about two thirds of what they need for an adequate living standard. Someone on basic benefits has less than a third of what they require. A pensioner on the minimum Pension Credit falls at least around 10 per cent short, and considerably more if they live in the most remote areas.

The report is a comprehensive piece of work that tells us a great deal about the reality of life in Shetland, there are also a number of important lessons for partners involved in Community Planning in terms of assessing the impacts of future service changes and mitigating some of the negative aspects of remote and rural life through integrated economic development.

Integrated Impact Assessment

Public Sector Agencies in Scotland have a commitment to ensuring that all new or revised policy and practice is subject to an Equality Impact Assessment that assesses the impact of proposed changes on groups with protected characteristics – such as age, gender and disability[7]. Environmental Impact Assessments must also be carried out whenever policy or service changes have potential environmental consequences[8].

In Shetland an Integrated Impact Assessment has been developed that widens the scope to include consideration of the actual and potential effects of organisation's activities on communities, local economic conditions, individuals, vulnerable groups and the environment. Including sections on **equalities**, **health**, **poverty**, **economy**, **culture, environment, stakeholders**, **staff** and **assets**, the Integrated Impact Assessment is a tool to be used whenever activities are undertaken that may have an effect on people, the economy or the environment.

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[7] http://www.scotland.gov.uk/Topics/People/Equality/PublicEqualityDuties

[8] http://www.scotland.gov.uk/Topics/Environment/environmental-assessment

The integrated nature of the assessment allows for more informed decision making by providing a framework to understand the complex reality that may result from a given course of action. The Integrated Impact Assessment uses prompts to open up discussion of impacts in key areas to help uncover consequences, whether intended or not, and balance conflicting needs and issues.

Recent work for the Joseph Rowntree Foundation[9] supports the use of locally developed tools to minimise the social impacts of service reforms at this time of reduced public spending. Equality Impacts alone are insufficient as they only include consideration of groups with protected characteristics, frameworks such as the Integrated Impact Assessment allow for more comprehensive assessments of the risks to all potentially disadvantaged groups.

Although developed internally within Shetland Islands Council other partners were involved in the development of the framework and the Integrated Impact Assessment promises to be a valuable tool for Community Planning. The Integrated Impact Assessment helps to minimise risk by offering a better understanding of consequences both internal to organisations and in the Shetland community. This in turn will lead to more effective service design and improved decision making.

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[9] Managing the social risks of public spending cuts in Scotland, Joseph Rowntree Foundation, April 2013

Performance Management

‘Performance Management’ describes the process by which outcomes from the Community Planning process will be monitored and evaluated to ensure that the Single Outcome Agreement is realised.

The planning and performance management framework proposed for the Shetland Partnership involves the development and updating of this Community Plan and the associated Single Outcome Agreement followed by an ongoing process of monitoring and reporting on implementation of outcomes.

Developing and updating plans involves a cycle of update where the overall direction is set by the Shetland Partnership Board, detail worked up by strategic groups, consolidated by the Shetland Partnership Performance Group and approved by the Shetland Partnership Board.

Monitoring and reporting on implementation will involve quarterly reports from strategic groups who are expected to manage the actions agreed in the Single Outcome Agreement. Reporting will be to the Shetland Partnership Board via the Shetland Partnership performance Group.

The diagram on page **XX** (‘the wheel’) explains the process and how it corresponds to the calendar year. For more information contact John Smith/Brendan Hall.

Shetland Partnership Single Outcome Agreement 2013

Appendix 2

	Outcome	Background / Context	National Outcome(s)
a	Shetland is the best place for children and young people to grow up.	The National Group has agreed that all partnerships should have a common and sharp focus on some key priorities where the aim should be to achieve transformational, not incremental, performance improvement. One of these is early years. Improving the early years experience for children is key to enabling some of the most entrenched problems such as poverty, poor health, poor attainment and anti-social behaviour to be addressed and preventing future problems arising. Some of these areas are covered under other outcomes but they need to be linked to one another too. The vision and priorities of the Early Years Framework are being taken forward by the Early Years Collaborative which is currently being developed. The majority of families with children and young people are achieving and so this outcome will focus on considering the minority who are not achieving. Getting it right for every child is a new approach to identifying and meeting the needs of children and young people. It puts the wellbeing of children and young people at the centre. A common coordinated framework for assessment, planning and action across all agencies is used to address needs. It is the action which will take forward the outcome to ensure that all children and young people become successful learners, confident individuals, effective contributors and responsible citizens. The actions which will be implemented here link to the other objectives of safer and stronger, reducing offending and employment.	children childfamilies youngpeople

Ref	What OBJECTIVE within this outcome is being addressed	What (SMART) ACTIONS will be implemented to improve this	Which INDICATORS will this improve and by how much / when	LEAD Officer for action	WHEN will action be completed
	Effective early intervention and prevention to enable all our children and young people to have the best start in life.	Undertake an early years stock take. Introduce the Early Years Collaborative programme with at least 3 families supported in the first year. Identify those most at risk of not achieving the outcome and take steps to prevent that risk materialising.	• Proportion of School Leavers in Positive Destinations • Proportion of Looked After Children in Positive Destinations • Estimated percentage of children in primary 1 with no obvious dental decay experience • Proportion of young people with substance misuse • Proportion of children growing up in	Integrated Children and Young People's Strategic Planning Group Chairperson	June 2013. December 2013. April 2014 April 2014

Ref	What OBJECTIVE within this outcome is being addressed	What (SMART) ACTIONS will be implemented to improve this	Which INDICATORS will this improve and by how much / when	LEAD Officer for action	WHEN will action be completed
		Work to help parents, families and communities to develop their won solutions, using accessible high quality public services as required.	families with substance misuse issues • Children (pre birth to 8) referred to reporter on care and protection grounds • Youth Criminality Rates • Youth Victimisation Rates • Children have reached all expected developmental milestones at the time of the child's 27-30 month child health review.		
	Effective early intervention and prevention to get it right for every child.	Present the policy for Getting it right for every child to NHS Shetland and Shetland Islands Council for strategic approval. Ensure that there is a Getting It right for every child assessment and plan where there is a need for integrated working to support individual children and young people and their families. Establishment of Early Years Getting it right for every child outreach group and develop a pathway from pre-birth where there are clear needs for routes into a coordinated pathway. Need to audit Getting it right for every child plans which are in place and ensure early intervention happens at	• Proportion of School Leavers in Positive Destinations • Proportion of Looked After Children in Positive Destinations • Estimated percentage of children in primary 1 with no obvious dental decay experience • Proportion of young people with substance misuse • Proportion of children growing up in families with substance misuse issues • Children (pre birth to 8) referred to reporter on care and protection grounds • Youth Criminality Rates • Youth Victimisation Rates • Children have reached all expected developmental milestones at the time of the child's 27-30 month child health	Integrated Children and Young People's Strategic Planning Group Chairperson	March 2013. October 2014. April 2014. March 2014.

Ref	What OBJECTIVE within this outcome is being addressed	What (SMART) ACTIONS will be implemented to improve this	Which INDICATORS will this improve and by how much / when	LEAD Officer for action	WHEN will action be completed
		earliest possible stage.	review.		

	Resources (Money / Staff Time / Assets) aligned to delivering these actions across the Shetland Partnership
	All agencies involved in Getting it right for every child will have staff time dedicated to attending the meetings regarding the assessments and planning process. We are in the process of jointly reviewing the Children's Change Fund spend., with a view to future joint planning, We have done some work towards a more aligned approach to spending to support families living in poverty and our GIRFEC and Early Years work will in due course align staff and resources.
	Although the Integrated Children and Young Peoples Strategy Group does not have integrated budgets yet joint commissioning is being considered. In some areas this is further advanced eg Child Protection.

	Description of how the Shetland Partnership is moving to early intervention and prevention for this outcome
	Our Integrated Children & Young People's Service Plan 2011-14 includes the following local outcomes: • To shift from crisis intervention to prevention and early intervention; • To shift from service provision, to building the capacity, resilience and wellbeing of children and young people, parents, families and communities; and takes responsibility for the Early Years theme. We have therefore used the SOA to highlight the key messages of the Early Years Framework and local action to implement it, recognising that effective interventions in the early years can also generate significant financial savings at later stages, across the range of public and voluntary sector services. The outcome indicators are chosen to measure this in the longer term, and the local Children's Plan details the work programme and the shorter term measures we are using to show progress. Specifically, the Early Years Collaborative is being introduced to achieve a decisive shift in how we work with families to make best use of resources and to achieve a real change in the quality of children's lives. We have included a key indicator for the Collaborative in our SOA indicator set. In addition we recognise that universal services should be strengthened to improve early identification and intervention to better meet the needs of vulnerable children and families, and so our other key SOA priority is on the implementation of Getting it Right for Every Child. Some of the actions in other priority areas contribute to achieving a shift to prevention and early intervention with young people, such as support to families

	on budgeting to prevent crisis, refocusing the Youth Strategy on early intervention (reflected through the Community Learning and Development strategy in the section on the theme of Balance), and links to actions in the Fairer priority on work with families and developing community resilience. The Children's Plan is in the early stages of looking at integration, we have agreed a policy statement and committed to further work on joint commissioning

	Arrangements for Community Engagement and community capacity building to deliver for themselves on this outcome
	The Shetland Children's Plan includes a priority on participation of children and young people, and there are a range of activities taken forward in partnership that are progressing this. Local strengths include Youth Voice; local involvement in national projects such as Youth Parliament and A Right wee Blether; strengthening the role of Pupil Councils; a local research project into the effectiveness of early intervention strategies through peer research with teenagers which secured the participation of young people in community planning process; and the participation of young people in revising the Youth Strategy which is planned for 2013/14.

	Scottish Government actions/ commitments required to deliver these outcomes
	Proportionate approach to Early Years Collaborative.
	Coherence in national policy on Chidren's Change Fund and associated priorities.

	Outcome	Background / Context	National Outcome(s)
b	We live longer healthier lives.	Health affects every aspect of our lives, and every aspect of our lives can in turn affect our health and wellbeing. The factors that affect our health include our own biology and genetic makeup; our environment; our behaviour and our ways of thinking about things and dealing with things. Environmental and social factors such as education; housing; employment; crime; having enough money; being part of a community ; social groups and relationships; and access to services all influence both physical health, and mental health in particular. Many of these issues are addressed throughout the SOA in a number of other sections. Mental wellbeing is a particularly complex risk factor affecting both physical and mental health, and can be interlinked with other behavioural risk factors. So , for example, work on tackling alcohol problems and increasing physical activity aims to also improve mental health and health and wellbeing. Shetland now has a significantly high suicide rate, with a problem particularly amongst men, and we need community action to tackle this. Whilst we have not included a specific mental health and wellbeing action in the SOA, there is considerable work in this area which is being brought together in a Shetland Mental Health Strategy and we have a local Choose Life (suicide prevention) Action Plan . Improving health, particularly mental health and wellbeing, and reducing inequalities in health sit in every theme, not just under 'healthier'. In Shetland we have a number of work programmes and strategies focusing on different aspect s of health and wellbeing including mental health and suicide prevention; drugs and alcohol; Active Lives and Sports Strategies; Sexual Health and Bloodborne Viruses; obesity; and tobacco control . Each of these programmes is delivered through multi-agency partnership working and has a detailed work plan and a range of indicators to monitor progress. We also have an overarching Public Health Ten Year Strategy which incorporates all these programmes, but focuses on the three biggest 'health behaviour' risk factors for poor health: smoking, excess alcohol consumption and obesity. In Shetland, as in the rest of Scotland, these risk factors, along with inequalities and poverty, make the biggest influence on health outcomes; and they are all influenced by environment and life circumstances, it is not just about an individual's choice of behaviour. Although this makes it seem like we have a choice in what we do, the reality for many people is that it is extremely difficult to make the 'healthy' choice. And it is often more difficult for people who are disadvantaged in some way through, for example, poverty, social exclusion, mental health issues, substance misuse or other factors. This is one reason why we have health inequalities between different individuals and groups of people in Shetland The importance of these specific risk factors is nothing new; smoking has been recognised as a major public health issue	healthier

		for many years and a combination of approaches including legislation, local enforcement, prevention and smoking cessation services have led to a reduction in smoking and consequently the diseases it causes. But those who remain smokers are amongst the harder to reach and this remains an important outcome in reducing health inequalities. And , young people are still starting to smoke. So prevention and early intervention with this group is key if we are to reduce smoking rates down as far as we can. Alcohol and obesity are now major public health issues and need the same multi-agency and multi-levelled approach as tobacco control to reduce them as risk factors. Obesity is a complex issue, involving diet, physical activity and mental wellbeing. One of the Government priorities for the SOA is physical activity, and this is an area where there is scope for us to really increase our work in this area, and work with an increased range of partners to tackle the barriers to physical activity. The aim of the Public Health Strategy (2012-22) and associated strategies is to continue to reduce smoking and to tackle alcohol and obesity using different ways of working with partners and communities, and innovative, sustainable approaches. The focus of this section is therefore on health behaviours - the things that we do ourselves that can affect our health – specifically smoking, alcohol consumption and physical activity.	

Ref	What OBJECTIVE within this outcome is being addressed	What (SMART) ACTIONS will be implemented to improve this	Which INDICATORS will this improve and by how much / when	LEAD Officer for action	WHEN will action be completed
	Healthy and Caring: Reducing Health Inequalities and Increasing Physical Activity	1. A series of targeted local campaigns based on results of Drink Better survey and using social marketing techniques, including Pub Award, which aims to ultimately change the drinking culture and drinking environment in Shetland 2. Redesign of the local substance misuse service to increase efficiency and target work more closely to achieve required outcomes (including both voluntary sector and NHS services).	**Reduce alcohol related admissions** (ie The number of general acute inpatient and day case discharges per 100,000 population with an alcohol-related diagnosis) Baseline (most recent data): 689/100,000 in 2010/11 Target : 600 / 100,000 by 2012/13 500 / 100,000 by 2014/15 300 / 100,000 by 2022	Alcohol and Drug Development Officer SDAP (Karen Smith)	1. At least three campaigns to run throughout year from April 13 to March 14. 2. Proposed structure for redesigned service to be agreed by

Ref	What OBJECTIVE within this outcome is being addressed	What (SMART) ACTIONS will be implemented to improve this	Which INDICATORS will this improve and by how much / when	LEAD Officer for action	WHEN will action be completed
					end April 2013 and fully implemented by end March 2014.
	Healthy and Caring: Reducing Health Inequalities and Increasing Physical Activity	1. Implement action plan developed from results of Health Needs Assessment on Smoking and Young people (which will be completed by March 2013 and involves working with young people in Shetland to understand why some never smoke; some try it but do not continue and others take up the habit.) 2. Worki ng with partners to further develop pre-conceptual care services to target smokers before they become pregnant and support them to quit; including development of a service in Mossbank, based in the school, alongside antenatal and family services. 3. Further development of incentive schemes, particularly aimed at the most disadvantaged smokers , based on evaluation of SRT voucher scheme (which will be completed and action plan in place by 1st April)	**Percentage of adults who smoke** (The proportion of adults aged 16+ years who are current smokers as measured by the Scottish Household Survey) Baseline (most recent data) 15% in 2010 Target 10% by 2015 5% by 2022 (NB we have local figures based on GP records of smoking status which show a higher rate. We use these figures for monitoring at a practice level)	Health Improvement Manager NHS Shetland (Elizabeth Robinson)	1. Implementation of action plan through 13-14 2. Fully developed and implemented by end March 2014 3. Fully developed and implemented by end March 2014
	Healthy and Caring: Reducing Health Inequalities and Increasing Physical Activity	1. Deliver training to health and voluntary sector staff in encouraging patients / clients to be more active. Aim is to deliver training to 25% of primary care staff in first instance, by end March 2014. 2. Implementation of Sports Strategy, including	**Increase Physical Activity** (The proportion of adults completing 30 minutes of at least moderate exercise 5 days a week. The data for this indicator are collected as part of the Scottish Health Survey)	Health Improvement Manager NHS Shetland (Elizabeth	1. End March 2014 2. 3 year initiative 2013-15 3. Effective

Ref	What OBJECTIVE within this outcome is being addressed	What (SMART) ACTIONS will be implemented to improve this	Which INDICATORS will this improve and by how much / when	LEAD Officer for action	WHEN will action be completed
		specifically: Develop local community sports hubs in Shetland to ensure that local organisations are working together effectively, sharing resources and minimising duplication by end March 2014, with the aim of increasing participation in sport and physical activity. (Sports Scotland initiative – 3 yr funded Hub co-ordinator post, working in partnership primarily with SIC and SRT; also community groups, NHS and voluntary sector) 3. Implementation of Active Lives Strategy, focusing on the aims to 'Maintain, create and provide environments that encourage and support physical activity Shetland –wide, making the best use of assets' : and 'Improve partnership working on physical activity'. One specific action is : 'Engagement with the Shetland community to take action on working towards increasing physical activity'. We want to work in partnership through the Community Engagement Network to support local communities to make best use of their outdoor space through actions such as creating and improving paths; 'green gyms' ; improving access; and reducing other barriers to outdoor activity particularly for the most vulnerable and excluded groups in the community.	Baseline (most recent data) 41% (Men 49%; women 33%) - in 2011 (combined 2008-2011 surveys) Target 44% by 2015 (next survey result due) 47% by 2019 50% (Men 50%; women 50%) by 2022 (This is the national target – over the next three years we will review progress and aim to set more ambitious local targets)	Robinson)	community engagement by end 2014; with at least two new specific local projects in progress by end March 2014

	Resources (Money / Staff Time / Assets) aligned to delivering these actions across the Shetland Partnership
	Drugs and Alcohol SDAP Funding for drug and alcohol services Alcohol and Drug Development Officer

	Licensing Board
	Smoking Smoking cessation funding (as part of Effective Prevention Bundle allocated to NHS Shetland) NHS Shetland Health Improvement Team NHS Shetland Child and Family (including maternity) services Staff time from partner organisations – SIC Environmental Health & Trading Standards; Education and Youth Services: SYIS
	Physical Activity NHS Shetland Health Improvement Team NHS Shetland primary and secondary care - staff time for training Voluntary sector – staff time **Sports Hubs** Sports Scotland funding for co-ordinator SRT and SIC (Active Schools. Sports and Leisure) - staff time NHS Shetland Health Improvement Team – staff time Voluntary sector – volunteer and staff time Community groups – volunteer time SRT assets **Outdoor Activity** Scottish Natural Heritage, Amenity Trust and other partners involved in the Environmental Action Team SIC Planning staff, specifically Access Officer, and Environmental Health staff SIC Community Development staff Community Engagement Network Community Councils – community councillor time Voluntary sector – volunteer and staff time Community groups and individuals – volunteer time External funding for specific projects will be applied for as appropriate – eg from Lottery, national organisations

	Description of how the Shetland Partnership is moving to early intervention and prevention for this outcome

Early intervention and prevention is core to health improvement activity. Specific areas of work within this SOA include:

- working in partnership to change drinking culture and environment in Shetland with the long term aim of preventing alcohol problems in the future
- working with young people to understand motivations behind risk taking behaviour ,with smoking and not smoking as a key example
- pre-conceptual work to change behaviour and maximise health before women become pregnant which links to our work on Early Years
- working in partnership with communities and other organisations to promote physical activity, including both sport / 'organised' activity and less formal outdoor activity to increase access and make regular physical activity (in whatever form) the 'norm' for people in Shetland . This links with work on the environment and sustainability.

Partnership working on prevention and health improvement is well established in Shetland through the Strategic Partnership of the Health Action Team and other programme specific strategy groups, and through joint training and development. Work to overcome barriers to change includes influencing policy through health impact assessment of strategies and policies, and contributing to the wider impact assessment work to address inequalities.

In terms of physical activity, the focus of our work is to enable inactive people to become more active, rather than supporting those who are already 'sporty' or otherwise very active. This is clearly targeted on preventing problems associated with inactivity including obesity, diabetes and cardiovascular disease, as well as promoting mental health. Further development of partnership working links a much broader range of partners, in addition to those dedicated to physical activity or sport such as the Shetland Recreational Trust and Active Schools. This means working with partners such as Scottish Natural Heritage, Shetland Amenity Trust and the Council Planning Department to maximise the use of natural resources in Shetland and break down the barriers to physical activity. These may be physical, such as lack of safe walking routes; lack of information about what is available; financial barriers and more subtle issues such as an individual's lack of confidence or self esteem. We want to particularly encourage families and younger people out doors, to be physically active together, to change culture and embed activity into people's lives.

In other areas, we are shifting from dealing with problems to prevention and early intervention. A good example is smoking: in the past we have invested our efforts in a now very successful smoking cessation service, which has been focused within the NHS, alongside traditional health promotion partnerships for example with schools. The shift to prevention is a new focus to work more with young people to prevent smoking in the first place, but also intervene early and support them to give up smoking before it becomes an ingrained habit leading to lifelong addiction. This involves working through wider partnerships in education, youth services, trading standards and voluntary sector, and of course with young people themselves.

Arrangements for Community Engagement and community capacity building to deliver for themselves on this outcome

Community engagement on tackling alcohol issues through Drink Better campaign and survey
Community engagement with development of outreach child and family services in Mossbank
Engagement with young people specifically as part of the Health Needs Assessment on smoking and young people.
Extensive community engagement on the development of the Sports hubs – through development of local committees made up of community group

	representatives and local staff The third Physical Activity action is specifically about community engagement to support communities themselves to increase outdoor activity and use of outdoor space There are close links between all health improvement work and community engagement

	Scottish Government actions/ commitments required to deliver these outcomes
	Continuation of Effective Prevention Bundle funding and SDAP funding
	Alcohol Minimum Pricing
	Tax on ‘soft’ fizzy drinks Mandatory food labelling Requirement for publically funded (not just public sector) organisations that provide / sell food to follow appropriate nutritional guidelines

	Outcome	**Background / Context**	**National Outcome(s)**
c	People are supported to be active and independent throughout adulthood and in older age	We are not just experiencing an 'aging population' we are also seeing more people living into adult and older age with disability and long term health conditions. There are three transformational national initiatives that will help support and shape this local objective; • Reshaping Care for Older People • Integration of Health & Social Care Services • Self Directed Support Supporting adults and older people to remain active, safe, maximising independence, supporting people to remain in their own home and putting individuals at the centre of their support, are themes that are integral to all three 'drivers' in health and social care. Within our Reshaping Care Commissioning Strategy we have also been required to have a housing strategy. Appropriate housing is a vital part of success in maximising independence.	indLiving

Ref	**What OBJECTIVE within this outcome is being addressed**	**What (SMART) ACTIONS will be implemented to improve this**	**Which INDICATORS will this improve and by how much / when**	**LEAD Officer for action**	**WHEN will action be completed**
	Developing Locality based resource allocation and management.	We will recruit a Locality Development Manager. We will identify all current resources within identified localities and map current utilisation. Have locality based engagement events to identify best use of resources per locality Will have developed Locality Service Plans.	**End of Life Care** That all people will have options made available to them to remain at home, where physically possible to their end of life. **People with Care needs cared for at home** That people will be supported to remain active and independent in their own homes or other appropriate community	Director of Community Care	PiD which highlights key milestones will be agreed by end of March 2013 and implemented throughout 13/14

Ref	What OBJECTIVE within this outcome is being addressed	What (SMART) ACTIONS will be implemented to improve this	Which INDICATORS will this improve and by how much / when	LEAD Officer for action	WHEN will action be completed
			setting		
	Addressing our housing needs.	Work with a range of partners to provide housing support to vulnerable members of our communities, focusing on the importance of support at home to maintain residence in the community. To ensure that all available housing stock is adapted to maximise utilisation.	Would hope to gain agreement through CHCP management Team to allocate money to make 50% of current Sheltered Housing 'fit for purpose'.	Anita Jamieson/ Ruby Whelan/ Jo Robinson	March 2014
	Developing Self Directed Support Strategy	Recruit a Project Manager to embed legislation into a Shetland Strategy		Director of Community Care	March 2014
	Developing Third Sector	We will work with our third sector colleagues to develop a shared understanding of current and future needs in supporting people to remain active and independent. Through Reshaping Care Commissioning we will develop further plans that will support decommissioning tradition service models and invest in models of support managed by the third sector partnerships.		Director of Community Care	

	Resources (Money / Staff Time / Assets) aligned to delivering these actions across the Shetland Partnership
	We will have two specific Project Post which will be funded via Change Fund Money and through money we have and are to receive from Government to develop SDS Strategy.
	Change Fund & SDS Money

Description of how the Shetland Partnership is moving to early intervention and prevention for this outcome

Our priority within the SOA is to move away from the historical focus of care in services for adults and older people, to increase independence through adulthood and in older age, with a focus on prevention / early intervention. By adopting and embedding a philosophy of reablement and enablement we also support the prevention of further dependency and early relapse. Prevention is core to the Community Health and Care Partnership Agreement in Shetland, and to the use of the Change Fund programme locally in looking at other ways to support people, and ways in which people can support themselves. For instance through natural networks of support, assistive technology, developing more accessible housing, redesigning overprovision to target to those in greatest need, and increasing income through developing a revised charging policy to support ongoing service provision. We are explicitly planning to reduce future demand in terms of care home capacity, and in changing the culture of expectation in public sector provision.

We are currently looking at more assertive commissioning for Reshaping Care including models of Intermediate Care, supporting initiatives from the third sector, and anticipatory care planning. This aims to increase the independence of people who we are planning care for, through an element of prevention for all people with measurable outcomes such as avoiding hospital stays.

We have identified a range of barriers to change including staff attitudes, the need for training on reablement, and translating the technical language to be more accessible to the public and other partners; for instance talking about getting folk back on their feet and reducing the intrusion of services into people's lives, making services more supportive and under the control of the individual.

To support the change in culture from one of care to one of support, we are developing a local strategy on self directed support. We recognize some barriers to change, such as the challenge of giving up control from the statutory sector. Current work to overcome this includes working with the third sector, regaining trust and building relationships in some areas of service.

Engagement with stakeholders will help us decide how much our current plans will be successful or whether there is more that needs to be done. We expect that communities will come up with their own solutions which will challenge us to think differently in our planning. For instance, engagement on the draft charging policy is planned with the community and external stakeholders such as Community Councils.

This work is taking place in the context of Integration in line with government policy. The SOA builds on our strengths of joint commissioning through the CHCP Agreement, and jointly managed community health and care services. We are also considering further integration of governance arrangements, and joint budget setting between the NHS and Local Authority.

Arrangements for Community Engagement and community capacity building to deliver for themselves on this outcome

We have funding some work this year to develop scope Community Capacity and will continue to work with Third Sector partners and Community Planning to maximise this.

	We are developing scheduled events throughout the year for various Community Engagement events.

	Scottish Government actions/ commitments required to deliver these outcomes
	SDS Strategy Reshaping Older Peoples Care Health & Social Care Integration.

	Outcome	Background/Context	National Outcome(s)
d.	Shetland stays a safe place to live, and we have strong, resilient and supportive communities	In Northern Constabulary's 2012 Community Consultation Survey (Shetland Area Report)[i] 99% of Shetland residents described the area within a 15 minute walk from their home as *"very safe"* or *"fairly safe"*. This is 2% higher than the Shetland results of the 2011 survey and is also higher than the overall Northern Constabulary result. Respondents were then asked about their perceptions of changes in the safety of their area over the past year, with 89% of respondents feeling that their area was about the same in terms of safety compared to a year ago whilst 3% felt their area was now safer and 6% said their area was now less safe than a year ago. Respondents were then asked how concerned they were with various issues in their area. The top concerns for Shetland respondents in 2012 were: · Road Safety e.g. speeding, drink/drug driving – 68% · Alcohol Abuse e.g. underage drinking/alcohol-related disorder – 61% · Serious Organised Crime e.g. drugs/organised crime/prostitution – 42% Terrorism is the lowest level of concern for respondents and it is notable that the priority of Serious & Organised Crime is significantly more of a priority for Shetland residents than force area residents overall. The survey found that only 33% of respondents thought that public protection, which incorporates domestic abuse along with the protection of children and vulnerable adults, was a major or minor concern in Shetland. We would want to support the Adult and Child Protection Committees work in raising awareness amongst the general public in Shetland of protecting children and adults from harm. Respondents were asked what the 3 main priorities should be for local police, prosecutors and courts. Shetland residents stated that they were: · Drugs (incl. drug dealing and drug-related crime) – 73% · Road safety/speeding – 39% · Drink-related crime/behaviour – 29% In 2012, the Shetland Community Safety Partnership carried out their second Strategic Assessment. This process provides an analytical overview of the community safety priorities of the Shetland community and, as a result,	crime

		the Partnership established clear, evidence-based priorities for 2012-2013. The following issues were classified as very high or high priority: 1. Substance misuse, specifically alcohol, legal highs and new trends 2. Domestic abuse, including all forms of gender-based violence, which can include (but is not limited to) rape and sexual assault, stalking and harassment, forced marriage and commercial sexual exploitation The Northern Community Justice Authority (NCJA) is the lead body in the North of Scotland making our communities safer by reducing re-offending and improving the management of offenders. Shetland will work with the NCJA to deliver on the reducing reoffending agenda, ensuring that offenders are effectively managed, have appropriate access to services and interventions to support their intergration into the community. There were a number of transport and oil-related major incidents in the late 1980's and early 1990's which lead to the formation of the Shetland Emergency Planning Forum to anticipate, respond to and recover from future major incidents. This has been formalised and developed with the introduction of the Civil Contingencies Act 2004 and supplemented by the Contingency Planning (Scotland) 2005 Regulations.	

Ref	What OBJECTIVE within this outcome is being addressed	What (SMART) ACTIONS will be implemented to improve this	Which INDICATORS will this improve and by how much/when	LEAD Officer for action	WHEN will action be completed
	Promote public confidence by decreasing the fear of crime	During the year Police Officers will report to, and contact prior to, or attend all community council meetings. Subsequently they will submit a community consultation form through to the Police Area Commander. The information contained in these forms will be used to identify community priorities.	Percentage of adult residents stating their neighbourhood as a "very good" place to live Baseline: 73% Source: Northern Constabulary 1 Year Target: 75%	Police Scotland – Local Police Commander & Area Commander	March 2014

Ref	What OBJECTIVE within this outcome is being addressed	What (SMART) ACTIONS will be implemented to improve this	Which INDICATORS will this improve and by how much/when	LEAD Officer for action	WHEN will action be completed
		Develop, implement and use the police-funded Community Contact Van as a multi-agency contact point throughout the isles Police will continue to increase the number of licensed premise checks and high visibility patrols (statistics to evidence this work will be reported to the Shetland Community Safety Board) Implement a Pub Watch Scheme to target the outcomes of alcohol abuse and antisocial behaviour. Tackle substance misuse by focusing resources on those involved in the supply and possession of drugs. Work will include: · Increased positive drug searches · Increased educational/public awareness inputs · Increased tasking (searches and educational visits) of the Dogs Against Drugs resources to ensure the maximum use of this community-funded resource Increase access to substance misuse services and offender work programmes	3 Year Target: 79% 10 Year Target: 85% Percentage of adult residents stating they feel "very safe" or "fairly safe" when at home alone at night AND "very safe" or "fairly safe" when walking alone in the local neighbourhood after dark Baseline: 99% Source: Northern Constabulary 1 Year Target: 99% 3 Year Target: 99% 10 Year Target: 99% Perceptions of local drug dealing/drug use in neighbourhoods as a 'major' concern Baseline: 16% Source: Northern Constabulary 1 Year Target: 15% 3 Year Target: 13% 10 Year Target: 10% Rate of recorded crimes and offences per 10,000 population Baseline: 300 (2011/12) Source: Northern Constabulary 1 Year Target: 280 3 Year Target: 260 10 Year Target: 240	Police Scotland – Local Police Commander & Area Commander Police Scotland – Local Police Commander & Area Commander Police Scotland – Local Police Commander & Area Commander & SIC Licensing staff Police Scotland – Local Police Commander & Area	June 2013 Ongoing March 2014 Ongoing

Ref	What OBJECTIVE within this outcome is being addressed	What (SMART) ACTIONS will be implemented to improve this	Which INDICATORS will this improve and by how much/when	LEAD Officer for action	WHEN will action be completed
			LEAMS Indicator (Street Cleanliness Index) Baseline: 75 (2011) Source: Keep Scotland Beautiful 1 Year Target: 75 3 Year Target: 75 10 Year Target: 75 1 Year Target: 75% of assessed need 3 Year Target: 75% of assessed need 3 Year Target: 75% of assessed need	Commander Executive Manager Criminal Justice	Ongoing
	Work with partners to support and contribute to reducing offending and prevent victimisation	Domestic incidents will be reviewed on a daily basis as part of the Area Command (Shetland) and divisional (Highlands & Islands) tactical process. They will be subject to a weekly audit by the North PPU Inspector and direct tasking from the Police Area Operational Inspector. This will ensure incidents of domestic abuse are identified, investigated and managed effectively in line with National Standards at an Area Command and Divisional level. The Shetland Domestic Abuse Partnership will implement the MARAC (Multi-Agency Risk Assessment Conference) process in Shetland. This will maintain the focus on protecting all victims of domestic abuse through the management of risk.	Percentage of adult residents stating their neighbourhood as a "very good" place to live Baseline: 73% Source: Northern Constabulary 1 Year Target: 75% 3 Year Target: 79% 10 Year Target: 85% Percentage of adult residents stating they feel "very safe" or "fairly safe" when at home alone at night AND "very safe" or "fairly safe" when walking alone in the local neighbourhood after dark	Police Scotland – Local Police Commander and Area CommanderSD AP (Jenny Wylie) Victim Support Shetland Executive Manager Criminal Executive	April 2013

Ref	What OBJECTIVE within this outcome is being addressed	What (SMART) ACTIONS will be implemented to improve this	Which INDICATORS will this improve and by how much/when	LEAD Officer for action	WHEN will action be completed
		Promote Victim Support Shetland through the Shetland Community Safety Board, partner agencies and the wider community to improve the support provided to victims of crime and major incidents Reduce 1 year reconviction rates by 5% Promote early intervention/ preventative work with 16 & 17 year olds who offend as part of the whole system approach.	Baseline: 99% Source: Northern Constabulary 1 Year Target: 99% 3 Year Target: 99% 10 Year Target: 99% Perceptions of local drug dealing/drug use in neighbourhoods Baseline: 16% Source: Northern Constabulary 1 Year Target: 15% 3 Year Target: 13% 10 Year Target: 10% Increase use of MARACs in Shetland One year reconviction frequency rate Baseline: Women offenders – 31.6% (2007/8) Under 21's – 39.9% (2007/8) Overall rate -22.4% (2009/10) Source: Scottish Government Reconviction Rates. 1 Year Target: 5% reduction 3 Year Target: 5% reduction 10 Year Target: 5% reduction Reduce conviction rates of 16 & 17 year	Manager Criminal Justice	September 2013 going

Ref	What OBJECTIVE within this outcome is being addressed	What (SMART) ACTIONS will be implemented to improve this	Which INDICATORS will this improve and by how much/when	LEAD Officer for action	WHEN will action be completed
			olds Increase use of diversion from prosecution. Baseline to be set.		
	Keep people safe on our roads	The Shetland Community Safety Board and partner agencies will work to achieve the Scottish Government's road casualty reduction targets for 2020 as set out in *Go Safe on Scotland's Roads - It's Everyone's Responsibility* Detection work, related to "road safety" will include: · Increase the number of people detected for drink/drug driving offences. · Increase the number of people detected for seat belt offences. · Increase the number of people detected for mobile phone offences · Increase the number of people detected speeding and driving inappropriately. Diversion work, related to "road safety" will include: · Partner agencies will positively engage with road users to promote road safety awareness. Events will include - display at the auto show (April 2013), display at the Scottish Cycle week event (June 2013), display at some country fairs, a minimum of four road safety awareness campaigns during the year. · Partner agencies, through the Shetland Community Safety Board, will implement the Driving Ambition educational programme before the end of 2013	Number of persons killed or seriously injured in road accidents Baseline: 0 fatalities; XX serious injury (2012) Source: Northern Constabulary 1 Year Target: 0 fatalities; XX serious injury 3 Year Target: 0 fatalities; XX serious injury 10 Year Target: 0 fatalities; XX serious injury The Scottish Government has set ambitious casualty reduction statistics for 2011-2020, with milestones set for 2015. These are: · 40% reduction in people killed by year end 2020 (30% by 2015) · 55% reduction in people seriously injured by year end 2020 (43% by 2015) · 50% reduction in children aged under 16 killed by year end 2020 (35% by 2015) · 65% reduction in children aged under 16 seriously injured by year end 2020 (50% by 2015)	Police Scotland – Local Police Commander & Area Commander & CS Board (Jenny Wylie) Police Scotland – Local Police Commander & Area Commander Police Scotland – Local Police Commander & Area Commander; SIC (Road Safety Officer, Community Safety Officer, Schools Service), SF&RS, SAS	Ongoing March 2014 April 2013 June 2013 November 2013

Ref	What OBJECTIVE within this outcome is being addressed	What (SMART) ACTIONS will be implemented to improve this	Which INDICATORS will this improve and by how much/when	LEAD Officer for action	WHEN will action be completed
	Working with partners to reduce the number of deliberate fires in Shetland	Work with partners in delivering key safety advice to identified or known at risk groups/areas Work closely with Police Scotland and within the agreed protocols when conducting fire investigations and where appropriate sharing the findings of investigations with key agencies and/or organisations Delivery of fire setting Intervention Scheme to reduce deliberate fire setting (one to one intervention scheme delivered by SFRS with appropriate individuals)	Number of deliberate fires per 100,000 population Baseline: 13 (2011/12) Source: 1 year target = 10% reduction 3 Year Target: 10 Year Target:	Local Senior Officer – Billy Wilson	March 2014
	Working with partners to reduce the number of accidental fires in Shetland	Provide free home fire safety checks to any household within Shetland on request Proactively target known risk groups and offer free home fire safety checks through operational intelligence, safety assessments or partner referrals Conduct legislative Fire Safety Enforcement activities for all appropriate non domestic premises in line with the Scottish Fire and Rescue Service strategic objectives Deliver community and fire safety advice to identified 'at risk' groups/areas Conduct Post Domestic Incident Response activities	Number of accidental fires per 10,000 population Baseline: Source: 1 year target: = 10% reduction 3 Year Target: 10 Year Target:	Local Senior Officer – Billy Wilson	March 2014

Ref	What OBJECTIVE within this outcome is being addressed	What (SMART) ACTIONS will be implemented to improve this	Which INDICATORS will this improve and by how much/when	LEAD Officer for action	WHEN will action be completed
		following all significant domestic fires Conduct post fire audit activities following all non domestic fires within relevant premises			
	Emergency Plans for Communities in Shetland – recognition that community members can provide the solutions themselves	Attend Community Council meetings to promote and help develop emergency plans for communities	Community resilience will be increased in response to emergencies, incidents and severe weather	Chair of the Shetland Emergency Planning Forum (I Gall)	Ongoing through 2013/14
	That the new National Contingency Plan for Marine Pollution from Shipping and Offshore Installations is fit for purpose	Ensure that members of the Community Safety Board and other interested parties and organisations (in Shetland) can respond to the consultation on the new National Contingency Plan when it is issued	To respond until there is a satisfactory version which includes a legal framework for compensation and also the need, from the start of any serious offshore incident, to gather and retain all information relevant to compensation claims	Chair of the Shetland Emergency Planning Forum (I Gall)	2013

	Resources (Money/Staff Time/Assets) aligned to delivering these actions across the Shetland Partnership
	· 1 x F/T Community Safety Officer (SIC) and 1 P/T Interventions Officer (Police Scotland) · 1 x F/T Emergency Planning & Resilience Officer (SIC)(Civil Contingencies element of GAE for Shetland is £73,000) · Representation at Strategic Level of Category 1 Responders (Police, Fire, Ambulance, NHS, Coastguard, SEPA & SIC)

- Representation and participation of Category 2 Responders (utilities, transport, port authorities & voluntary organisations)
- Fully equipped Emergency Response Centre, currently provided by the Shetland Islands Council
- Community Contact Van
- Dogs Against Drugs staff & assets
- Appropriately tasked police officers and police staff
- 2 x P/T Neighbourhood Support Workers
- 1 x F/T Antisocial Behaviour Co-ordinator
- 1 x P/T Road Safety Officer (Education)
- 1 x F/T Roads Engineer (Engineering)

Description of how the Shetland Partnership is moving to early intervention and prevention for this outcome

The core of much of the local work on making Shetland safer is prevention and early intervention. The Community Safety Board will have, as its driving force, the *Safer* strand of the Shetland Performance Framework, taking into account the principles of prevention, early intervention and partnership working. The Board engages with, and supports, a range of strategic partnerships that deliver on themes within the Safer strand: the Shetland Domestic Abuse Partnership, the Shetland Emergency Planning Forum, the Road Safety Advisory Panel and the Antisocial Behaviour Working Group, the Northern Community Justice Authority, the Shetland Alcohol & Drugs Partnership and Adult and Child Protection Committees.

Activity to make Shetland safer is clear in its focus and based on a good understanding of the local communities concerns through local strategic assessments.

Partnership working on this theme aims to prevent harm in the short and long term through changing the culture of alcohol use in Shetland, through its Protection work with children and vulnerable adults, through work on antisocial behaviour (which links to the theme of Early Years) and through the SOA priorities of accident prevention, reducing offending and preventing victimization, and reducing the fear of crime.

The SOA actions link directly to improving outcomes, for instance in reducing the fear of crime through use of the Community Van to improve visibility and make services more accessible within local communities. Another example is in early intervention to reduce risks or prevent risks escalating, for instance implementation of the MARAC process throughout Shetland for high risk victims of domestic abuse, stalking and honour-based violence, preventing secondary offending. Action on Domestic Abuse includes training of front-line staff which is commissioned and delivered in partnership, and focuses on early intervention in not only recognising victims but also risk assessment for protection from more extreme harm. The prevention work includes the rolling programme of work in schools and with young people on relationships and respect. The Respect programme is a perpetrator programme for DA working with perpetrators (while Women's Aid support the victims and their children) to reduce risk of future harm. Other examples are reducing reoffending through diversion of young people through a multi-agency approach of intensive intervention; and victim support work to increase resilience.

Barriers to progress that are recognized include the context of tightening budgets in the public sector, and protecting developments that need pump priming before the longer term benefits are delivered. Much of this work links to other priorities, particularly early years including pre-birth, and one of the local advantages is of a small system where staff are often working across themes.

Joint use of resources on prevention and early intervention is well developed in some areas such as substance misuse and Protection work both of which are jointly commissioned. It is being developed in other areas such as the MARAC work, the Driving Ambition project which is interagency working with 16/ 17 yr olds, and there are other areas where the plan is led by police but increasingly delivered in partnership.

Arrangements for Community Engagement and community capacity building to deliver for themselves on this outcome

There are 7 Elected Members sitting on the Community Safety Board – one from each Council ward, who will represent their area when discussing community safety and resilience issues.

Chief Inspector is in the process of meeting every Community Council to discuss the Local Policing Plan 2013-2014 and seek their views on what issues face their areas for inclusion in the 2014-2015 Policing Plan.

Further work is being done to develop new engagement arrangements with other, currently, less engaged sections of the community.

Emergency Planning has delivered a report to the Association of Shetland Community Councils on Community Resilience. This strand of work will be progressed through the community workers with individual Community Councils supported by the Emergency Planning & Resilience Service of the Council.

Scottish Government actions/commitments required to deliver these outcomes

Violence Against Women funding secured for 2012-2015 to develop and implement the MARAC process in Shetland

The Scottish Government’s Resilience Division is very active in the promotion of resilience, response and recovery. They support Resilience Partnerships (Shetland is a part of the North of Scotland Resilience Partnership) and through their publication *Preparing Scotland* supported with additional guidance on specific subjects, i.e. Community Resilience, Business Resilience, Care for People and their Ready Scotland website: http://www.readyscotland.org/are-you-ready/

Commitment to maintenance of local police numbers

Abbreviations

CJSW – Criminal Justice Social Work
MARAC – Multi-Agency Risk Assessment Conference
NCJA – Northern Community Justice Authority
SAS – Scottish Ambulance Service
SDAP – Shetland Domestic Abuse Partnership
SF&RS – Scottish Fire & Rescue Service
SIC – Shetland Islands Council

Ref.	**Outcome**	**Background / Context**	**National Outcome(s)**
e.	Shetland has sustainable economic growth with good employment opportunities and our people have the skills to match, good places to stay and the transport people and businesses need.	Shetland's economy has remained relatively strong in the face of the recent national and international economic downturn, with draft regional accounts figures suggesting a 20% increase in economic output (at 2011 values) between 2003 and 2011. While public sector employment remains highly significant, the combined fisheries sector (catching, processing and aquaculture) is the largest sector in terms of economic output. Oil and gas developments continue to be a major factor in the local economy, while retail and construction are significant contributors of employment and economic output. Despite the current strong position of the local economy, there are serious risks in the immediate and short term. National economic conditions mean that the public sector continues to face significant cuts, which will lead to job losses and reductions in service provision, potentially leading to a large increase in the numbers out-of-work, and a disproportionate impact on women and young people. Public sector cuts will also impact on private business through a reduction in high value contracts available to businesses in sectors such as construction and business services. The economic base, while maintaining a high level of economic output, is narrow, with half of Shetland's output directly attributable to fisheries and the public sector, and other sectors heavily reliant on these for trade. There is a clear need therefore to expand and diversify the business base and to develop key infrastructure to mitigate the risks identified above. Developing the labour market is crucial to this process, as the limited labour market in Shetland is a key barrier to economic growth. With the potential for public sector cuts leading to new entrants into the job market, agencies must ensure that they are in a position to assist individuals and businesses, by ensuring that services are easily accessible and understandable, and that roles within strategic partnerships are clearly defined. Unemployment (as measured by JSA) remains at less than 1.5% and is among the lowest of any local authority in Scotland, while economic activity among the local population is, at 85%, the highest in the country. The rate of school leavers in Shetland entering employment is almost double the Scottish average, while the numbers entering training, FE and HE are relatively lower, reflecting a buoyant job market and the choices that face those living in an island community, where relocation is often necessary to access many further and higher education opportunities. The main challenge is to sustain these high rates of employment over the period of the SOA. There are significant opportunities for skills development, particularly in engineering disciplines for energy supply chain businesses. The development of next generation broadband will allow for new areas of business development, particularly in finance and business services and creative industries, and new opportunities for those in remoter rural communities to mitigate the effects of peripherality.	business employment research

		Increasing the resilience of our most remote and rural communities' forms a key part of the Economy SOA. Despite the economy being relatively buoyant, many of the communities outwith the main population centres are economically fragile. These communities are dependent on aquaculture, tourism and a declining public sector, with few other employment opportunities available. Communities, working in partnership with public and private sector bodies, will be key to delivering demonstrable change. Shared planning of critical infrastructure improvements will be key to the advancement of our most remote and rural areas. These include digital connectivity and physical connections such as fixed links, road, ferry and air connections as well as projects to support community renewables projects in the future.	

Ref	**What OBJECTIVE within this outcome is being addressed**	**What (SMART) ACTIONS will be implemented to improve this**	**Which INDICATORS will this improve and by how much / when**	**LEAD Officer for action**	**WHEN will action be completed**
	A more diverse business base	Create and implement a Renewable Energy Development Plan 2014-20, by March 2014, which will: • Provide a spatial and community context to the developing renewable energy industry; • Seek a balance between inward investment and indigenous community projects; and • Define Shetland's proposition as a test site for RE developments • Key milestones: ○ Establishment of Shetland Energy Group with industry and community representation by September 2013. ○ Community Benefit Policy finalised – Date TBC ○ Plan is dependent on Interconnector delivery- end 2014. ○ Measurement data/targets to be defined by 2015.	Maintain and increase Economic growth Reduce CO2 emissions per capita Improve the skill profile of the population Increase Business Start-Up Rate Improve employment rate Reduce numbers on out of work benefits	Douglas Irvine SIC Ec Dev	2020

Ref	What OBJECTIVE within this outcome is being addressed	What (SMART) ACTIONS will be implemented to improve this	Which INDICATORS will this improve and by how much / when	LEAD Officer for action	WHEN will action be completed
		Create working group and develop a five year plan to attract people to Shetland to live, work, study and invest. • Key milestones ○ Create working group by June 2013 ○ Develop an evidence based on skills and people shortage in the private sector ○ Tertiary Education Review end of July 2013 ○ Finalise plan by end December 2013		Rachel Hunter, HIE	2018
		Ensure partners working on broadband projects co-ordinate to ensure that NGB is available to 75% of the Shetland population by 2016 and that businesses and communities are aware of the benefits that this will bring • Key milestones ○ BT Survey Work to be completed by September 2013 ○ Development Plans available from Shetland Telecom and BDUK project by end October 2013. ○ Develop and roll out a campaign to promote the business and community benefits of high speed broadband by December 2014.		Douglas Irvine, SIC Ec Dev	2020
		Develop Master Plans for SIC owned Ports and Harbours to meet the needs of industry (tourism, fisheries and aquaculture; oil and gas, renewable energy) into the future : • Key Milestones • Development Plan for Scalloway complete by end of			

Ref	What OBJECTIVE within this outcome is being addressed	What (SMART) ACTIONS will be implemented to improve this	Which INDICATORS will this improve and by how much / when	LEAD Officer for action	WHEN will action be completed
		December 2013. • Development Plan for Sellaness complete by end December 2014. • Research funding options for developments end December 2015. • Implementation and construction – 2016-2020.		Rachel Hunter, HIE	2020
	More resilient and sustainable communities and community enterprises across Shetland	Work in partnership with communities to maximise return from community assets and to identify and overcome barriers to employment and development e.g. childcare issues, transport etc. and develop sustainable, creative solutions • Review of Community Account Management by HIE by end June2013. • Identify the resources that are available to implement and support the CRP by end December 2013. • Develop a shared understanding of the assessment criteria for priority areas by end December 2013. • Develop a Community Regeneration Policy by end 2014.	Maintain and Improve Economic Growth Increase Average Earnings	Rachel Hunter, HIE	2020
	Sustain high rates of employment	Identify skill and trade shortages and develop action plans to support the unemployed and underemployed to access training in these areas . There will be a specific focus on women and young people. • Skills Learning and Employability Action Plan end June 2013. • Establish the evidence base by end September 2013 • Develop a medium term Strategy with key milestones and monitoring plan by June 2014. Undertake a Tertiary Education Review with the aim of ensuring	Improve Youth Employment Indicator Improve Women in Employment Indicator Maintain and Increase Economic Growth Skill Profile of the Population	Neil Grant, Chair of Skills Learning and Employability Partnership	2018

Ref	What OBJECTIVE within this outcome is being addressed	What (SMART) ACTIONS will be implemented to improve this	Which INDICATORS will this improve and by how much / when	LEAD Officer for action	WHEN will action be completed
		that Shetland's learning providers are fit for purpose and meet demand by end July 2013. • Implementation Plan by end October 2013.	• Increase population qualified at NVQ1 level or above to 92% (10 years)		End 2013

	Resources (Money / Staff Time / Assets) aligned to delivering these actions across the Shetland Partnership
	All partners have committed staff time to the above objectives.
	HIE, SIC and Fairer Shetland Partnership resources committed to community capacity building and development.
	SIC resources committed to undertake studies and research to establish the evidence base e.g. Input/Output Study, Tertiary Education Review, Housing Needs Demand Assessment.

	Description of how the Shetland Partnership is moving to early intervention and prevention for this outcome
	Economy and employment This section of the SOA is firmly based on prevention and early intervention. Without the actions included in the SOA, Shetland's economy would remain narrowly focussed and vulnerable to external pressures and influences outwith our control, and Shetland's remote communities would remain highly dependent on public sector subsidy. We would also expect to have a disproportionate number of young people and women out of work. Shetland has historically operated with strong partnerships between the public & private sectors in a number of areas, looking not only to Scotland but also beyond. The SOA actions are clearly linked to positive outcomes in terms of recruitment both within the public sector and industry, developing a wider and more robust business base, preventing the loss of some business sectors, maintaining high employment, and attracting people to work and live in Shetland so increasing the population with a direct positive impact on the local economy. There are also key links to other key priorities such as sustainability and having a clear plan for renewable energy. The focus on prevention includes having the capacity locally to get into industries at an early stage ,for example technology industries , and needs a shift from seeing Shetland as a last resort place to work but rather as a valuable experience for professionals. There are areas within the SOA where plans need to be further developed on this, for instance working with Promote Shetland. If we collectively continue to fail to attract good quality people and are unable to recruit to key posts we will lose the capacity as a community to be at the forefront of development and have competitive advantage in key sectors. Some of the potential barriers to progress that have been identified include the need to focus to achieve change, given the range of issues facing the public

	sector, and the value of the SOA in giving key priorities to drive partnership working embedded in core business. For instance, we have made progress in single agencies aligning resources to the big priorities such as the SIC Change Management project, and the step change that is required is for the Community Planning Partnership to grasp this collectively. There is still work to be done in refining current plans, where actions need to be smarter, and where there needs to be further development to build on elements of good partnership working eg with the oil industry. There is further scope for exploring joint resources in partnership, and further community project planning to engage with partners. This exists to some extent in Local Plans eg spatial planning for wind turbines, with some elements needing more work as set out in the SOA. Key local priorities for success include developing local priorities for our remote & fragile communities within Shetland, developing models for community benefit, and further work on controlling costs and releasing savings, though for the priority of economic development, the focus is on investment and maximising outcomes from limited resources.

	Arrangements for Community Engagement and community capacity building to deliver for themselves on this outcome
	Individual agencies (e.g. HIE; SIC Economic Development and SIC Community Development) within the Development Partnership already engage heavily with communities and businesses, however a forward agenda item is to map where partner are engaging and to assess whether any gaps exist. Supporting community capacity building is core to achieving the "More resilient and sustainable communities and community enterprises across Shetland" objective.

	Scottish Government actions/ commitments required to deliver these outcomes
	Commitment to deliver Next Generation Broadband to at least 75% of the Shetland population by 2016.
	Support Shetland community to lobby National Grid to install 650MW (or larger) interconnector by 2018
	Commitment from Scottish Government to resolve Shetland's historic housing debt (£40 million)
	Maintain and improve the existing ferry and air links between Shetland and mainland Scotland which are vital to Shetland's economy and design and spcifiy those services in partnership with the Shetland Community.

	Outcome	Background / Context	National Outcome(s)
f	We have tackled inequalities by ensuring the needs of the most vulnerable and hard to reach groups are identified and met, and that services are targeted at those most in need	The impact of the global recession on Shetland is uncertain, but good planning is required to minimise impact, at the same time as the contraction in the public sector. UK Welfare Reform is resulting in a reduction in funding, provided through the benefit system, for many families and individuals. As the income of some of the most vulnerable families in Shetland decreases, the risk is demand for support services will increase dramatically. This includes debt and money advice, social housing, supported employment services and social work. Most households in Shetland are experiencing an overall reduction in household income (in real terms), and there are opportunities to assist individuals and households to cope with the increasing cost of heating and transport (Fuel Poverty and Transport Poverty). The Minimum Income Standard for Remote and Rural Scotland will be published in May 2013, and this will provide useful information about the cost of living in Shetland. It is now understood, locally and nationally, that the best way to tackle poverty and social exclusion in a rural area, such as Shetland, where it is dispersed, is to provide an individual, outcome focused approach. All areas within the SOA have a responsibility for reducing inequalities, however, this area focuses on specific areas that need additional attention.	inequalities

Ref	What OBJECTIVE within this outcome is being addressed	What (SMART) ACTIONS will be implemented to improve this	Which INDICATORS will this improve and by how much / when	LEAD Officer for action	WHEN will action be completed
	To Support Households to Maximise their Income	Support households through the changes and impacts resulting from Welfare Reform (see action plan, including communication, online assistance, money advice and work related support): - Detailed training complete; - Support establishment of financial inclusion products necessary for reforms. Developing a thrifty approach to reduce household bills: - Conclude first stage of Grow Your Own	Percentage of Households Coping Well Financially Percentage of Adults with a bank account Baseline: Percentage of Adults with some savings	Emma Perring	October 2013 December 2013 September 2013

Ref	What OBJECTIVE within this outcome is being addressed	What (SMART) ACTIONS will be implemented to improve this	Which INDICATORS will this improve and by how much / when	LEAD Officer for action	WHEN will action be completed
		Project and prepare for rollout. - Rollout Come Dine with me Project.			September 2014 June 2013
	To Provide the Right Support at the Right Time to Enable Each Individual to Access Long-Term Employment Opportunities	Provide clear information about the roles and responsibilities of organisations. Carry out an analysis of the employability pipeline and commit to identify and remove duplication, alongside establishing the best use of resources, implementing an outcomes monitoring framework and finding ways to fill identified gaps (e.g. lack of therapeutic or supporting employment workplaces). Review and develop proposals for improved employer engagement.	Employment Rate / Out of Work Benefits Proportion of School Leavers in positive destinations	Emma Perring	April 2013 June 2013 June 2013 September 2013
	To Work with Individuals to Improve their Life Chances	Develop and Implement a LIFE type model to support the most vulnerable and chaotic families, requiring investment and changes to ways of working. Support Poverty Sensitive Decision-Making within all agencies, through the Integrated Impact Assessment.	Proportion of individuals living in poverty Children's deprivation rating Percentage of Households Coping Well Financially (	Emma Perring	January 2014 September 2013
	To Provide Opportunities to Develop Positive Community Connections, enabling people to feel part of their community take part in activities	Deliver Training to 50 Front-Line Staff. Roll-out Pilot Projects to another 4 areas of Shetland. Incorporate Tools into GIRFEC and WYFY.	Mental well being (target set elsewhere)	Emma Perring	End of March 2014 December 2013

	Resources (Money / Staff Time / Assets) aligned to delivering these actions across the Shetland Partnership

	0.67 FTE of direct staff time.
	£165,000: SLAs with MOEP, Shetland Befriending Scheme, Shetland Community Bike Project, CAB, Parent Link Shetland / £50,000 for Community Development Organisations / £50,000 for early intervention support to individuals and families, particularly to support access to social opportunities.
	Description of how the Shetland Partnership is moving to early intervention and prevention for this outcome
	Fairer The approach of the Fairer Shetland Partnership is very actively focussed on early intervention and prevention, and this includes: - The development of support to chaotic families; - The development of community connections; - The administration of a scheme to support individuals improve their life-chances through early intervention; - Work in partnership to reduce stigma in Shetland. These actions have clear links to positive outcomes – people feeling part of their community, improving their quality of life, and preventing crisis. Success is measured in the short term through impact measures such as on participation, eg involvement in out of school activities for 7-9 year olds, with clear longer term outcome measures as SOA indicators. We are applying the evidence of effective initiatives, such as the benefits of engagement in communities, ie social capital that improves quality of life. Developing children's capacity in this helps prevent poor outcomes later in life, building skills that help strengthen communities themselves, reducing stigma, and giving communities permission to function in a more inclusive and collaborative way. Local programmes also focus on families in greatest need through a community based approach, which links to the Early Years priority, and local actions on these two themes are complementary. Our tendency has been to do good work on individuals with chaotic lifestyles, but we have not been effective historically in changing the underlying reasons and supporting whole families to bring about fundamental change in their quality of life. Our planned actions on early intervention are designed to overcome barriers for individuals and solve problems at a very practical level with a focus on shifting services to better meet needs, for instance supporting a childcare qualification to make a mother financially independent; using community minibuses to access youth clubs for children in remote areas whose families can't afford transport. These interventions are designed to reduce future spend on services that has been achieved elsewhere. - This work has been developed and is enacted in a fairly mature partnership. Having developed around the principles of shared resources, it is now taking a partnership approach on new challenges such as dealing with Welfare Reform. However for mainstream services which have the potential for impact on making Shetland a fairer place to live, we still have a long way to go - the challenge is to consider inequalities in everything that is done, and getting a focus on the 10% of the population in greatest need. This is being progressed through a strategic approach to Impact assessment of policies, and working within organisations to shift services in this direction with some success – there are an increasing number of examples where individual champions are integrating their work across the range of mainstream services.
	Arrangements for Community Engagement and community capacity building to deliver for themselves on this outcome

	EPIC project provided an opportunity for clients to have two days to comment on the approach and work of the Fairer Shetland Partnership. Feedback has been used to develop objectives and actions for 2013/14. Projects within the Thrifty Living Project include development of skills for growing and cooking food.

	Scottish Government actions/ commitments required to deliver these outcomes
	Continue to support approaches at the level of individuals and families, which are most effective within remote and rural areas.
	Recognise and assist re disproportionate impact of Welfare Reform on remote and rural areas.

	Outcome	Background / Context	National Outcome(s)
g	We deliver all our services in an environmentally sustainable manner to safeguard and enhance our outstanding environment which underpins all our actions and our economic and social well being.	The environment in which we live is the context for all of our activities. . Sustainable development requires a balance between the objectives of the economy, the environment and society. The environment is therefore more fundamental in importance than its reflection in just one strategic objective implies. Delivering sustainable services and decisions is a core part of the Council and Community Partnership's role in implementing its duties under Part 4 of the Climate Change (Scotland) act 2009. The Act sets out clear and ambitious targets for emissions reduction, and other climate change provision, including actions required towards mitigation and adaption. The public sector has a crucial leadership role in delivering these targets and in acting sustainably. These duties came into force on 1 January 2011. Key economic sectors such as food, tourism, and fishing overtly rely on a clean and healthy environment. All our services are dependant on a stable environment where the effects of climate change (flooding, coastal erosion, changes in biodiversity) are kept in check by mitigation and adaption measures. Without planned resilience to these changes all our actions are at risk. Adaption and mitigation of climate change and a structured move to a low carbon economy is dependant on the development of new skills to meet future challenges. These skills can give us economic advantage, delivering regeneration and creating jobs in these difficult economic times. There is a clear link between a quality environment and a high quality of life. Communities which have access to well maintained, good quality green space, land for community cultivation, path networks or which have easy links to the wider countryside have residents who are active and healthy. Whilst biodiversity is intrinsically important, it is also recognised that the benefits to both physical and mental health of an accessible biodiverse environment and pleasant landscape are particularly strong. People feel safer if they get to know their neighbourhood as a clean and pleasant place with little evidence of graffiti, dog fouling, littering and other evidence of anti social behaviour. Access to the countryside with all its volunteer led leisure activities enhances life and strengthens communities. Fuel poverty and household income deprivation are intrinsically linked to energy costs and energy efficiency levels of homes. These impact most on young families and those in later years. The availability of sustainable transport is critical in strengthening communities which in turn effects the carbon emissions of the area. Work to improve renewable energy generation and increased uptake of energy efficiency measures is of direct consequence in delivering a society where life chances have been enhanced.	env Impact environment

		A Healthier, Smarter, Wealthier & Fairer and Safer & Stronger and truly Sustainable Shetland as well as a Greener Shetland can only be achieved by clearly recognising the integral role played by the environment and its provision of the context for all activity in all sectors.	

Ref	What OBJECTIVE within this outcome is being addressed	What (SMART) ACTIONS will be implemented to improve this	Which INDICATORS will this improve and by how much / when	LEAD Officer for action	WHEN will action be completed
	Sustainability and balance are achieved through limiting harmful impacts on the environment by Partners using their resources efficiently	Develop and deliver a Carbon Management Plan for Shetland Islands Council and for each of the Shetland Partnership organisations A publicly available Plan in place for all and action plans being implemented.	Reduction in CO2 emissions	Mary Lisk / Carl Symons	2015/16
	There is an agreed Plan to protect and enhance the environment in all its aspects	Review and implement the "Towards a Greener Shetland" Environmental Strategy. Publicly available plan in place for all and actions being implemented.		Juan Brown(SNH) Mary Lisk / Maggie Sandison (SIC)	2015
	Shetland Islands Council and the Shetland Partnership actively engages with the community to achieve the necessary understanding of mitigation and adaption requirements under the Climate Change	Shetland wide audit/engagement exercise is delivered to assess the effects (both current and anticipated) of climate change in all of Shetland's communities	Reduction in CO2 emissions	Environmental Partnership/ SIC various Carbon and Energy Forum	2014/15

	(Scotland) Act 2009				
	Identified effects of climate change are prepared for and tackled through concentrated partnership working	Local Climate Change Implementation Plan developed and delivered with detailed actions on mitigation and adaption for all partners Annual Statement of progress in reduction abatement, adaption and mitigation published	Reduction in CO2 emissions	Environmental Partnership/ SIC various Carbon and Energy Forum	2015/2016
	Waste Reduction is being actively addressed and a reduced amount of waste is being sent to landfill	Development and implementation of a new Shetland Waste Strategy to strategically set direction for compliance with Zero Waste Regulations recognising waste as a resource and the role of green jobs within the community Development of recycling services to meet the needs of business to achieve Zero Waste targets	Tonnes of household waste per capita reduced Increase in % of recycling over 5 years	Maggie Sandison (SIC)	2014/19
	A good environment helps Shetland stays a safe place to live and we have a strong resilient and supportive community	Voar Redd Up takes place annually Dunna Chuck Bruck Campaign developed and local campaign launched to targets roadside litter. Deliver enforcement and education campaigns to reduce dog fouling and litter with reduced staff resources including joint litter/dog fouling enforcement with Northern Constabulary	No of individuals and groups taking part increases Local Environmental Audit and Management System Index remains at 75 or above	Sita Goudie/Shetland Amenity Trust Maggie Sandison (SIC)/Angus macInnes Northern Constabulary)	20142014
	Children and young people understand and value their environment (linked to Early Years and Physical Activity)	Eco School programme is included in all schools Development Plans and all schools become members of the programme.	100% of schools enrolled in programme 85% of schools with at least one Eco school accreditation	Mary Lisk (SIC) Juan Brown (SNH)	2014
	We have the transport that people and	All partners produce Workplace Travel Plans and car share schemes where appropriate All Partners reduce the carbon generated by their fleet by the use of	Increased % of journeys made by public transport	All	2015

	businesses need (linked to economy and physical activity)	electric/biofuel/hydrogen vehicles or other carbon reduction measures	Reduced CO2 emissions		
	We live in well designed sustainable places which reduce the impact of climate change on our lives (linked to physical activity)	Increased use of Network of cycle paths/walking routes currently available Home Working Strategy agreed and implemented	Increased % of children cycling or walking to school Reduced CO2 emissions	SIC various	2015
	Energy efficiency measures and renewable energy sources are included in all buildings to reduce carbon emissions, tackle fuel poverty and quality of life/health issues (linked to healthier and fairer)	Home Energy Efficiency Programme and ECO Obligation Funds are highly subscribed to by householders. Community Energy Projects developed and supported	Reduced CO2 emissions. Reduced fuel poverty	SIC various Carl Symons (SIC)	2014
	Increase people's use of the outdoors (linked to health and physical activity)	Increase people's use of the outdoors by maintaining / increasing number of environmental events e.g. guided walks by Rangers / National Nature Reserve wardens, Shetland Nature Festival events, Da Voar Redd Up, community tree-planting days, 10% increase in number of allotment site plots in use	Increase in number of people attending environmental events and visiting key nature sites	Juan Brown (SNH) Environmental Patrtnership Mary Lisk SIC	2014
	Maintain good water quality in our burns and lochs (linked to economy)	Achieve good or better water quality in our burns, lochs and coastal waters. A healthy water environment is essential for sustainable aquaculture, provides recreational opportunities such as	Proportion of water bodies in good condition	Juan Brown (SNH)	2027

		angling, and supports the diverse wildlife which makes Shetland such an attractive place to visit. Assess water courses and bodies and/ prescribe remedial action through Shetland and Orkney Water Framework Directive Area Advisory Group.			

	Resources (Money / Staff Time / Assets) aligned to delivering these actions across the Shetland Partnership
	Carbon Management/ Climate Change/Energy Efficiency and small scale renewables SIC funds the core Team but other aspects are monitored and managed through Resource Efficient Scotland, Shetland Amenity Trust, Scottish Natural Heritage, Royal Society for Protection of Birds, Scottish Environmental Protection Agency, North Atlantic Fisheries College, Scottish Agricultural College, the Community Engagement Network and other organisations assisted by voluntary/community groups and bodies. Assistance is in the form of part of staff/volunteer time in each body. Funding is obtained from Scottish Government (various funds) and from the Energy Company Obligation for energy efficiency work Funding is also obtained from Zero Waste Scotland for upgrading recycling facilities Community Group funding is obtained under the Climate Challenge Fund **Towards a Greener Shetland Environmental Strategy** The same partners are involved with a number of additional full time/part time and seasonal posts being supported. (Rangers Service, Biodiversity Officer, Geopark officer, Biological Records Centre staff, seasonal Bird wardens) etc A number of the outcomes for Health are delivered through these aspects thus linking into NHS staff time also. Various funding sources available for project work eg SNH grants

	Description of how the Shetland Partnership is moving to early intervention and prevention for this outcome
	This theme is fundamentally about Prevention and Early Intervention, and its links to other priorities are very often contributing to their actions on Early Intervention. The Carbon and Energy Forum is developing a cross sector intervention and mutual support strategy in relation to a low carbon economy. We have also re-established an Environment Partnership, (with SIC, SNH, SEPA, RSPB, SAT and other parties), reinvigorated through the process of developing the SOA to examine the environmental aspects not covered under the Carbon and Energy agenda. In particular the “Towards a Greener Shetland “ strategy previously produced will be revised during 2013/14 to take forward this element of the SOA. SIC’s Carbon Management Plan will be available in 2013 and support will be offered to partners to deliver their own if needed.

The public engagement work detailed for better understanding of climate change mitigation and adaptation requirements will highlight areas for early intervention. The development of a Climate Change Implementation Strategy will ensure that all areas are identified, analysed and appropriate measures developed to achieve sustainability. We are also enhancing our monitoring systems so that trends can be identified early enough to permit early cost effective intervention.

The process of partnership working under this theme has been helped by engagement of national partners at a policy level through community planning, as well as seeing potential local benefits. Barriers to achievement include recognising that the environment is so diverse, and many of the organisations who have a stake in sustainability have different and potentially competing agendas with different objectives and targets. Limited funding and varying organizational arrangements can be seen to limit delivery. Local plans intend to deal with this, for instance rewriting key strategies gives an opportunity to bring these together into a more coherent approach. We recognize the challenge in doing this well, particularly in partnership and with appropriate community engagement, in a time of constrained resources. Some of the solution is seen to be through partnership working, identifying resources that can be used jointly, and exploring efficiencies in infrastructure.

Good examples of joint working on prevention locally include Shetland Environmental Education Partnership work in schools, the Shetland Nature Festival, and recognition that Community Planning is promoting a more joined up approach to bring these ventures together including links into other priority areas such as healthier and safer. Increasing people's use of and interest in the outdoor environment is an excellent example of how early intervention can reduce health problems and crime by encouraging people to become more active as well as strengthening communities. The partnership recognizes that early intervention is not only about influencing young people in their future habits, but also as much about changing behaviours across the whole population, including policy makers. The food production and tourist industries rely on a healthy environment. If we neglect our rich natural heritage, these sectors will ultimately suffer. The key challenge to produce a transformational shift in local culture is seen as working towards a conjoint agenda, getting a single and stronger voice on the environmental agenda, and making the most of the many environmentally aware people within the local community, to find common ground or early priorities within the range of environmental interests.

Arrangements for Community Engagement and community capacity building to deliver for themselves on this outcome

The community wide audit and engagement process (mentioned above) of the level of understanding and effects (already known about and identified as ongoing) of climate change on Shetland will require considerable joint working during 2013/14. The details of how this is to be progressed are still under discussion. Only after the full audit is complete can mitigation and adaption measures be considered and the level of community capacity building required to deliver these be identified. We should be in a better position to measure this by 2014.

The review of the “Towards a Greener Shetland” Environmental strategy will also require a level of community interaction and engagement. Whilst Shetland has a good basis of environmentally aware individuals their interlinking with and action in support of their communities in a unified and purposeful manner will

	require some consideration.

	Scottish Government actions/ commitments required to deliver these outcomes
	It is already a legislative requirement under Climate Change (Scotland) Act 20009 and the Waste Regulations of 2012. Government funding will be available under the National Retrofit Programme and the Energy Company Obligation for energy efficiency measure till 2023. Climate Challenge Funding is available for low carbon projects. Low carbon transport funds are also available. Sustainability reports will be required under BV2. It is already a duty to report annually under the Climate Change Declaration commitment. Indications are that there will be mandatory targets and a possible league table of local areas works towards compliance. Support fro waste to energy and district heating schemes to help address fuel poverty which is a particular issue in Shetland. Support other energy efficiency and home heating solutions which recognise the particular physical and environmental factors of Shetland.

	Outcome	Background / Context	National Outcome(s)
h	We have financial sustainability and balance within each partner; and a better balance between a dynamic private sector, a strong third sector and efficient and responsive public services.	Overall Shetland's economy has remained relatively strong in the face of the national and in international economies. The latest available figures (2011) indicate 39% of employment is in the public sector. Unavoidably Shetland public sector organisations will have to contain costs further due to the reductions in funding and it is important to the overall wellbeing of the islands that private and voluntary sector activity expands wherever possible to maintain high economic participation rates. Public sector resources and employment will continue to be highly significant going forward but long run expenditure must be in line with available resources. Private and third sector activity and growth needs to be sustainable and profitable taking maximum advantages of our areas of relative economic advantage and strong traditions of local activism and involvement. Ultimately the resources and talents of all sectors need to be harnessed in partnership so they can complement each other effectively. The Third Sector (Voluntary / Community / Social Enterprise) is very active and significant in Shetland. There are approximately 1000 voluntary and community groups in Shetland, around 300 of those are registered with the Office of the Scottish Regulator as charities. There is a strong tradition of self-help and volunteering and almost all community and social activity in the rural areas relies on volunteers to make it happen. Third sector generates values across a number of areas including community engagement, improved wellbeing, skills development, and employment opportunities and levering in finance. Current challenges facing the sector are reduced funding on all fronts, local authority, external funders and service level agreements, volunteer overload and the ever increasing changes in legislation including PVG and OSCR and the extended application process and monitoring of funding bodies both internal and external to Shetland.	pubServ

Ref	What OBJECTIVE within this outcome is being addressed	What (SMART) ACTIONS will be implemented to improve this	Which INDICATORS will this improve and by how much / when	LEAD Officer for action	WHEN will action be completed
	Shared understanding of the financial, physical and human resources available across	The production of a straightforward overview of total resources across each main resource heading. Finance / Physical Assets /	This would be an underpinning activity which will provide baseline information for identification of improvement / savings	Shetland Islands Council –	June 2013

Ref	What OBJECTIVE within this outcome is being addressed	What (SMART) ACTIONS will be implemented to improve this	Which INDICATORS will this improve and by how much / when	LEAD Officer for action	WHEN will action be completed
	the Shetland Partnership.	Workforces / IT etc. and how they are aligned with the delivery of Single Outcome Agreement priorities.	programmes and inform resource allocation against priorities. Ultimately this overview would be expected to contribute to our ability to measure and promote a shift in indicator Public / Voluntary / Private Sector Balance.	Director of Corporate Services Voluntary Action Shetland - Chief Executive Shetland Charitable Trust – Chief Executive	
	Ensuring that we are maximising efficiency and partnership opportunities in our arrangements and use of resources across partners in providing support services.	Programme of examination / review / challenge of optimum resource usage in; • Financial Management • Asset Management • Procurement • ICT • Human Resources • Planning and Performance Management • Risk Management • Audit • Communications	Overall efficiency and release of resources to target on the delivery of priorities Public / Voluntary / Private Sector Balance Satisfaction with Public Services	SIC – Dir Corp Svs VAS – C Exec SCT – C Exec	Programme agreed by June 2013. Delivered by December 2013
	Making sure that we are making the best choices in service delivery between public / private and third sector partners.	Screen all main services delivery areas to establish opportunities for more in depth investigation to access potential moves between public / private / third sector delivery models.	Overall efficiency and release of resources to target on the delivery of priorities Public / Voluntary / Private Sector Balance Satisfaction with Public Services	SIC – Dir Corp Svs VAS – C Exec SCT – C Exec	Programme agreed by June 2013. Delivered by December 2013

Ref	What OBJECTIVE within this outcome is being addressed	What (SMART) ACTIONS will be implemented to improve this	Which INDICATORS will this improve and by how much / when	LEAD Officer for action	WHEN will action be completed
	Eliminating blockages that stop more efficient and effective use of private / third sector delivery options	Review and analyse issues and obstacles to better partnerships / transfers of responsibilities	Public / Voluntary / Private Sector Balance Satisfaction with Public Services % of individuals volunteering	SIC – Dir Corp Svs VAS – C Exec SCT – C Exec	Reviews between September 2013 and March 2014
	Building greater understanding between about what each other can do and needs, and greater capacity in the private and third sector to deliver.	• Review Shetland Compact • Develop a joint action plan to implement any agreed changes following the Compact review • Develop and implement any further actions to improve understanding between sectors • Design and implement a programme to increase delivery capacity in private & third sectors to include Third Sectors Organisations and Social enterprises being provided with consultancy/ one to one support in business planning and suitability	Satisfaction with Public Services Influence Decision Making % of individuals volunteering Public / Voluntary / Private Sector Balance	SIC – Dir Corp Svs VAS – C Exec SCT – C Exec	Review of Compact by July 2013 Programme developed by September 2013. Delivery by September 2014
	Ensuring people interested in volunteering receive appropriate response support and information to their enquiries	People interested in volunteering receive appropriate information and support • Local volunteering opportunities registered on MILO and promoted locally • Events attended to promote benefits of volunteering	% volunteering	VAS – C Exec	
	Supporting the SALTIRE awards scheme for young volunteers	Saltire Awards promoted to VIO and Schools • 6 Challenge awards • 30 Approach • 74 Ascent	% volunteering	VAS – C Exe	

Ref	What OBJECTIVE within this outcome is being addressed	What (SMART) ACTIONS will be implemented to improve this	Which INDICATORS will this improve and by how much / when	LEAD Officer for action	WHEN will action be completed
		• 6 Summit			
	Greater consistency in the provision and practice of Community Learning and Development across Shetland, with services being delivered in line with local priorities, and focused on improving outcomes	Undertake audit of CLD in Shetland in line with the proposed duty in forthcoming legislation. Project scope is still to be defined and agreed but could take account of three workstreams - Investment in external provision; Review of Community and Learning Assets; and Audit of Community and Lifelong Learning Needs and Provision.	% volunteering Public / Third / Private Sector balance Skill profile of the population Quality of life	Vaila Simpson	
	Ensure effective leadership is in place to support Community Learning & Development in Shetland	Develop effective strategic frameworks across the three national CLD priorities based on a shared vision and agreed outcomes Develop CLD Strategic Plan	Skill profile of the population Young people in learning, training or work Quality of life	CLD Sub-group – Nancy Heubeck	

	Resources (Money / Staff Time / Assets) aligned to delivering these actions across the Shetland Partnership
	Overall the total resources of the whole Shetland Partnership can be considered against this outcome and a straightforward overview of these by April / June 2013 is the objective in the first action
	Specifically management time and activity would need to be dedicated to the analysis, review and challenge of current arrangements and the development and implementation of improvements / changes. This would depend on the willingness of partners to dedicate staff and time to this task and will need to be the subject of further conversations.
	Shetland Compact review – staff time across VAS/SIC/Police/NHS
	Saltire awards promoted and supported – VAS/SIC/Third Sector
	CLD Audit – staff time across CP&D / Youth Services / VAS / Planning (GIS) / NHS Project plan will more fully determine any resource implications for the CLD Audit
	CLD Strategy – staff time CP&D / Youth Services / VAS / NHS and other partners in CLD subgroup

	Description of how the Shetland Partnership is moving to early intervention and prevention for this outcome
	The focus for this priority on prevention and early intervention is captured in its key outcome to preserve the relatively strong local economy and to secure

financial sustainability in the face of public sector funding reductions. The key to achieving this is seen to be more organic community led solutions across the range of service delivery, planning and producing services closer to communities, with a much tighter control of cost-effectiveness.

Current actions are designed to make progress, but we recognise some challenges. We need a better understanding of the barriers which include capacity within the third sector, community groups and the private sector. Skill shortages are limiting the transfer of some services out of the public sector, and actions under some of the key priorities such as Independence through Adulthood and in Older Age, and Economy and Employment are designed to address this. There is an institutional constraint in agencies being risk averse, and an institutional inertia that slows the pace of change. The focus of the SOA and cross-cutting work across priorities and through partnerships is intended to produce a more coordinated approach to finding alternative solutions.

To achieve a better balance across the public, private and third sectors, we will continue to build capacity through supporting the third sector to deliver and in strengthening communities, challenging the culture around dependency and a ‘professional knows best’ mentality. We don’t yet have the metrics to know where the balance is or should lie, other than knowing that we have a public sector that heavily dominates the employment market compared to the independent sector, though there is a larger element of voluntary and informal activity within communities that we aim to build upon.

Partnership working for effective early intervention still needs to overcome some of the bureaucratic barriers that are seen to hinder progress, around obligations for accountability and following the public pound, with the need for more efficient governance arrangements. We have some specific local actions on this through Integration for health and care services, and review of the delivery options for a range of services. Combined with capacity building in the private and third sector these should allow opportunities to be identified and implemented as early as possible. We will get a better understanding through the community engagement processes under development, and develop further actions through the refresh of the Shetland Compact, the Community Learning and Development strategy, and updated Commissioning strategies in key areas.

Actions within the SOA are not yet sufficient to entirely overcome these barriers, so are designed to help order our thinking, to engage with partners in a more mature relationship, to get an agreed analysis of ways forward, and to provide the evidence for future action. Some progress has been made already in the process of developing the SOA, and in looking at forthcoming government policy such as the Community Empowerment and Renewal Bill, Integration on Health and Social Care, and the Children’s Bill. The current constraints on resources is obliging us to do things differently, the next challenge is to do that in partnership.

	Arrangements for Community Engagement and community capacity building to deliver for themselves on this outcome
	Much of the understanding around the issues and opportunities for transfer between sectors could come from engagement with service users and communities. There are similar opportunities in community capacity building to take forward alternative models of service delivery. This would need to be designed and delivered as part of the review and challenge activities described above.

	Scottish Government actions/ commitments required to deliver these outcomes
	It may be necessary to develop new and innovative ways to engage with third sector and private sector partners locally that require flexibility in national arrangements to most effective.

Ref	Indicator	Last Update	Current Value	1 year Target	3 year Target	10 year Target	Children	Health	Older Age	Safer	Wealther	V&Sustain	V&S	Fairer	Notes
1	Economic growth	2011	2%	2.70%	2.70%	5%					C		S		Maintain economic growth at or above Consumer Price Index inflation rate (2.7% at 2012). Target recommended by Economic Development Partnership.
2	Businesses start up rate (per 1,000 population)	2011	4.5	4.5	5	5					C		S		Business start-up rate calculated from Scottish Committee of Clearing Bankers and GROS Population Estimates. Targets based on cumulative annual figure over 5 years. Target recommended by Economic Development Partnership.
3	Employment Rate	2012	82.90%	85%	85%	85%					C		S	S	Equal to maintaining employment rate at 5-year average from 2007-2012. Target recommended by Economic Development Partnership.
	Proportion on out of work benfits (JSA or equivalent)	2012	1.50%	1.5%	1.3%	1.2%					C		S	S	Equal to reducing JSA claimant count to 5 year median figure. Target recommended by Development Partnership. (Fairer Shetland Partnership reccomendation 0.9%)
5	Average (Median) Earnings	2012	£546.10	£560.84	£591.54	£712.82					C			S	Calculations for 1, 3 and 10 year target based on maintaining gross weekly wage at current Consumer Price Index level (currently 2.7%). Source: NOMIS Local Authority Labour Market Profile. Target recommended by Economic Development Partnership.
6	Skill profile of the population (% of 16 - 64 qualfied at NVQ1 level or above)	2011	86.10%	87%	89%	92%					C		S	S	Targets based on moving percentage of those with no qualifications into NVQ1 or higher designationsSource: NOMIS Local Authority Labour Market Profile. Target recommended by Economic Development Partnership.
6	Skill profile of the population (% of 16 - 64 qualfied at NVQ4 level or above)	2011	31.40%	32%	35%	37%					C		S	S	Targets based on moving percentage of those with NVQ4 or higher closer to national average. Source: NOMIS Local Authority Labour Market Profile. Target recommended by Economic Development Partnership.
7	Proportion of total population who are income deprived	2011	7%	7%	7%	7%								C	Targets reccomended by Fairer Shetland Partnership
8	Proportion of households living in fuel poverty	2008/10	38.50%	38.50%	38.50%	38.50%						S		C	Targets reccomended by Fairer Shetland Partnership
9	Proportion of childern in income deprived families	2010	6.70%	6.70%	6.70%	6.70%	S							C	Targets reccomended by Fairer Shetland Partnership
11	Percentage of Households Coping Well Financially	2009/10	64.1	64.1	64.1	64.1								C	Targets reccomended by Fairer Shetland Partnership
12	Percentage of Adults with a bank account	2009/10	96.4	97%	100%	100%								C	Targets reccomended by Fairer Shetland Partnership
13	Percentage of Adults with some savings	2009/10	83.2	83.2	83.2	83.2								C	Targets reccomended by Fairer Shetland Partnership
18	Proportion of School Leavers in positive destinations	2010/11	90.90%	91%	92%	95%	C				C			C	Targets Recommended by ICYPS
19	Proportion of positive Children's Services Inspections	2012	100%	100%	100%	100%	C								Targets Recommended by ICYPS

Ref	Indicator	Last Update	Current Value	1 year Target	3 year Target	10 year Target	Children	Health	Older Age	Safer	Wealther	V&Sustain	V&S	Fairer	Notes
21	Proportion of Looked After Children in Positive Destinations		TBA	TBA	TBA	TBA	C				S			S	ICYPS need to recommended target
23	Youth out of work Claimant Count	Jan-13	3.50%	3.00%	2.00%	1.20%	C				C			C	Target based on incremental decreases in JSA claimant rate for 16-24 population until count matches overall claimant rate.
24	Population	2011	23,000	23,200	23,600	24,400							C		Assumes incremental population increase of 0.5%, based on aggregated population increases from GROS estimates and Census actuals between 2001 and 2011
25	Population Dependency Ratio	2011	56.3	56%	56%	56%							S		Indicator Endorsed by SPB
26	Quality of life - Survey Results	2011	1st Place	Top 3	Top 3	Top 3							S		Indicator Endorsed by SPB
27	Satisfaction With Public Services	2009/10	48.50%	50%	55%	66%							C		Indicator Endorsed by SPB
28	Influence Decision Making	2009/10	29.20%	35%	45%	60%							C		Indicator Endorsed by SPB
30	Physical activity levels	2011	41%	44% by 2015	47% by 2019	50% by 2022		C					S		Targets recommended by HAT
32	Percentage of adults who smoke	2009/10	15%		10% by 2015	5% by 2022		C							HAT endorse inclusion and have recommended targets
33	Number of alcohol related hospital admissions	2010/11	689/100k	600/100k	500/100k	300 / 100k		C							HAT endorse inclusion and have recommended targets
35	End of Life Care	2009/10	90.60%	91%	93%	100%			C				S		CHCP need to recommended target
36	Care at Home	2011	54.50%	TBA	TBA	TBA			C				S		CHCP need to recommended target
37	Recorded Crime Rates	2011/12	300 per 10,000 pop	280	260	240				C					Target recommended by Community Safety Board
	Youth Crime Rates						C								Measure Requested by ICYPSPG - ICYPSPG / Community Safety Board need to recommend targets
38	Perceptions about safety	2011/12	99%	99%	99%	99%				C			S		Target recommended by Community Safety Board
39	Reconviction rates	2009/10	22.40%	5% reduction	5% reduction	5% reduction				C					Target recommended by Community Safety Board
40	Deaths, Serious and Slight Injuries on Shetland's roads	2011	46	TBA	TBA	TBA				C					Target recommended by Community Safety Board
41	Number of Fires	2011/12	13	TBA	TBA	TBA				C					Target recommended by Community Safety Board
42	Percentage of individuals Involved in Volunteering	2009/10	34%	35%	36%	40%							C		Target reccomended by VAS

Ref	Indicator	Last Update	Current Value	1 year Target	3 year Target	10 year Target	Children	Health	Older Age	Safer	Wealther	V&Sustain	V&S	Fairer	Notes
45	Number of new homes	2010/11	77	110	110	110					C		S		110 is average yearly completion rate over the last 16 years
47	Number of Social Housing Completions	2010/11	20	60	60	60					C				HNDA suggests between 53 and 72 affordable houses required n each of the next 10 years
46	Perceptions of Neighbourhood	2009/10	97.60%	99%	99%	99%	S			S	C	S	S		Community Safety Boardrecommended target
49	Proportion of journey's made by public or active transport	2009/10	16.60%	17.00%	17.50%	18%					C	S		S	Based on Government target of 40% reduction in carbon emissions by 2020 and continuing rise in the price of fuel
51	CO2 Emissions per Capita (tonnes)	2010	8.84	8.5	8	7.5					S	C			Based on Government target of 40% reduction in carbon emmissions by 2020
52	Waste collected per capita (kg)	2010/11	597	580	560	540						C			Target dependant on ongoing negotiations with Zero Waste
53	% Waste recycled or composted	2011/12	17.00%	15%	17%	20%						C			Dependant on outcome of Zero Waste negotiations ongoing
55	Local Environmental Audit and Management System Index (Leams)	2011/12	75	74	75	75				C		C			Endorsed by Environmental Partnership
56	Public / Voluntary / Private sector balance		Pub-38.4%, 3rd - 1.7%, Priv 59.9%	Pub-38.4%, 3rd - 1.7%, Priv 59.9%	Pub 37% 3rd 2.5% Priv 60.5%	Pub 34% 3rd 5% Priv 61%							C		Indicator Endorsed by SPB
57	Proportion of water bodies in good or better condition	2008	90%	90%	93%	94%					S	C			Assess water courses and bodies / prescribe remedial action through Shetland and Orkney Water Framework Directive Area Advisory Group. http://www.sepa.org.uk/water/river_basin_planning/area_advisory_groups/orkney_and_shetland/condition_and_objectives.aspx#condition
58	Number of people attending environmental events and key nature sites	2012	12,400	13,000	53,000	63,000	S	C	S	S	S	S			Including Shetland Nature Festival, Da Voar Redd Up and visitors to Noss, Hermaness and Sumburgh Head. To be reported by Environment Team. Initial increase expected in 2013 due to Year of Natural Scotland, in 3 yrs due to opening of new visitor facilities at Sumburgh Head, and in 10 yrs when Sumburgh achieves it target visitor numbers.
59	Eco-Schools	2012	98% schools	100% schools	100% schools	100% schools	C	C				C			Endorsed by Environmental Partnership

Agenda Item

4

Shetland Islands Council

Special Shetland Islands Council **26 June 2013**

Asset Investment Plan - Service Need Case - Phase 1 Landfill Capping	
Report No: CPS-09-13	
Report Presented by Executive Manager – Capital Programme	**Capital Programme Service**

1.0 Summary

1.1 This report presents a Service Need Case (SNC) for the Capping of Phase 1 of the Gremista Landfill Site, which has been considered and approved by the Corporate Management Team on 28 May 2013.

2.0 Decision Required

2.1 The Council is asked to RESOLVE to approve the addition of the Landfill Capping project to the 2013/14 Asset Investment Plan.

3.0 Detail

3.1 On 24 March 2010, the Council adopted a 'Gateway' process, drawing on national and best practice guidance, to ensure the robustness of all capital projects.

3.2 Subsequently, on 19 May 2010, the Council agreed a procedure for prioritising those projects that have been approved through the Gateway process. A key principle in that procedure is that the Council's AIP is re-prioritised on an annual basis, however SNCs can be processed at any time. By approving a SNC, Members are agreeing that the project should go ahead, but are not making a decision as to the timing.

3.3 The background and justification for this project is set out in the SNC, attached as Appendix A to this report.

3.4 The need for the project has been identified in a report to Infrastructure Services by consultants Mott MacDonald, attached as Appendix B to this report.

3.5 These appendices explain the situation in detail, but the issue to be resolved is that the area of the landfill site exposed to rainfall is too large. This results in volumes of contaminated run-off (referred to as leachate) that the treatment plant cannot cope with during the winter months.

3.6 Appendix B concludes that the solution to this problem is to cap a larger area of the landfill, thereby reducing the volume of run-off, and that this work must be completed in the autumn of 2013.

4.0 Implications

Strategic

4.1 Delivery On Corporate Priorities – The Gateway Process contributes to maintaining a 5-year Asset Investment Plan that is financially sustainable. The project proposed in this report will maintain existing services and assets and is therefore in line with the Council's Strategic Budget Plan.

4.2 Community/ Stakeholder Issues – None.

4.3 Policy And/ Or Delegated Authority – SNCs are normally presented to Executive Committee in the first instance, however due to reporting timescales this report is being presented directly to the Council. Approval of the financial strategy and budget framework is a matter reserved for the Council.

4.4 Risk Management

4.4.1 There is an environmental risk due to leachate problems if the capping is not completed and the waste is left exposed.

4.4.2 There is a risk that the landfill site would be closed down if the capping is not completed.

4.4.3 There is a potential financial risk in terms of fines from SEPA should breach of conditions occur.

4.5 Equalities, Health And Human Rights – None.

4.6 Environmental – See 4.4 above.

Resources

4.7 Financial

4.7.1 This project proposal is not included in the 2013/14 Asset Investment Plan which was approved in February 2013. The requirement for these works was confirmed in April 2013 (as described in Appendix A attached) following the departure of key staff and the restructuring of the Infrastructure Department. A development plan for the life of the Landfill and associated funding requirements is being developed to ensure that any future funding requirements will be included for consideration in the annual reviews of the Asset Investment Plan.

4.7.2 The cost of this project is estimated to be £500k which will be funded from within the Infrastructure Directorate by additional unbudgeted income on the Harbour Account.

4.7.3 External funding options have been explored and discounted.

4.7.4 Technically, the funding of this project by additional unbudgeted income on the Harbour Account means there will be an additional draw on the General Fund which will be offset by increased Harbour Account surplus paid into the Reserve Fund. The net effect is zero on the Council's reserves.

4.7.5 The Council set its 2013-14 budget on 20 February 2013. The delivery of this budget is key to ensuring that the Council continues to work towards delivering the Medium Term Financial Plan. The funding measures described above will ensure that the Council continues to working within delivering the Medium Term Financial Plan.

4.8 Legal – Governance and Law provide advice and assistance on the full range of Council services, duties and functions including those included in this report.

4.9 Human Resources – None.

4.10 Assets And Property – None.

5.0 Conclusions

5.1 This report presents a Service Need Case for the Capping of Phase 1 of the Gremista Landfill Site, which has been approved by the Corporate Management Team for consideration by Members.

For further information please contact:
Robert Sinclair, Executive Manager – Capital Programme
Tel: 01595 74 4144 Email: robert.sinclair@shetland.gov.uk

Appendices
Appendix A – Service Need Case
Appendix B – Report by Mott MacDonald

Background documents:
None

END

Service Need Case Template

Capping of Phase 1 at Gremista Landfill Site

Responsible Officer	*William Spence*						
Issue No.	**1**	Revision No.		Revision Date:		Doc Ref:	

Amendment and Authorisation Record

Service Need Template

Date	**Author**	**Paragraph ref:**	**Nature of change**	**Authorised by**
May 2013	W Spence			

Responsible Officer	*William Spence*						
Issue No.	**1**	Revision No.		Revision Date:		Doc Ref:	

Executive Summary

1. Introduction

1.1. The Gremista Waste Management Facility Landfill was constructed and commissioned in 2006. It is a permitted installation regulated by SEPA and conforms to Pollution Prevention and Control Act 1999 (PPC), Pollution Prevention and Control (Scotland) Regulations 2000 and Landfill Scotland Regulations 2003.

1.2. The landfill facility is an integral part of Shetland's waste strategy supporting Shetland's industrial processes for disposal of waste which is not suitable for burning at the Energy Recovery Plant or recycling.

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1.3. Although it is the Government's policy to reduce waste going to landfill there is a necessity to have a landfill facility to support local industry and Shetland as a whole. Without a landfill site, other more costly methods of disposal would have to be found.

1.4. The landfill site, whilst designed as a whole for a life span of 25 years +, operates on a phased basis. Phase 1 was originally constructed in 2006 and is nearing its fill capacity. Phase 2 was constructed in 2012 and is not yet in operation. To comply with SEPA Regulations, Phase 1 must be covered (capped) to prevent rain water entering the cell and producing leachate (leachate is the liquid produced in a landfill site). Leachate can become toxic (acids from decaying waste reacting with other rubbish) and in order to prevent it contaminating nearby water courses, it is collected and disposed of through a waste water/leachate treatment plant. The plant located at the landfill site has limited capacity and during winter months, when rainfall is high, has difficulty in treating large quantities of leachate. In the event of an overflow or discharge to sea would be an environmental breach to our permit.

1.5. To manage the leachate problem in the landfill it is necessary to cap part or all of the completed phase as works progress to minimise the amount of waste exposed to the elements which can absorb rainfall.

1.6. In March of each year a report is submitted to SEPA regarding the operation of the landfill site showing waste levels and the provision of future plans for the site. In January 2013, Mott MacDonald undertook waste level calculations and created a model of Phase 1. This report highlighted that Phase 1 had limited functional time left and would require to be capped by September 2013. This would allow Phase 2 (previously constructed and ready to receive infill) to become operational allowing for a smooth transition with no interruption to operations (see Appendix 1).

<table>
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1.7. The value to undertake the capping of Phase 1 has been estimated at £500,000 and is required in the current 2013 / 2014 financial year. This figure includes for all elements necessary to undertake the works (internal fees / external consultants / contractor / consent fees, etc.).

1.8. The requirement for these works has only recently been identified by Waste Management Services following the departure of key staff and the restructuring of the Department. It appears that there was no allowance within the Capital Programme for the ongoing requirement to cap each Phase. Recently completed projects were for the construction of the fill area only.

2. Statutory Requirements

2.1. The landfill is operated under the control of a PPC permit from SEPA which requires the council to meet all associated waste regulations.

3. Reference to Corporate and Service Plans

3.1. The landfill forms an important part of Shetland's Waste Strategy. The Council has adopted the Area Waste Plan for Shetland and Orkney and is committed to delivering the objectives and targets contained within this strategic planning document which outlines our waste management strategy up to the year 2020. However this has now been superseded by Scotland's Zero Waste Plan which will change the way we treat and dispose of waste.

4. Benefits to Other Services (Internal/External)

4.1. The Landfill provides a service to Orkney, Shetland, Industry and household alike. It particularly benefits industry giving companies a route for waste disposal where there are no other options available on the island. For example, salmon companies (one of Shetland's main Industries) are users of the landfill for salmon mortalities.

5. Definition and Justification of Service

5.1. As part of our Permit to operate the site, it is essential that all Regulations are met. Failure to carry out essential works at the landfill will breach conditions in the PPC. This could lead to the closure of the landfill site resulting in other, more costly disposal routes to be found. Closure of the landfill would have serious financial consequences to Shetland Island Council with a high possibility of shipping waste to the Scottish mainland.

6. Socio- Economic Considerations

6.1. Failure to operate the landfill as stipulated in the permit would lead to prosecution which carries a fine or custodial sentence. Closure of the landfill would incur significant financial and operational implications for the council.

7. Stakeholder and Client Consultation

7.1. Shetland businesses and community, Orkney and Highland Councils

8. Participation by Others

8.1. N/A

9. Project Options to Meet Identified Service Needs

There are several options available to the Council:

9.1. Do Nothing

This would entail undertaking no capping works to the landfill site, leaving Phase 1 exposed to the elements. Given that the winter months are predominantly the wettest, it is considered highly likely that, with the area of ground left exposed, the level of leachate generated would exceed the capacity of the existing plant. This would result in leachate spilling off site and into the existing watercourse.

Such leakage would result in a breach of the PPC and risk, not only potentially high fines, but would also cause significant environmental damage. There would also be reputational issues for the Council.

This option is dependent on a dry winter and coupled with the risks involved is not considered to be a viable option.

Conclusion – Not recommended

9.2. Temporary Capping

This option involves capping the existing area of Phase 1 with a temporary covering designed to stop the ingress of water to the waste area. Such temporary covering is cheaper than undertaking the permanent cap but by its nature, is temporary resulting in additional maintenance and inspection to ensure that it remains in a satisfactory condition.

Temporary capping must also comply with SEPA Regulations and although cheaper than a permanent cap (estimating 50%), this solution simply defers the requirement to apply the permanent cap to future years. Indeed, with the costs incurred for the temporary cap plus the requirement for additional works in future years, results in increased costs. This does not take into account any requirement for maintenance and inspection.

Conclusion – A cheaper interim solution but more expensive in the long term.

9.3. Permanent Cap

This option results in the whole of Phase 1 being capped, ensuring full compliance with SEPA Regulations to meet permit conditions.

Although the most expensive option, these works will ultimately have to be undertaken at some stage in the project's development as it is contained in the permit. Therefore, an allowance for this and all future phases must be taken into consideration.

Conclusion – Preferred solution in that it a) avoids abortive costs and b) is a permanent solution that requires no further commitment.

9.4. Increase Leachate Plant Capacity

Investigate the option to increase the capacity of the existing leachate plant located on site.

This option would incur the re-design of the existing leachate plant (undertaken by specialists) to increase its capacity as to take the additional liquids produced by a greater uncapped area. Whilst possible, there are strict SEPA Regulations to comply with regarding leachate plant and time implications in acquiring the necessary consents. Add to this the physical cost in terms of design and construction (only to delay future capping costs) makes this an unpractical solution.

Conclusion – Not financially viable

9.5. Remove Leachate Off Site

This option would entail the removal off site by a registered carrier to a licensed leachate disposal facility. As there is no such other facility in Shetland, this would entail removal off island at increased cost.

Whilst apparently practical, SEPA do not view this option favourably as it does not comply with their Regulations nor is it compliant with the permit for the site as originally designed (i.e cap Phase 1).

Conclusion – Neither financially viable nor permittable

9.6. Increase Landfill Fill Profiles (Planning / SEPA)

This option involves renegotiating the currently agreed profiles of the landfill site with both SEPA and the Planning Department. Such renegotiation, if successful, would allow additional fill to be placed in Phase 1 extending its lifespan. Permanent capping would then be required at a later date.

It is considered unlikely that SEPA or the Planning Dept would agree to revisit the landfill profile as this has previously been thoroughly examined and checked as part of the original consent. Profiles are designed to maximise the extent of fill that can be accommodated whilst retaining the original contours of the hill land. The original design already maximised the site and to increase this further would alter the original profile and potentially the skyline of the development.

To achieve any re-profile would incur, not only negotiations with SEPA and the Planning Dept but also significant consultancy fees in order to provide the relevant information.

Conclusion – Considered unlikely to obtain permission

10. Funding (Capital and Revenue)

10.1. Internal Funding only (Capital Programme). No sources of external funding have been identified.

10.2. Apart from item 9.5 where there would be associated costs with removals off site and disposal elsewhere, there are no revenue implications as a result of these works.

11. Risk Analysis

11.1. There is an environmental risk due to leachate problems if the capping is not completed and the waste is left exposed.

11.2. There is a risk that the landfill site would be closed down if the capping is not completed.

11.3. There is a potential financial risk in terms of fines from SEPA should breach of conditions occur

12. Timing

12.1. In order to allow waste (at the current and predicted fill rate) to be disposed of at the landfill site and to comply with the current capacity for leachate treatment, it is essential that the capping of Phase 1 is completed by late autumn 2013 Confirmation of this is contained in Appendix 1 (Mott MacDonald study dated 11th Apr. '13)

13. Brief for Future Study

13.1. A long term operational plan should be completed for the landfill site which is reviewed and updated on a regular basis. This will enable better, more effective programming of works for any future phases and capping.

14. Third Party Review

14.1. All design work must be fully compliant with SEPA Regulations and subject to their approval.

15. Conclusions

15.1. Continuous operation of the Shetland Islands Council Landfill Site is imperative to Shetland and its economy. Closure of the landfill site could lead to disproportionally high costs for the Council and other industry from having to ship waste off the island.

16. Recommendations

16.1. Single source Consultancy Services to design the capping of Phase 1 and produce a tender document. (estimated fees below £10K)

16.2. Commence tendering exercise for the appointment of a Contractor with a view to commencing works on site late autumn 2013

17. Appendices

Appendix 1 Mott Macdonald

<table>
<tr><td>Responsible Officer</td><td colspan="7"><i>William Spence</i></td></tr>
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</table>

Mott MacDonald

Our ref GCA/AA/319782/LA01
T 01595 695049
E george.anderson@mottmac.com
Your ref

Shetland Islands Council
Environmental Services
Infrastructure Services Department
Grantfield
Lerwick
Shetland
ZE1 0NT

11 April 2013

For the attention of Mr William Spence

Dear Sirs

Gremista Landfill – Consultancy Services

Please find attached a summary of the results of our review of the remaining waste capacity in Phase 1 of the Gremista Landfill Site. Also included are outline proposals for the finished waste filling profiles and the potential areas for temporary and permanent capping.

We enclose drawings showing the extent of the proposed capping areas and proposed finished waste filling levels.

Please note that you will need to consider actions required under Clause 4.3 of your permit. In addition you will need to conform to Clause 5.4.3 of your permit if you undertake any excavation of wastes. Finally, normally you expect there to be a requirement for you to inform SEPA of when you intend to start filling in Phase 2. The only reference appears to be in Clause 4.1.5 in relation to obtaining approvals. Irrespective of whether this requirement is in the permit, it is likely that the management plans require you to inform SEPA of an intention to commence filling operations in a new Phase.

The permit requires that a specific design is used for capping unless demonstrated through risk assessment that an alternative solution be undertaken (see Clause 4.3.2). It is assumed that SLR has completed a risk assessment for the design undertaken and therefore we would be pleased to receive a copy of the assessment together with correspondence confirming its acceptance to demonstrate that the change to the permitted design has been approved.

Please do not hesitate to contact us if you have any queries or would like to discuss further the details provided.

Yours faithfully
for Mott MacDonald Limited

George C Anderson
Principal Engineer

Enc.

GREMISTA LANDFILL – CONSULTANCY SERVICES PERTAINING TO WASTE VOID CAPACITY VOLUMES, LEACHATE MANAGEMENT AND CAPPING REQUIREMENTS

1.0 Scope of review

Mott MacDonald was appointed by Shetland Islands Council, the operators of the Gremista Waste Management Facility and Recycling Centre, to undertake the following tasks relating to the landfill site:

1.1 Overlay waste levels taken from a survey of the site carried out in January 2013 onto the base survey.
1.2 Create a finished waste surface model of the Phase 1 zone, allowing for continued vehicle access to the main active cell and also access to the hazardous waste containment cell.
1.3 Using these two ground models determine the total remaining waste capacity in Phase 1 of the site.
1.4 Provide an estimate of the approximate time remaining for completion of Phase 1 and the time for placing the first waste into Phase 2 of the site.
1.5 Calculate the uncapped area of Phase 1 and identify the areas and levels for future permanent and temporary capping in order to limit the production of leachate to acceptable levels within the capacity of the existing leachate treatment plant.
1.6 Calculate the leachate storage capacity within Phase 1 and suggest a plan for maintaining leachate quantities for treatment during summer months.

Additional work is required in terms of how the transition from Phase 1 to Phase 2 is managed, particularly in terms of capping areas and future leachate management. This element of the works is to be considered following completion of this initial review of the current status of the filling operation on the site.

2.0 Waste Volumes

2.1 Drawing MMD-319782LA01-C-DR-00-XX-0001 outlines the proposed finished waste profile in Phase 1 of the landfill site. The contours have been determined so that the permanently capped eastern slope is at a gradient of 1 in 5.5 and the temporary capped southern slope is at a gradient of 1 in 3 (see sections contained in drawing MMD-319782LA01-C-DR-00-XX-0003). Note that the contours on the southern cell of Phase 1 are waste levels while the contours on the northern cell are finished capping cover levels. The difference in levels between the northern and southern parts of the site is due to the layer of soil which has been placed on top of the capping liner at the northern section of Phase 1. The hazardous waste containment cell is still accessible from the turning-head area. It is anticipated that the hazardous waste cell will be lined with baled waste, thus increasing its capacity since the waste can then be stacked slightly higher.

2.2 If the proposed finished waste contours shown in drawing MMD-319782LA01-C-DR-00-XX-0001 were adopted, our calculations show that the remaining waste capacity in Phase 1 of the landfill site is approximately 19,000m^3. At the current rate of waste disposal (taken as 15,000m^3 per annum), it will take approximately 15 months to reach capacity in Phase 1 (this is measured from January 2013, when the most recent survey was carried out). This indicates that the latest date at which first waste can be placed in Phase 2 is around April 2014.

2.3 There is one area in the southern cell of Phase 1 where the waste levels are above the proposed contours. If this was to be trimmed back the excavation volume would be in the order of 2,500 m^3. We also considered the fact that filling to the maximum levels may not be possible due to the nature of the waste and the required circulation for vehicles entering and leaving the site. A review of the filling contours suggests that the likely maximum potential filling of the southern cell would be around 12,000m^3 which would bring the top level of the southern cell up to approximately 49.5m. Filling a further 12,000m^3 would mean moving filling operations into Phase 2 of the site in September 2013. This is not an ideal time of year to open a new active waste cell as this increases the leachate production at the start of the winter weather and very little waste will be present to soak up the increasing precipitation.

3.0 Leachate Production and Management

3.1 The leachate treatment plant should be capable of treating approximately 50m^3 of leachate per day. In order to limit the leachate produced during the periods of highest rainfall, the uncapped active area of the site must be kept to below a certain critical size. Our calculations indicate that this maximum uncapped area is approximately 8,800m^2. Currently the uncapped active area of the site is around 13,750m^2. This is believed to be the main reason why the leachate treatment plant periodically does not cope with the leachate currently being generated at the site and efforts should be made to limit the production of leachate by capping as much of the site as possible.

3.2 The landfill site is located on a sloping hillside and the base profile and relative level of the top of the toe bund in Phase 1 greatly limits the amount of leachate storage capacity available in the base of the site. Our calculations indicate that this storage volume is in the region of 1,500m^3 (allowing for a satisfactory safety margin of around 0.75m between the level of the leachate and the top of the toe bund).

3.3 In terms of an ongoing leachate management plan, we would recommend maintaining a maximum uncapped active landfill area of approximately 9,000m^2. This will limit the production of leachate to the capacity of the leachate treatment plant during the wetter winter months. This will however present a problem with leachate production being below minimum required levels during the drier summer months. This could be tackled by installing a pump in the basin area of Phase 2 and pumping water into Phase 1 to boost levels as and when required to keep the leachate treatment plant operating satisfactorily.

4.0 Ongoing Capping requirements

4.1 According to Drawing No. 1 – General Site Layout – Phase 1 CQA Capping Report (received from SIC in January 2013), currently 5,436m^2 of the site has been permanently capped and 4,635m^2 of the site has been temporarily capped. As stated above this means that approximately 13,750m^2 of the active site is currently uncapped. In order to reduce the uncapped active area of the site to below the acceptable threshold as described in 3.0 above, we propose the capping arrangement shown in drawing MMD-319782LA01-C-DR-00-XX-0004.

4.2 The 5,049m^2 area delineated in light-blue would be landscaped to the levels shown and permanently capped, whilst the area marked in purple (3,265m^2) would be temporarily capped using polyethylene sheets and secured in place by rows of tyres. As can be seen from the drawing, this approach would leave a total uncapped active area of approximately 5,423m^2 (including turning-head and hazardous waste cell). This would leave an area of approximately 3,400m^2 in Phase 2 which could then be initially opened up, without causing further leachate problems.

5.0 Discussion and Conclusions

5.1 The remaining waste capacity in Phase 1 of the site is around 12,000m^3. As the cell fills operation of the site will become more difficult as the manoeuvring space within the cell becomes more restricted. The current rate of filling suggests that this volume will be filled by around September 2013 meaning that entry into Phase 2 will occur at the start of the winter of 2013, with is not ideal in terms of leachate treatment management.

5.2 The capping of the landfill can be done on a temporary basis in the short term to manage and limit the leachate generation. The southern flank of Phase 1 could be temporary lined to enable space for vehicle entry and the continued use of the hazardous waste cell. This would limit the uncapped area to 5,400m^2, which would greatly assist the leachate treatment situation on site.

5.3 Referring to drawing MMD-319782LA01-C-DR-00-XX-0005, the first waste into Phase 2 will have to be placed in the wrap round section on the southern flank of Phase 1 again working east to west. When this is done any temporary liner on the southern flank will become redundant as waste is filled over the edge bund between Phase 1 and Phase 2 cells. As the waste will have to be place by the winter of 2013 is seems there will be little or no benefit of placing the temporary liner on the south flank.

5.4 Consideration should be given to placing waste in Phase 2 in May or June 2013 with a view to getting sufficient waste filled into the site to allow temporary capping of the full length of the eastern slope by the end of August 2013. Some re-excavation of waste may have to be carried out to ensure this capping is achieved before the autumn of 2013.

5.5 The upper surfaces of the Phase 2 cell basal liner will drain surface water run-off into the lower parts of the cell generating leachate. This will have to be curtailed to avoid the over generation of leachate quantities since very little leachate storage capacity will be available at this stage. The curtailment of the leachate could be achieved by forming a small earth dam on the slope at the back of the Phase 1 edge bund. A series of small bunds are likely to be required to provide sufficient storage volume to trap the water and to allowing pumping to the surrounding surface water ditches.

6.0 Regulatory Requirements

6.1 It is recommended that you review your permit to consider the requirements for capping, notifying SEPA and undertaking any excavations of placed waste.

6.2 Clauses of particular reference include: Clause 4.1.5 – Acceptability of engineering, Clause 4.3 – Capping and Clause 5.4.3 – Excavation of placed wastes. It should be noted that other conditions within the permit may be of reference, together with requirements with the Management Plans.

6.3 It should be noted that the capping requirements and design are prescribed in the permit and that a risk assessment needs to be undertaken to demonstrate that any modifications proposed provide the appropriate degree of containment. It is assumed that SLR would have undertaken an assessment prior to designing and installing the capping already placed in Phase 1. This information should be provided for review along with any correspondence with SEPA confirming the design.

7.0 Future Landfill Site Actions

Again referring to drawing MMD-319782LA01-C-DR-00-XX-0005, the following activities should be considered for the future management of the filling and capping of Phase 1 of the site and moving filling operation into Phase 2.

7.1 Concentrate filling operations to the eastern face of the cell to bring the levels up to the final levels at a slope of 1 in 5.5 ready for permanent (or temporary) capping. Filling should start at the north end working towards the southern end of the cell.

7.2 Continue filling the cell working from the east boundary westwards up the slope bringing the waste levels to the finished profiles as far as filling materials and operations allow. This would bring the general filling levels of the southern cell up to approximately + 49.50m.

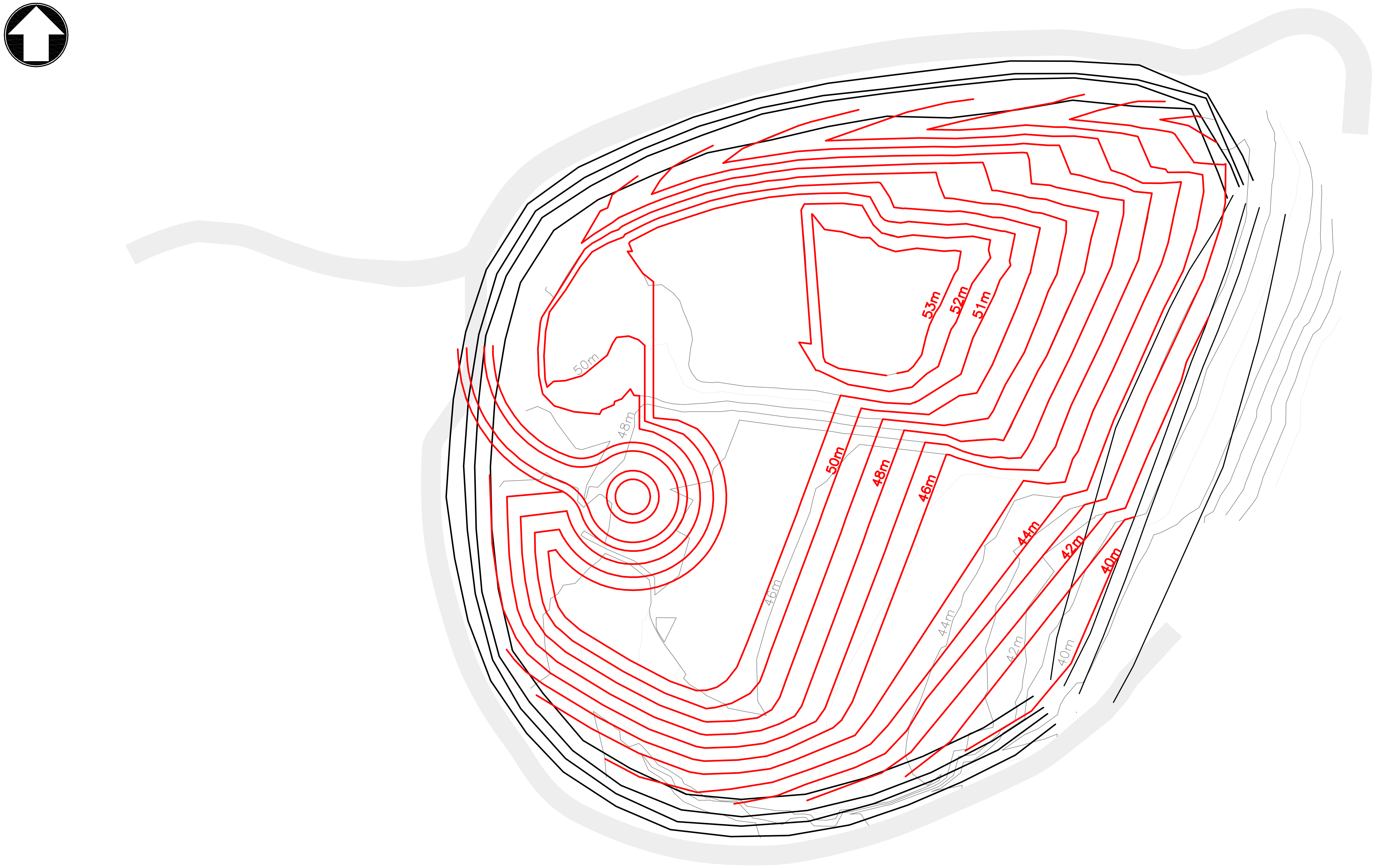
7.3 Commence filling into Phase 2 during May/June 2013 and shape the eastern end of the waste cell to final profiles suitable for the capping of the eastern face during the autumn of 2013.

7.4 Continue filling westwards across the landfill site between the south boundary and the northern end of the Phase 2 cell area. Final fill levels should be taken to approximately

+52.00m with a top slope to allow temporary capping of the cell as the finished surface level is reached.

7.5 Consideration should be given to assessing the gassing potential at the landfill. Several years have passed since operations commenced and it may be beneficial to consider future gas management. It is assumed that gas venting will not be permitted to continue indefinitely without a review of the gas potential at the site and the possibility of installing gas extraction equipment. Providing additional capping to the deposited wastes is likely to have an impact on the potential for gas migration. At present, it is assumed that unlike Rova Head, a gas venting layer will not be provided. However, it is recommended that a review of the gas risk be undertaken before that decision is taken. If a review of the gas risk has been undertaken by SLR, it would be useful to receive this along with copies of any correspondence held with SEPA.

7.6 As identified in Section 6 it is assumed that SLR has completed a risk assessment for the revised capping design. Having received this and your comments on the proposals above we will review the works requirements and provide a budget estimate for the proposed scheme. It would be useful to have a copy of the contractor's tendered rates during Phase 1 capping for comparison with the rates that we possess for Rova Head. This will help to remove uncertainty with respect to the tendered rates expected and budgeting estimations.



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Rev	Date	Drawn	Description	Ch'k'd	App'd
P1	03:13	EJW	Preliminary Issue	GCA	GCA

Title

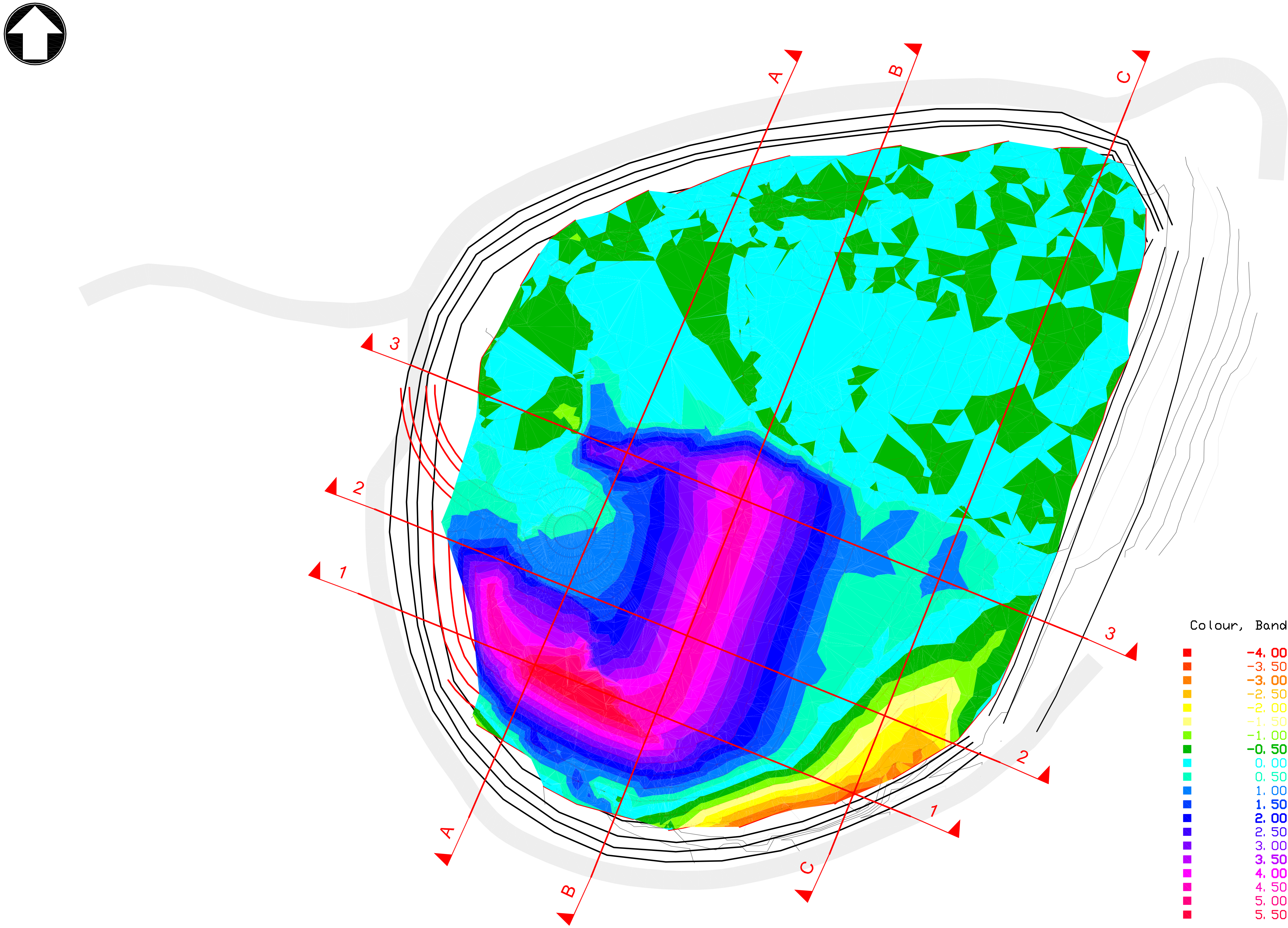
Gremista Landfill
Gremista, Lerwick
Phase One South Cell
Proposed Finished Waste Profile
Contours

Drawn	E Wishart
Checked	G Anderson
Approved	G Anderson
Scale at A3	1:1000

Drawing Number
MMD-319782 LA01-C-DR-00-XX-0001

Status
PRE

Rev
P1



Colour, Band, Area

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🟩	0.50	1.00	7.4%	1526.81
🟦	1.00	1.50	6.3%	1286.08
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🟦	2.00	2.50	3.3%	668.87
🟪	2.50	3.00	3.6%	744.96
🟪	3.00	3.50	3.7%	762.09
🟪	3.50	4.00	3.3%	681.60
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🟥	5.50	6.00	0.6%	125.95

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Rev	Date	Drawn	Description	Ch'k'd	App'd
P1	03:13	EJW	Preliminary Issue	GCA	GCA

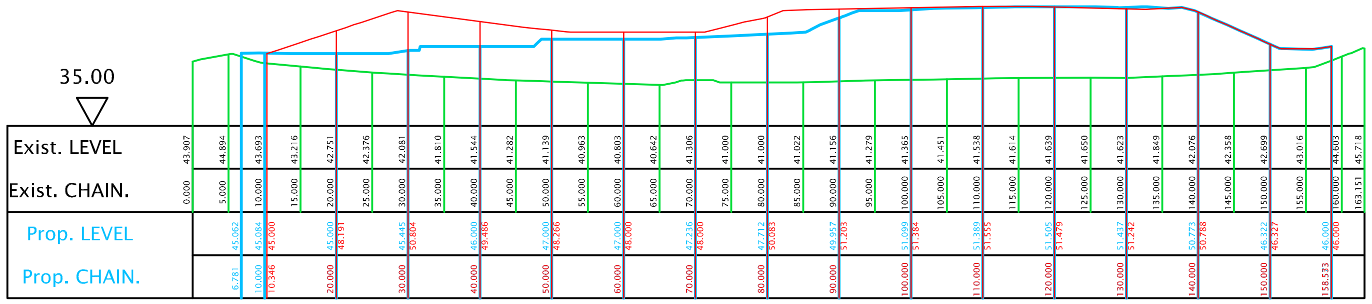
Title

Gremista Landfill
Gremista, Lerwick

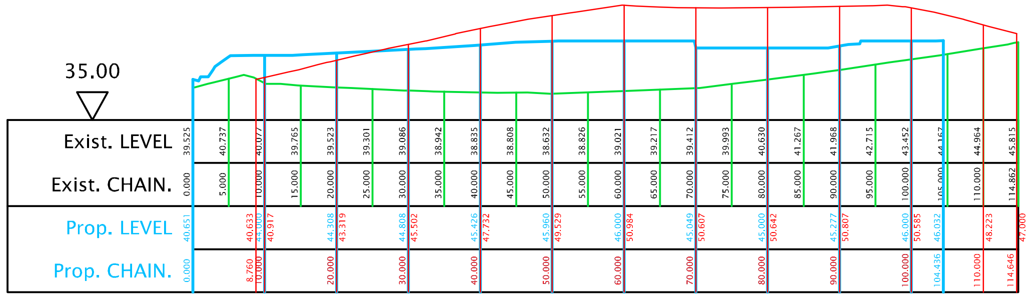
Phase One South Cell
Filling Profile Isopachyte

Drawing Number
MMD-319782 LA01-C-DR-00-XX-0002

Drawn: E Wishart
Checked: G Anderson
Approved: G Anderson
Scale at A3: 1:1000
Status: PRE
Rev: P1



Section A–A Through Base GM 21–02–13
Horiz. 1:500 Vert. 1:500



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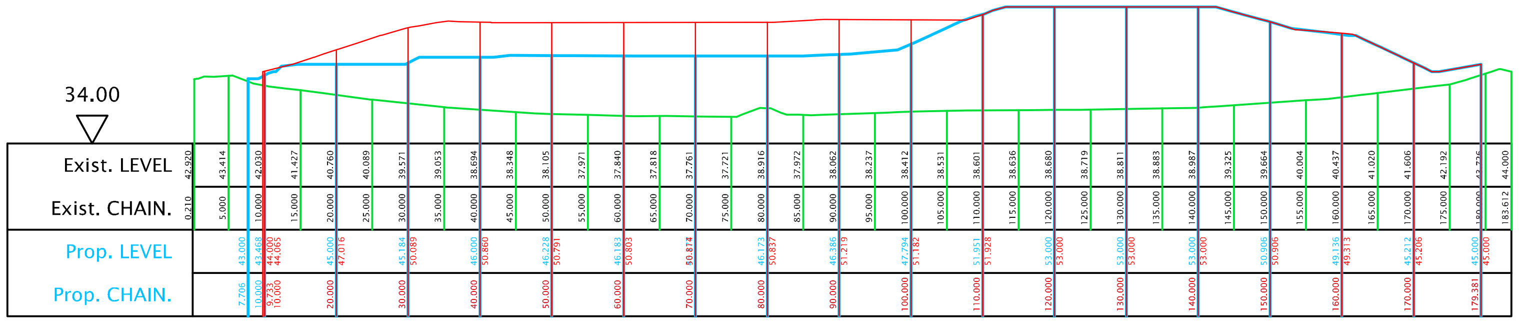
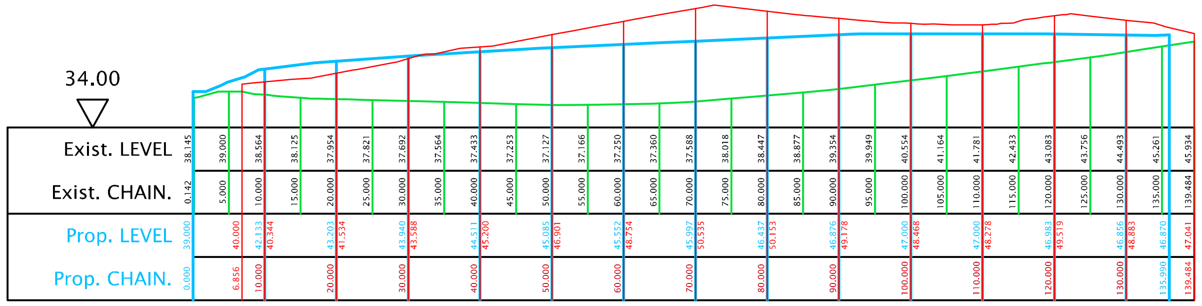
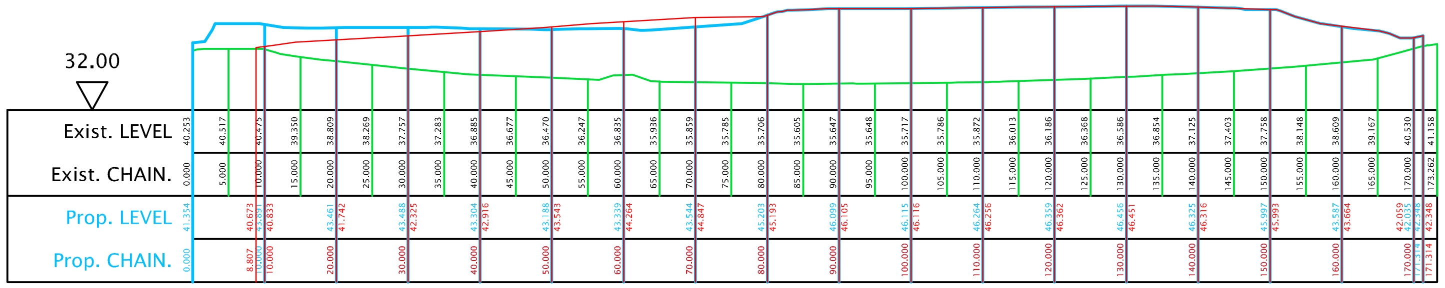


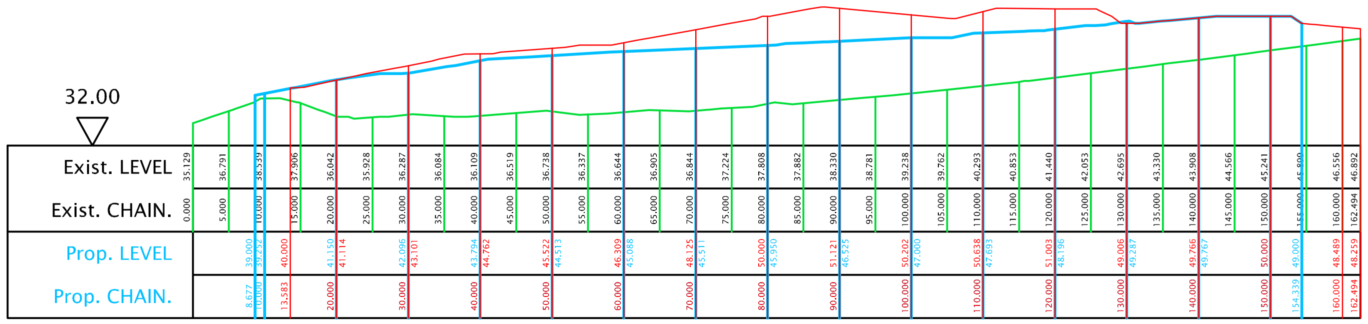
Section B–B Through Base GM 21–02–13
Horiz. 1:500 Vert. 1:500



Section 2–2 Through Base GM 21–02–13
Horiz. 1:500 Vert. 1:500



Section C–C Through Base GM 21–02–13
Horiz. 1:500 Vert. 1:500



Section 3–3 Through Base GM 21–02–13
Horiz. 1:500 Vert. 1:500

— Landfill Base
— 2013 Survey
— Future Finished Contours

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Rev	Date	Drawn	Description	Ch'k'd	App'd
P1	03:13	EJW	Preliminary Issue	GCA	GCA

Title
Gremista Landfill
Gremista, Lerwick

Sections Through Phase One Cells

Drawn	E Wishart
Checked	G Anderson
Approved	G Anderson
Scale at A3	NTS

Drawing Number
MMD-319782 LA01-C-DR-00-XX-0003

Status PRE
Rev P1

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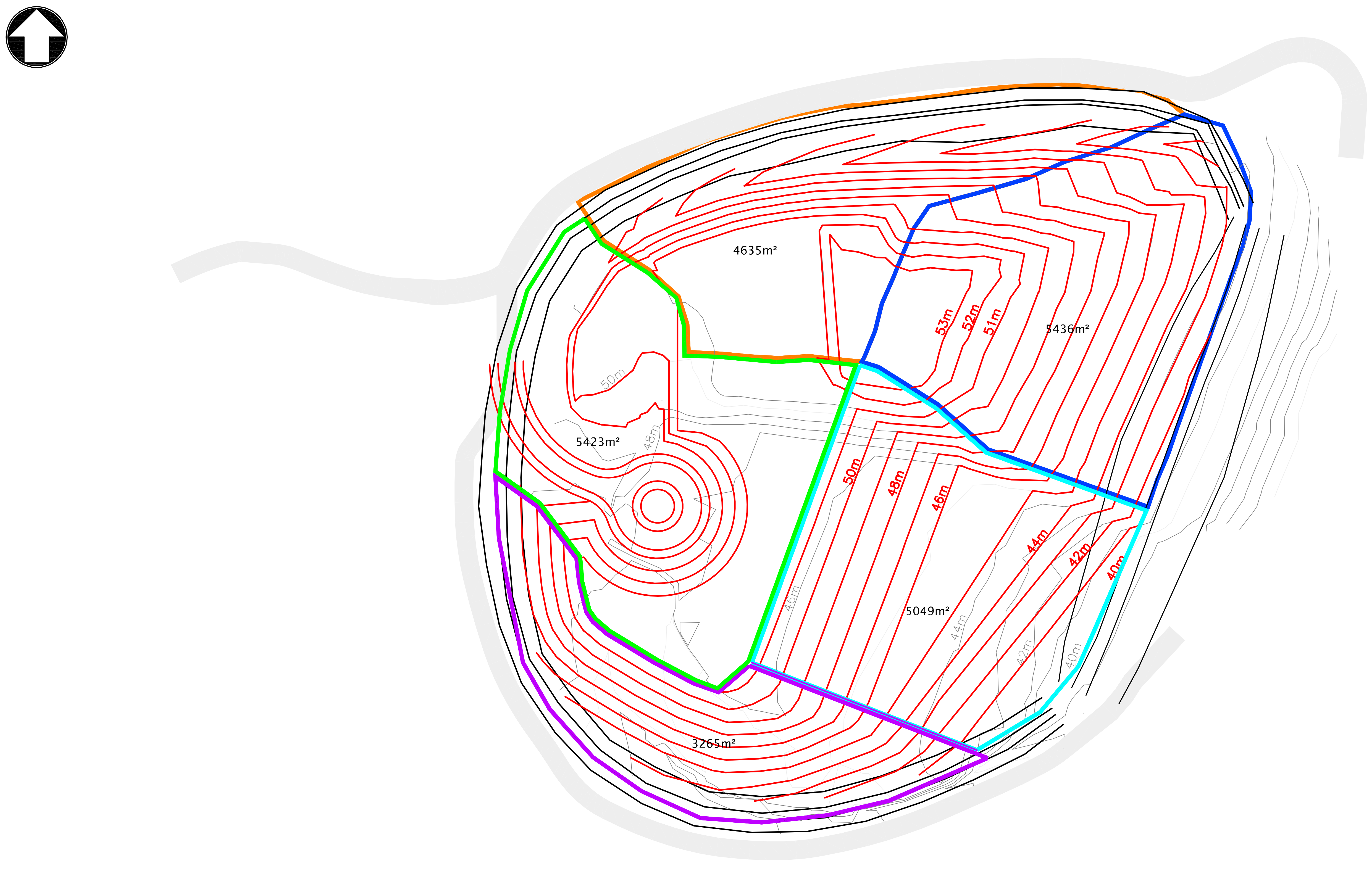
wis28234



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Rev	Date	Drawn	Description	Ch'k'd	App'd
P1	03:13	EJW	Preliminary Issue	GCA	GCA

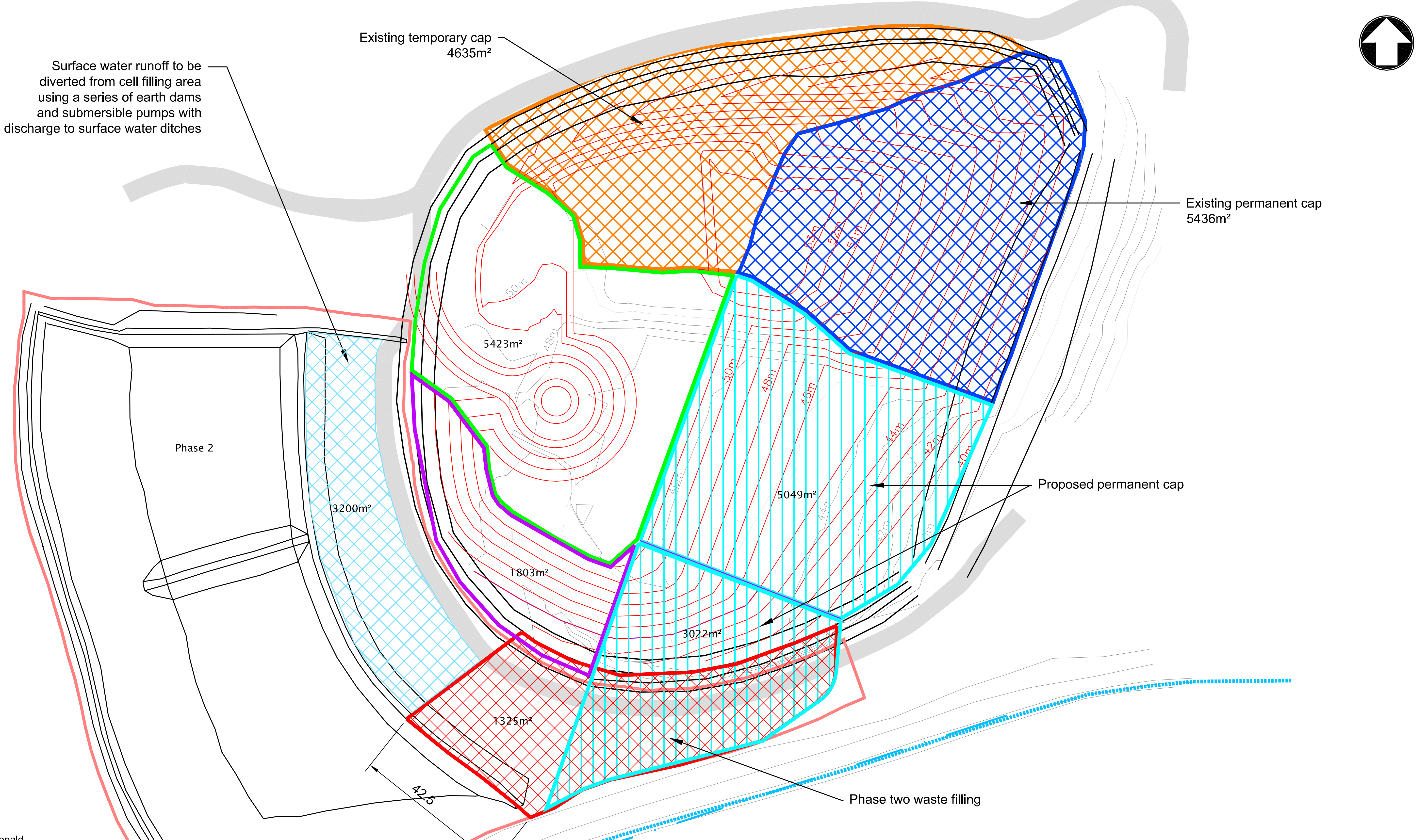
Title

Gremista Landfill
Gremista, Lerwick

Phase One
Capping Areas Maximum Cell Filling

Drawn: E Wishart
Checked: G Anderson
Approved: G Anderson
Scale at A3: 1:1000

Drawing Number: MMD-319782 LA01-C-DR-00-XX-0004
Status: PRE
Rev: P1



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Rev	Date	Drawn	Description	Ch'k'd	App'd
P1	03:13	EJW	Preliminary Issue	GCA	GCA

Title
Gremista Landfill
Gremista, Lerwick

Phase Two Filling Zone

Drawn E Wishart
Checked G Anderson
Approved G Anderson
Scale at A3 1:1000

Drawing Number MMD-319782 LA01-C-DR-00-XX-0005
Status PRE
Rev P1

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