Shetland Islands Council
Council Chamber, Town Hall, Lerwick
Wednesday 22 August 2018 at 10.00am

Present:

M Bell	M Burgess
P Campbell	S Coutts
A Duncan	J Fraser
S Leask	E Macdonald
A Manson	A Priest
I Scott	D Simpson
C Smith	G Smith
T Smith	R Thomson
A Westlake	B Wishart

Apologies:

C Hughson	R McGregor
D Sandison	

In Attendance (Officers):
C Ferguson, Director – Corporate Services
N Grant, Director – Development Services
J Belford, Executive Manager – Finance
M Craigie, Executive Manager Transport Planning
C Bain, Treasury Accountant
R Barton, Transport Policy & Projects Officer
S Brunton, Team Leader - Legal
B Kerr, Communications Officer
H Tait, Team Leader - Accountancy
L Geddes, Committee Officer

Also:
A Ross, KPMG
A Singh, KPMG

Chairperson
Mr Bell, Convener of the Council, presided.

Circular:
The circular calling the meeting was held as read.

The Convener ruled that in accordance with Section 43(2) of the Local Government in Scotland Act 2003, the attendance of Councillor Mark Burgess during the proceedings would be permitted by telephone link.

Declarations of Interest

None

Prior to consideration of the business items on the agenda, the Convener advised that this was the last meeting for Mr Jonathan Belford, Executive Manager – Finance, who had been with the Council since 2014. This had initially been as part of a partnership agreement with Aberdeen City Council, and he would be returning there as he had taken up a new post with Aberdeen City Council. During his time with Shetland Islands Council, he had delivered financial accounts and annual accounts which had been unqualified and commended by external auditors. He had worked to support key Council projects - not least the financial closure of the Anderson High School - and had worked closely with Members, helping to make the understanding of complex financial information much easier. Along with his wife, Freda, he had embraced Shetland life, and they had many friends outwith the Council. On behalf of the Council, the Convener extended best wishes to Mr and Mrs Belford on their new life back in Aberdeen.

The Council concurred with applause.

Mr Belford thanked the Convener for his kind words and best wishes. He advised that he had thoroughly enjoyed working alongside his team and Council members, and he wished the Council the very best in the future.

45/18 **Shetland Islands Council Investment Strategy**

The Committee considered a report by the Executive Manager – Finance (F-061-18-F) seeking approval of a proposed Investment Strategy for the Council's investments that would complement the Medium Term Financial Plan.

The Executive Manager – Finance summarised the main terms of the report, advising that it had been some years since there had been a formal review of the investment strategy. As the Council relied heavily on its investments to top up the Scottish Government grant and Council tax, it was important to ensure the investment strategy was delivering what was expected of it - gross investment returns of 7.3% over the long term. The Council's finance team had contributed to the work carried out by KPMG, who had been contracted to provide professional expert advice and carry out financial modelling. He introduced Mr Singh from KPMG, who had been leading on the work carried out.

Mr Singh outlined the objectives of the work that had taken place, which required a return of 7.3% per annum, while maintaining the value of the capital, in order to distribute £13million per annum. This was challenging in current market conditions, so it had set the context for the review. As the expected return with the current strategy was 6.5%, there was a need to increase returns and to manage key risks which had potential to erode the objectives. The proposed strategy addressed these risks, and the proposal set out would maintain equities and introduce two new asset classes - Direct Lending and Diversified Alternatives – which would allow for greater diversification.

Mr Singh and the Executive Manager – Finance then responded to questions, and Members noted the following:

- The management fees were an estimate based on the asset classes it was looking to engage in. When the Council actually selected its fund managers, management fees would form part of the evaluation and procurement exercise.

- The investment strategy was a long-term strategy, but the inflation position was something that fluctuated monthly. Inflation had been escalating recently and currently stood above 2.1%, but the Government had predicted it would settle back down towards 2%. So the strategy took a long-term view of inflation, based on the most helpful and up-to-date information available at the current time.

- The proposed new strategy moved away from corporate bonds and index-linked gilts. While they were income-producing, but the proposed move to Direct Lending and Diversified Alternatives should offer an improved income profile and risk profile.

- Direct lending investments were made in the more secure parts of the capital structure of companies, and companies who were less liable to default were chosen. If this situation did arise, there were specialists who would step into the companies to recover assets, so the Council's investments would be considered to be at the 'top of the pile' when it came to asset recovery.

- The proposed strategy should increase returns by keeping a large allocation in equities, which was one of the highest-returning classes. But it would introduce diversification so that there was not as much reliance on equities.

- There were specialist teams who would assess fund managers against the criteria set out in respect of ethical investments, and this was taken into account during the selection of fund managers. All of the Council's current fund managers had signed up to the United Nations Principles on Responsible Investment.

- The move to a more active approach was expected to achieve a higher return than a passive approach, and it was expected that an active manager would provide more protection. The proposal would use current mandates, but they would be realigned so that the current bias towards UK equities would be altered so that they were more in line with broader diversified interests.

- The return it was expected to achieve was a real terms comparison to the current situation, and KPMG had been working on the absolute value of the investments. If cash terms were applied to the ten year figures, there would be different figures in terms of absolute value.

In commenting that the current strategy required review, and that the proposed strategy should achieve the 7.3% gross investment returns per annum required to continue to provide services, Mr Coutts moved that the recommendations in the report be approved.

Mr G Smith seconded.

Decision:
The Council RESOLVED to adopt the Investment Strategy and:

- APPROVED the proposed Investment Strategy at section 3.1 to 3.4 of Appendix 1

- APPROVED the fund manager structure as set out in section 3.12 to 3.19 of Appendix 1

- DELEGATED authority to the Executive Manager – Finance to implement the policy by making the necessary changes to fund manager arrangements

46/18 **Medium Term Financial Plan**

The Committee considered a report by the (F-071-18-F) presenting the Medium Term Financial Plan (MTFP) which set out the financial framework within which the Council is expected to operate over the next five years.

The Executive Manager – Finance gave a PowerPoint presentation to Members which highlighted the purpose and context of the MTFP, and outlined the Council's resources and income and expenditure forecasts and the actions and strategy required to meet any funding gaps. He illustrated the downward trend of government funding in relation to grant settlements, which was expected to continue. The Scottish Government had outlined its key priorities, and this meant that more money would be spent on health and the money available for other public services would be reduced. The Council stood above all other councils in terms of the additional resources it applied, and inflation-proofing would be vital. The net cost of services was likely to rise faster over time than the income the Council could expect to achieve. Costs that could not be avoided - such as pay awards - had also been built in. The best and worst case scenarios were outlined, and these relied on the assumption that government funding would continue to be received for ferry operations. Any variation to this would have a material effect, so it was vitally important that engagement continued with the Scottish Government in this respect. The Plan would allow the Council to continue the progress it had made in reducing the underlying cost of Council services and maximising income opportunities, and it would allow the Council to ensure it made the best use of all its resources and reserves.

The Executive Manager – Finance then responded to questions, and Members noted the following:

- The Council should be considering its commercial activity and how to secure maximum income from it. However the question of whether there should be a specific governance entity to look at this was beyond the scope of this report and would be a decision for the Council to make.

- Should the Council not approve the MTFP today, the previously agreed MTFP would still apply.

- There was not enough evidence or information available about the potential impacts of 'Brexit' to include this in the MTFP.

- It was not the case that the 'middle case' scenario had been used for everything. For example, optimistic assumptions had been made about future ferry funding. Pessimistic assumptions had been made about the cost of fuel/energy, with the inflationary factor applied there more than it was for the other parts of the MTFP.

- As part of its manifesto commitments, the Scottish Government had identified health as its key priority. However there was no information available as to whether the additional resources the government allocated to this would include social care provision.

- The figures in the MTFP had been based on reserves of £280million, although the investments figure was higher than this. The Council's reserves remained at £250million on its balance sheet. However the Council had made commitments to some of that cash, and it needed to retain money to protect it in emergency situations and to cover its other commitments. The Housing Revenue Account had to stand alone, and it had its own balance sheet and its own 30-year plan as it would be drawing on that money. There were other non-discretionary sums earmarked in the General Fund, as well as an uncommitted balance. So the investment return base was £280million, as this was what could be relied on to make that contribution and an inflationary return each year to sustain services.

- The graph at paragraph 2.1.4 in the report did not compare like for like with other areas, but it did illustrate the extent to which the reserve fund was used to top up services locally. It was being recommended today that the Council continue with this funding in relation to the investment returns received. It would be difficult to answer what the actual qualitative value to Shetland was from using the reserve fund to top up Council services, although it could be calculated how much had been drawn from reserves to support activities.

- There was a legal process relating to securing revenues from Crown Estate business rates, and the amount of money would be modest. The Council could take control of non-domestic rates. However as a significant proportion of the non-domestic rates locally came from two particular entities, should anything happen to these there may not be an income stream in future. At the moment, this risk lay with the Government, so any move to take control of non-domestic rates locally would have to be carefully considered in that context.

Responding to a question, the Director of Corporate Services advised that a report on the service redesign programme was being drafted, and would be presented to the Council at its next meeting. Key service areas had been identified for review, and it would be important to conclude these reviews first before focusing on implementation. Other areas would also be identified for review in due course.

In response to a further question, the Director of Development Services advised that the UK Government was currently looking at ways of replacing European grant funding and how to allocate it. European funding that had previously been allocated to Shetland was somewhere in the region of £20million.

In commenting that the MTFP would play a key role in helping the Council to take the best decisions in the challenging times ahead, Mr Coutts moved that the recommendations in the report be approved.

Mr Duncan seconded.

Mr Scott expressed concern that approval of the recommendations in the report would mean acceptance of budget cuts in the order of £3million per annum. Given that the Council had £370million in its account, this £3million could instead be taken from the account to save services which enabled people to live decent lives. He accordingly moved as an amendment that the recommendations in the report be rejected. However his amendment did not receive a seconder.

During the discussion that followed, it was commented that the MTFP provided what was required for Members to make strategic decisions to meet the needs of the community, and that the discussion on how to prioritise this spend would take place at a later date. However it was commented that the Council needed to intensify its own efforts politically, and through COSLA, to make it clear to the Scottish Government that reducing local government funding year on year was not good enough and that local government should be a priority.

It was noted that work was taking place to get revenue funding in the budget for ferries, but that there was optimism that this would happen as fair ferry funding was something that had received cross-party support.

Members commented positively on the clarity and presentation of the report, and commended the Executive Manager – Finance and his staff for the work carried out.

Decision:
The Council RESOLVED to adopt the Medium Term Financial Plan 2018/19-2023/24 and:

- APPROVED the principles of the Plan set out in section 2.2 of the Medium Term Financial Plan

- APPROVED the assumptions on income and expenditure that underpin the Plan set out in Appendix G and Appendix H of the Plan

- APPROVED the Financial Strategy set out in Section 1 of the Plan

- AGREED the financial objective to be tackled by the Council over the life of the Medium Term Financial Plan as detailed in Appendix A and Appendix B

47/18 **Public and School Transport Network 2019 to 2024 - Strategic Outline Case**

The Committee considered a report by the Executive Manager - Transport Planning (DV-31-18-F) presenting information on the Public and School Transport Networks 2019 to 2024 – Strategic Outline Case (SOC).

The Executive Manager - Transport Planning summarised the main terms of the report, advising that the SOC set out the case for change, considered a number of shortlisted options, and suggested a preferred way forward when the current contracts for the network for school and public bus services expire in August 2019. There were a range of community planning and strategy contexts in Shetland which described what was required of Shetland's transport network, as well as statutory duties which required to be addressed. The current network was performing well, but there were gaps which required to be addressed. Alongside this there were financial pressures, and the service redesign targets had been built into the process. A hierarchy of travel needs had been established, and these would be checked with users, agencies and other stakeholders to see if they needed to be changed. The preferred way forward had been established as being a minimum of a network of services which would be broadly similar to current circumstances.

Responding to questions, the Executive Manager – Transport Planning advised that Council policy and the statutory requirements regarding walking distances to school were different. Council policy had been maintained, but Members could opt to revert to the statutory requirements if they wished to reduce costs. He went on to say that the preferred way ahead had been identified and stakeholders would be consulted, so there would be more detail available at the next stage when the outline business case was presented. The contracts could be extended at this point if necessary, as this was when deliverability would be tested.

In commenting on the opportunities for the Council to deliver an improved bus services at a reduced cost, which would be examined in more detail when the outline business case was presented to Members, Mr Thomson moved that the recommendations in the report be approved, and Mr Coutts seconded.

It was noted that efforts would be made to present the next report on this matter during the Council's ordinary cycle of meetings.

Decision:
The Council RESOLVED to:

- NOTE that the preferred way forward for public and school bus transport in Shetland detailed in the Strategic Outline Case (SOC) in Appendix 1 comprises two components; namely: -

    - For School Bus Transport – a network of dedicated services and public transport based services that provides transport to entitled pupils in compliance with the Council's prevailing policy criteria described on the Council's School Transport Policy

    - For Public Bus Transport –a network of services based on the current network with refinements to take advantage of opportunities for efficiency, with a framework to support any decisions to modify the network to meet any financial constraints based on a hierarchy of travel needs factors arising out of consultation with users, the Shetland community and wider stakeholders

- DELEGATE authority to the Director of Development Services, working with the Lead Officer of ZetTrans where required, to take any decisions and action required to develop the Full Business Case for the preferred way forward described in section 1.1 for each of the Public and School Bus Transport Networks to be implemented after the current set of service contracts expire on 18 August 2019.

The meeting concluded at 12.05pm.

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Convener