Shetland Islands Council

Executive Manager: Jan-Robert Riise
Director of Corporate Services: Christine Ferguson

Governance & Law
Corporate Services Department
8 North Ness Business Park
Lerwick
Shetland, ZE1 0LZ

Telephone: 01595 744550
Fax: 01595 744585
committee.services@shetland.gov.uk
www.shetland.gov.uk

If calling please ask for
Lynne Geddes
Direct Dial: 01595 744592
Email: lynne.geddes@shetland.gov.uk

Date: 21 June 2019

Dear Sir/Madam

You are invited to the following meeting:

Special Shetland Islands Council
Council Chamber, Town Hall, Lerwick
Wednesday 26 June 2019 at 2.00pm

Apologies for absence should be notified to Lynne Geddes at the above number.

Yours faithfully

Executive Manager – Governance and Law

Convener: M Bell
Depute Convener: B Wishart

AGENDA

(a) Hold circular calling the meeting as read.

(b) Apologies for absence, if any.

(c) Declarations of Interest - Members are asked to consider whether they have an interest to declare in relation to any item on the agenda for this meeting. Any Member making a declaration of interest should indicate whether it is a financial or non-financial interest and include some information on the nature of the interest. Advice may be sought from Officers prior to the meeting taking place

1. Zetland Educational Trust unaudited annual report and financial statements for the year to 31 March 2019
   F-040

2. Shetland Islands Council Unaudited Accounts 2018/19
   F-041

3. Interim Audit Report on the 2018/19 Audit – Shetland Islands Council
   F-042

4. Ferries Outline Business Cases and Fair Funding – Emerging Findings and Priorities
   DV-16

5. Inter-Island Air Services Outline Business Case – Emerging Principles and Next Steps
   DV-18

	Shetland Islands Council	Agenda Item **1**

Meeting(s):	Shetland Islands Council	26 June 2019
Report Title:	Zetland Educational Trust: Annual report and financial statements for the year to 31 March 2019	
Reference Number:	F-040-D	
Author / Job Title:	Executive Manager - Finance	

1.0 Decisions / Action required:

1.1 That the Council NOTES:

a) the Zetland Educational Trust (ZET) annual report and financial statements for the year to 31 March 2019 (Appendix 1) and;

b) the information at section 4.0 that highlights the key points from the report and financial statements.

2.0 High Level Summary:

2.1 Each trust registered with the Office of the Charities Regulator (OSCR) at 31 March 2019 is required to prepare a Trustees' Annual Report for 2018/19, which for the ZET can be found in Appendix 1.

2.2 The annual report and financial statements must be independently audited. For 2018/19, Deloitte LLP is the appointed auditor. The audited accounts will be formally presented to the Council on 25 September 2019 for approval.

3.0 Corporate Priorities and Joint Working:

3.1 The preparation and presentation of the annual report and financial statements is a responsibility of the trustees of the Zetland Educational Trust.

4.0 Key Issues:

4.1 The unaudited annual report and financial statements include the following key points for Trustees' consideration:

- The Trustees' Annual Report gives an overview of the Trust's performance and activity in 2018/19 and can be found on page 3 of Appendix 1.
- Trust reserves are held in a Corporate Bond Fund with investment managers Baillie Gifford.
- The Trust made a surplus of £5,578 in 2018/19 after disbursing £21,287 in grants.
- At 31 March 2019, the Trust held a cash balance of £19,037 and investments at market value of £657,161.

5.0 Exempt and/or confidential information:	
5.1 None.	
6.0 Implications :	
6.1 Service Users, Patients and Communities:	None arising from this report.
6.2 Human Resources and Organisational Development:	None arising from this report.
6.3 Equality, Diversity and Human Rights:	None arising from this report.
6.4 Legal:	Councillors, as trustees of Zetland Educational Trust, have responsibility for the preparation of Trustees' Annual Report in accordance with the terms of the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts Regulations (Scotland) 2006 (as amended).
6.5 Finance:	None arising from this report.
6.6 Assets and Property:	None arising from this report.
6.7 ICT and new technologies:	None arising from this report.
6.8 Environmental:	None arising from this report.
6.9 Risk Management:	The Trustees' Annual Report and Financial Statements are subject to independent audit by 30 September 2019 to mitigate the risk of material misstatement.
6.10 Policy and Delegated Authority:	All members of Shetland Islands Council are trustees of the Zetland Educational Trust, with responsibility for making judgements and estimates that are both reasonable and prudent, whilst also keeping adequate and up to date accounting records.

6.11 Previously considered by:	n/a

Contact Details:
Maria Forrester, Senior Assistant Accountant,
Maria.forrester@shetland.gov.uk
17 June 2019

Appendices:
Appendix 1 – Zetland Educational Trust Draft Annual Report and Financial Statements for year to 31 March 2019

Background Documents:
The Charities and Trustee Investment (Scotland) Act 2005
Charities Accounts Regulations (Scotland) 2006 (as amended)

Zetland Educational Trust Schemes
1961 to 1965

Trustees' Annual Report and Unaudited Financial Statements **2019**

OSCR
Scottish Charity Regulator
www.oscr.org.uk
Registered Charity
SC001146

Shetland
Islands Council

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Introduction

The trustees present their annual report together with the financial statements for the year ended 31 March 2019.

Administration Information

Charity Name	Zetland Educational Trust Schemes 1961 to 1965, known as Zetland Educational Trust (ZET)
Charity Number	SC001146
Contact Address	Shetland Islands Council Office Headquarters 8 North Ness Business Park Lerwick Shetland ZE1 0LZ
Current Trustees	Shetland Islands Council
Auditor	Deloitte LLP 110 Queen Street Glasgow G1 3BX

Structure, Governance and Management

Constitution

The Zetland Educational Trust (ZET), as currently constituted, was formed in 1961 (amended in 1965) through the amalgamation of a number of bequests. It is registered with the Office of the Scottish Charity regulator (OSCR) and its governing document is a trust deed.

The Zetland Educational Trust comprises a number of endowments as specified in the ZET schemes 1961 and 1965, which are vested in Shetland Islands Council as the governing body and statutory successors to the County Council for the County of Zetland.

Trustees

The trustees of ZET are the elected members of Shetland Islands Council and are appointed through their election to the Council.

The Executive Manager – Finance is the designated officer within Shetland Islands Council with responsibility for the proper administration of the trust's financial affairs and for keeping adequate and up to date accounting records.

The Executive Manager – Finance is responsible for ensuring that the financial statements of ZET are produced in accordance with the Charities Accounts (Scotland) Regulations 2006 (as amended), for making judgements and estimates that are both reasonable and prudent, and for taking steps to prevent and detect fraud and other irregularities.

Trustees (Cont.)

The Executive Manager – Finance has considered and taken steps to address any risks to which the charity may be exposed, in particular those related to its operation and finances. The trustees are satisfied that adequate systems are in place to mitigate exposure to such risks.

Management

The elected members, as trustees, are responsible for all major decisions relating to the trust.

Authority to award grants has been delegated by the trustees to Shetland Islands Council Children's Services. The nominated officer is the Executive Manager – Quality Improvement.

The Executive Manager – Quality Improvement has the power to authorise expenditure within the limits of the trust's annual income. Designated staff within Children's Services are responsible for the day-to-day administration of the funds.

Objectives and Activities

Charitable purposes

The purpose of the trust is the advancement of education of people belonging to Shetland.

The Zetland Educational Trust generally provides grants amounting to 75% of total project costs, with the remainder of project costs to be met by fundraising activities or in-kind support. The Trust does not give funds retrospectively. Applications are invited on an annual basis from individuals, schools and other educational organisations operating in Shetland.

The amount of funds available for disbursement will vary each year depending on interest received by the trust.

The trust will fund projects that fall under the following headings:

- **Educational excursions**

  The trust may provide assistance to meet the costs of organised educational excursions for the benefit of pupils attending school centres in Shetland. The pupils should derive some educational benefit from attending the excursion.

- **Special equipment**

  The trust may fund the enhancement of education by assisting the provision of special equipment additional to that which the local authority may reasonably be expected to supply.

- **Promotion of ability and skill in swimming**

  The trust may fund the promotion and encouragement of swimming among pupils in Shetland through organised instruction by paying fees, travelling expenses and personal expenses of teams, instructors and any other appropriate costs.

- **Promotion of knowledge of Shetland**

  The trust may fund the promotion of knowledge of Shetland: its character, its skills and its arts, among persons being educated in Shetland by, for example, assisting to meet the costs of museum provision, making films designed to develop the knowledge of Shetland and any other appropriate costs.

- **Educational experiments and research**

  The Trust may fund bodies, or other persons it approves, to undertake educational experiments and research, including archaeological research that, in its opinion, will be for the educational benefit of persons in Shetland.

Performance

For the year ended 31 March 2019, the Trust received bank interest of £126 (2017/18: £941). The decrease in bank interest earned is due to the change of Trust reserves from a fixed term deposit to a Corporate Bond Fund. This occurred on 28 April 2017.

The Corporate Bond Fund generated investment income of £25,838 (2017/18: 22,005) and resulted in £1,948 of Fund manager fees (2017/18: £1,218). The increase in income earned and fees from 2017/18 is mainly due to timing differences, date the bond commenced and receipt of fee invoices.

There were 12 bursaries (2017/18: 14) awarded to university students in support of their studies, totalling £2,400 (2017/18: £2,800). These bursaries are issued in the name of the original donors: E & M Gair (8 awards) and Arthur Anderson (4 awards). These bursaries will continue to be awarded as the students' progress through their degree programmes.

The Trust also provides grants for projects in line with its objectives There were 9 grants awarded totalling £18,887 in the year to 31 March 2019 (2017/18: £12,784).

Financial Review

Overview

In the year to 31 March 2019, the Trust made a surplus of £5,578 (2017/18: £6,139).

At 31 March 2019 the Trust held cash of £19,037 (2017/18: £13,459) and investments of £657,161 (2017/18: £660,000).

Reserves Policy

The Reserves policy is to maintain capital balances, with disbursements being made from investment income and bank interest earned.

Declaration

This report was signed on behalf of the trustees on 26 June 2019 by:

....
Jamie Manson, CPFA
Executive Manager – Finance

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2019

The Statement of Receipts and Payments, as required by the Charities Accounts (Scotland) Regulations 2006 (as amended), provides an analysis of the incoming and outgoing cash and bank transactions for the year.

	Note	Unrestricted Funds £	Restricted Funds £	2018/19 £	2017/18 £
Receipts					
Donations	2	0	2,711	2,711	0
Grants	4	940	0	940	0
Investment Income	5	25,838	0	25,838	22,005
Bank Interest		126	0	126	941
Total receipts		**26,904**	**2,711**	**29,615**	**22,946**
Payments					
Disbursements	6	18,576	2,711	21,287	15,584
Fund Manager Fees	5	1,948	0	1,948	1,218
Service Charges	7	802	0	802	5
Total payments		**21,326**	**2,711**	**24,037**	**16,807**
Surplus for the year		**5,578**	**0**	**5,578**	**6,139**

STATEMENT OF BALANCES AS AT 31 MARCH 2019

The Statement of Balances, as required by the Charities Accounts (Scotland) Regulations 2006 (as amended), reconciles the cash and bank balances at the start and end of the financial year with any surpluses shown in the Statement of Receipts and Payments.

Note	Unrestricted Funds £	Restricted Funds £	2018/19 £	2017/18 £
Cash and Bank				
Opening cash balance	13,459	0	13,459	7,320
Surplus for the year	5,578	0	5,578	6,139
Closing cash balance	**19,037**	**0**	**19,037**	**13,459**

	Note	2018/19 £	2017/18 £
Investments at market value			
Baillie Gifford Corporate Bond	5	657,161	660,000
Total Investments		**657,161**	**660,000**

Signed on behalf of the trustees on 26 June 2019 by:

....
Jamie Manson, CPFA
Executive Manager – Finance

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1. Basis of Accounting

The financial statements have been prepared on a receipts and payments basis in accordance with the Charities & Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

2. Nature and purpose of funds

Unrestricted funds are those that may be used at the discretion of the trustees in furtherance of the objects of the charity.

Restricted funds may only be used for specific purposes. Restrictions arise when specified by the donor or when funds are raised for specific purposes. During the year, the ZET received donations of £2,711 from parents towards the provision of an educational excursion.

3. Trustee Remuneration, Expenses and Related Party Transactions

a) No remuneration or expenses were paid during the period to any trustee or persons connected to a trustee during 2018/19;

b) Shetland Islands Council has not charged the Trust any fees for legal, financial or administrative services provided during the year; and

c) Two ZET trustees are trustees of The Swan Trust. During the year, £5,000 was disbursed to the Swan Trust to provide schoolchildren with sailing opportunities (2017/18: nil).

4. Grants received

Shetland Island Council paid £940 in grants to the ZET (2017/18: nil)

5. Cash and Investments

Investment balances are held in a Baillie Gifford Corporate Bond Fund.

Fund manager fees of 3% on the daily market value of the fund is charged and invoiced quarterly in arrears.

The Trust holds one bank account. In addition to receiving bank interest, income generated from the bond is received by the account. The bank account is used to make payments.

6. Disbursement of Bursaries and Grants

Disbursements: bursaries	2018/19		2017/18	
	Number	£	Number	£
Disbursements				
E & M Gair student bursaries	8	1,600	8	1,600
Arthur Anderson student bursaries	4	800	6	1,200
Total	**12**	**2,400**	**14**	**2,800**

Disbursements: grants	2018/19		2017/18	
	Number	£	Number	£
Type of activity or project supported				
Special equipment	4	7,987	18	4,491
Promotion of knowledge of Shetland	3	6,080	14	2,091
Educational Excursions	1	4,711	9	4,522
Educational experiments and research	1	109	1	1,680
	9	**18,887**	**42**	**12,784**

All 9 grants awarded in the year were to local clubs and schools. No individuals were awarded grants.

7. Audit Fees

Shetland Islands Council has an agreement with ZET whereby the independent audit fee is borne by the Council unless the Trust earns a minimum income of £10,000 in the year. This income threshold was exceeded in 2018/19 and audit fees of £400 are chargeable to ZET. Both the 2018/19 and 2017/18 audit fees have been paid in 2018/19.

8. Taxation

The Zetland Educational Trust is not liable to income or capital gains tax on its activities. Irrecoverable VAT is included in any expense to which it relates.

	Shetland Islands Council	Agenda Item **2**

Meeting(s):	Shetland Islands Council	26 June 2019
Report Title:	Shetland Islands Council Unaudited Accounts 2018/19	
Reference Number:	F-041-F	
Author / Job Title:	Executive Manager - Finance	

1.0 Decisions / Action required:

1.1 That the Council CONSIDERS:

a) The 2018/19 Unaudited Accounts for the Shetland Islands Council (Appendix 1) and;

b) The key issues arising from the 2018/19 accounts summarised in section 4.0.

1.2 That the Council NOTES the Council's compliance with two new accounting standards.

2.0 High Level Summary:

2.1 The Local Authority Accounts (Scotland) Regulations 2014 require the Council to prepare and publish a set of accounts, including an annual governance statement, by 30 June each year.

2.2 The draft accounts are then required to be formally considered by the Council no later than 31 August.

2.3 The accounts are then subject to external audit by the Council's appointed auditor, Deloitte LLP, by 30 September. The audit accounts will be presented to the Audit Committee and Council on 25 September 2019.

2.4 In 2018/19, the International Accounting Standards Board (IASB) published two new International Financial Reporting Standards (IFRS):

- IFRS 9 *Financial Instruments*, *and*
- IFRS 15 *Revenue from Contracts with Customers*.

The standards come into force for accounting periods beginning on or after 1 January 2018.

2.5 IFRS 9 *Financial Instruments* is the new accounting standard which replaced International Accounting Standard (IAS) 39 *Financial Instruments: Recognition and Measurement*. It specifies how an entity should classify and measure financial assets and financial liabilities.

2.6 IFRS 15 *Revenue from Contracts with Customers* is the new accounting standard which establishes the principles an entity applies when reporting information about the nature, amount, timing and uncertainty of revenue and cash flows from a contract with a customer.

2.7 The Council has adopted the new accounting standards from 1 April 2018, as per compliance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

3.0 Corporate Priorities and Joint Working:

3.1 The preparation and presentation of the annual accounts is a key element of the Council's overall governance and reporting arrangements.

4.0 Key Issues:

2018/19 Unaudited Accounts

4.1 The unaudited accounts include the following key points for members' consideration:

- The Management Commentary provides an overview of the Council's financial performance during 2018/19, including a final draw on reserves of £15.3m;
- The Comprehensive Income and Expenditure Statement on page 24 shows an accounting gain in the year of £97.2m;
- The Expenditure and Funding Analysis (page 32) reconciles the result calculated for accounting purposes to the revenue outturn position;
- The Council's usable reserves are detailed on page 39 and amounted to £369.2m at 31 March 2019. The majority is earmarked for specific purposes, however there is a sum of £27.2m in the unearmarked General Fund balance;
- Net assets of the Council decreased by £15.6m to £535.8m at 31 March 2019, arising from an increase in the pension liability of £42.2m offset by an increase in the revaluation reserve of £20.6m.
- On 23 October 2018, the Council acquired 100% interest in Shetland Leasing and Property Developments Ltd, a property and investment company. The council has the controlling interest in the company and falls under the criteria of subsidiary. The entity has been consolidated into the Group Statements.

New Accounting Standard: IFRS 9 *Financial Instruments*

4.2 The adoption of IFRS 9 has had a significant impact on the Council, including the measurement basis for 'Available for Sale' financial instruments, and a new expected credit loss impairment model.

4.3 IFRS 9 introduced a principles-based approach to the classification of financial assets, which is fundamentally different from that which applied under IAS39. The accounting treatment is determined by the characteristics of the financial instrument and by the overarching investment strategy under which the instrument was acquired or originated.

Adoption of the standard has resulted in the reclassification of 'Available for Sale' financial instruments to Fair Value through Profit or Loss. The accounting arrangements for this measurement basis are:

- Gains and losses are recognised in the Surplus or Deficit on Provision of Services in the Comprehensive Income and Expenditure Statement (CIES)
- The asset is maintained in the Balance Sheet at fair value

As a result of the change in measurement basis, balances within the Unusable Available for Sale Financial Instruments Reserve have been transferred to

Financing and Investment Income and Expenditure in the CIES, resulting in an increase to the Unrealised Investment Gains Reserve.

The following table details the movement between the Reserves and the value recognised through the CIES:

	Balance at 31 March 2018 £000	Transfer between Reserves £000	Movement in year £000	Balance at 31 March 2019 £000
Unusable - Available for Sale Financial Instruments Reserve	(108,464)	108,464	0	0
Usable - General Fund Unrealised Investment Gains (earmarked)	0	(108,464)	(2,524)	(110,988)
Total	**(108,464)**	**0**	**(2,524)**	**(110,988)**

The Unrealised Investment Gains is an earmarked part of the General Fund and is not available to fund the delivery of services. The net gain is 'unrealised' because the underlying investments have not been sold as at 31 March and are not readily convertible to cash.

4.4 IFRS 9 introduced a new expected credit loss impairment model which applies to financial assets that are part of a business model that includes contractual cash flows as one of its objectives. For the Council this applies to trade receivables, development loans and sub debt investments.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligation.

An assessment of expected credit loss was conducted for the above financial assets. No impairment was established for the development loans or subdebt investment due to low credit risk and a low risk of default involved.

4.5 As per the terms of IFRS9, a simplified approach was used to determine the impairment loss for trade receivables based on lifetime expected credit losses. A provision matrix was used to calculate the impairment based on the number of days the receivable is past due, assessed on the basis of historical experience adjusted to reflect current conditions and forecasts of future conditions. The impairment balance for trade receivables is £270k as at 31 March 2019.

New Accounting Standard: IFRS 15 *Revenue from Contracts with Customers*

4.6 IFRS 15 includes specific and detailed requirements for revenue recognition. The standard specifies how and when an entity should recognise revenue, as well as requiring the entity to provide users of financial statements with informative and relevant disclosures.

The core function of a local authority is the democratic provision of public services supported from a mixture of taxation revenues and other income sources, such as fees and charges. The main form of funding for local government is normally in the form of government grant.

The Council has a number of contracts with customers that generate income that is ultimately used to fund public services across Shetland. Such contracts are therefore within the scope of the standard. In order to comply with the standard, the relevant disclosures have been made within the Council's financial statements in respect of revenue from contracts with customers.

4.7 Adoption of these new accounting standards ensures that the annual accounts are more transparent and demonstrate recognition of unrealised investment gains and expected credit losses.

5.0 Exempt and/or confidential information:

5.1 None.

6.0 Implications :

6.1 Service Users, Patients and Communities:	None arising from this report.
6.2 Human Resources and Organisational Development:	None arising from this report.
6.3 Equality, Diversity and Human Rights:	None arising from this report.
6.4 Legal:	Section 12 of the Local Government (Scotland) Act 2003 requires the Council to observe proper accounting practice, including compliance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) issued by CIPFA / LASAAC. The Code is based on International Financing Reporting Standards (IFRSs).
6.5 Finance:	None arising from this report.
6.6 Assets and Property:	None arising from this report.
6.7 ICT and new technologies:	None arising from this report.
6.8 Environmental:	None arising from this report.
6.9 Risk Management:	The annual accounts are subject to external audit by 30 September in order to mitigate risk of material misstatement.

6.10 Policy and Delegated Authority:	The preparation and presentation of the Annual Accounts is a key element of the Council's overall governance and reporting arrangements. Receiving the audit accounts of the Council and related certificates is a matter reserved by the Council.	
6.11 Previously considered by:	*n/a*	*n/a*

Contact Details:
Jamie Manson, Executive Manager – Finance
01595 744607
Jamie.Manson@shetland.gov.uk
17 June 2019

Appendices:
Appendix 1 – Shetland Islands Council Unaudited Annual Accounts 2018/19

Background Documents:
The Local Authority Accounts (Scotland) Regulations 2014

END

Unaudited Annual Accounts 2018/19

Shetland
Islands Council

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Management Commentary

Introduction

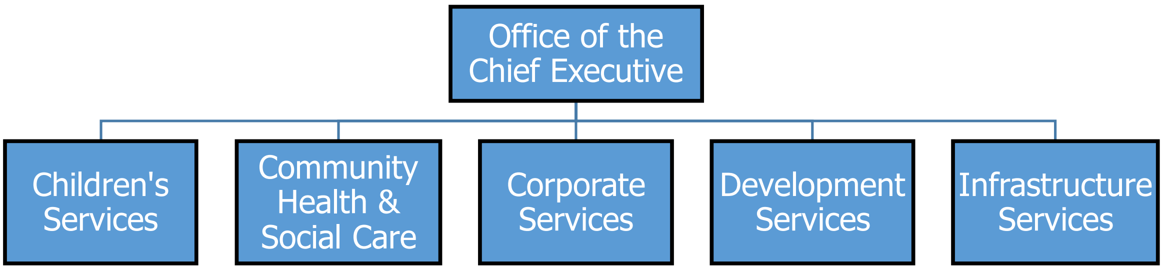
The Annual Accounts present the financial statements of Shetland Islands Council for the year ended 31 March 2019.

The purpose of the Management Commentary is to present an overview of the Council's financial performance during the year 2018/19 and to help readers understand its financial position as at 31 March 2019. In addition, it outlines the main risks and uncertainties facing the Council for the financial year 2018/19 and beyond.

Background

Shetland Islands Council is one of 32 local authorities in Scotland.

It is governed by 22 elected members (21 independent and 1 SNP) serving a population of approximately 23,000 people. The Council is organised to provide and deliver its services to the public, such as schools, public transport, economic development, social care, environmental health, housing, ports and harbours and roads, as follows:



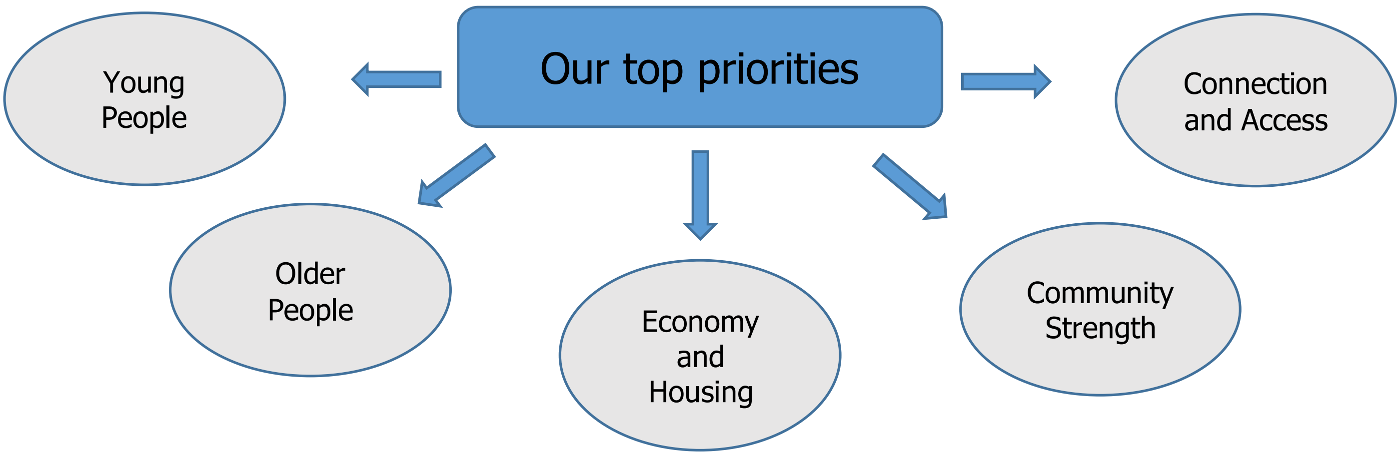
Full details on the services provided can be found on the Council's website: www.shetland.gov.uk

Strategy and Performance Management

Corporate Plan

Shetland Islands Council has a four-year corporate plan. Called 'Our Plan 2016-2020', it sets out the Council's vision as follows:

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

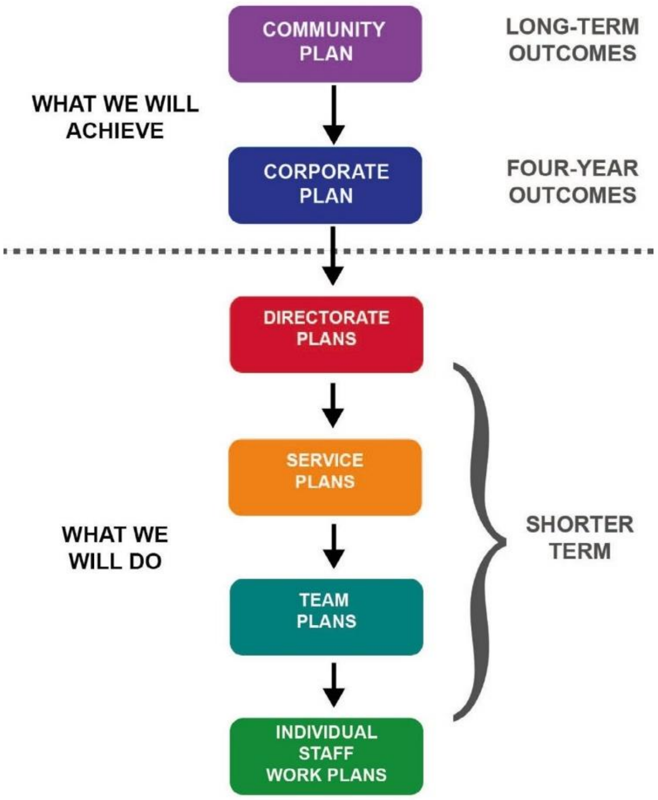


A half-way progress report was reported to Committee in March 2019. This table provides an update on the five top political priority areas that were set out in the Plan

Political Priority Area	March 2019 Progress Report
Complete and move into the new Anderson High School and Halls of Residence	The new Anderson High School and Halls of Residence welcomed pupils in October 2017. The new campus is providing an exciting and stimulating environment for Shetland's young people to learn.
Increase the supply of affordable housing in Shetland	Over the two years from April 2016 to March 2018, 183 new houses were built (a mixture of private and social housing).
Improve high-speed broadband and mobile connections throughout Shetland	For the past two years the Council has assisted staff in the Scottish Government who are preparing the Reaching 100% (R100) project. Delivery should begin in 2019. R100 should enable more settlements in Shetland to access high-speed broadband including some of the hard-to-reach places not included in the previous Broadband Delivery UK project. The Council has been awarded £1.91m from the UK Government's Department of Digital, Culture, Media and Sport (DCMS) to fund a network of full fibre broadband connections between public sector premises across Yell and Unst. Work is expected to start in summer 2019 with project completion expected in late 2019 or early 2020.
Support older people across Shetland so they can get the services they need to help them live as independently as possible	Develop anticipatory care plans - Since April 2016, there has been a continuous month on month increase in the number of anticipatory care plans in place, increasing from 917 in April 2016 to 1,130 in July 2018; Develop intensive rehabilitation service - The Intermediate Care Service (ICS) has been expanded and has now become a key component of the care pathway for older people; Self Directed Support (SDS) - Since 2016, there has been an increase in the number of people choosing to direct their own support through 'direct payments'; 'With You For You' - Since 2016, changes to the way we refer, assess and review the support offered to individuals has been implemented undergoing significant improvements. Enabling greater ease of access to support, getting the right staff involved, and ensuring assessment processes are focused on what's important to and for individuals.
Provide quality transport services within Shetland, and push for improvements in services to and from Shetland	The Shetland Transport Strategy was refreshed over the course of the second half of 2017 and the first half of 2018. The process adopted an extensive engagement process, which identified six main issues that the refreshed strategy should address, Lifeline Transport, Transport Robustness, Community Support, Integration Support, Behavioural Change and Change Management. The supporting draft delivery plan and performance indicators are under development and due to be approved in summer 2019.

The corporate plan and progress report can be found on the Council's website:
http://www.shetland.gov.uk/documents/OurPlan2016-20final.pdf
http://www.shetland.gov.uk/our-plan-progress-report.asp

The Corporate Plan describes how, as a strategy, it fits in with other local plans. Its objectives stem from the priorities enshrined in the community plan, as described in the following diagram:



The outcomes of the Corporate Plan then cascade to the Council's directorate plans and on through the organisation to individual work plans.

Community Planning

The Council is a statutory member of the Shetland Partnership, which is the local Community Planning Partnership for Shetland. There are 5 statutory partners with equal responsibility for community planning in Shetland. These are Shetland Islands Council, NHS Shetland, Police Scotland, Scottish Fire and Rescue Service and Highlands and Islands Enterprise (HIE). The 5 lead agencies work in partnership with a network of organisations drawn from across the public, private and third sectors in Shetland. Shetland's Partnership Plan 2018-2028 sets out what the Partnership aims to achieve across Shetland over the long term.

The Shetland Partnership is responsible for preparing a Local Outcomes Improvement Plan (LOIP) under the Community Empowerment (Scotland) Act 2015, which aims to empower community bodies by giving them more say in decisions about public services. Shetland's Partnership Plan fulfils that requirement and is the principal strategic planning document for the delivery of public services in Shetland.

Shetland's Partnership Plan 2018-2028 proposes a shared vision that:

> "Shetland is a place where everyone is able to thrive; living well in strong, resilient communities; and where people and communities are able to help plan and deliver solutions to future challenges"

Shetland's Partnership Plan will be supported by delivery plans. The Council's activities that contribute to the target outcomes in Shetland's Partnership Plan will be monitored by the Council and its committees as appropriate.

Shetland's Partnership Plan 2018-2028 outlines four shared priorities, as follows:

People
Individuals and families can thrive and reach their full potential

Participation
People can participate and influence decisions on services and use of resources

Place
Shetland is an attractive place to live, work, study and invest

Money
All households can afford to have a good standard of living

The Shetland Partnership has undertaken work to ensure compliance with the legislation introduced by Part 2 of the *Community Empowerment (Scotland) Act 2015* which brought about changes to how community planning works.

The Shetland Partnership has fulfilled its duty of reviewing and reporting on progress with community planning as detailed in the Annual Report 2017/18, which can be found at: https://www.shetland.gov.uk/communityplanning/documents/ShetlandPartnershipAnnualReport2017-18.pdf

Analysis of a wide range of data and evidence demonstrated what life is like for people in Shetland and the challenges Shetland faces in the short, medium and long-term.

Shetland's Partnership Plan 2018-2028 was approved by the Council on 27 June 2018. It is built on an evidence-based understanding of local needs, circumstances and opportunities.

Positives

Challenges

The next phase is the preparation of Delivery Plans for each priority: People, Participation, Place and Money.

More information can be found at: http://www.shetland.gov.uk/communityplanning/ShetlandPartnership.asp

Performance

The principal source of council performance information is the Local Government Benchmarking Framework website (http://www.improvementservice.org.uk/benchmarking/explore-the-data.html); it provides a range of indicators that show how Shetland Islands Council is performing over time and against other local authorities.

In addition, the Council has its own performance web page, called Our Performance Matters, that can be accessed here: http://www.shetland.gov.uk/about_performance/default.asp.

The following table gives examples of the types of information available, but there is much more data to explore online as detailed above.

LGBF Data	Shetland Islands Council 2016/17	Shetland Islands Council 2017/18	% change
Cost per primary school pupil	£7,927	£7,656	-3.42%
Cost per secondary school pupil	£10,996	£10,985	-0.10%
Council per home of Council Tax collection	£14.23	£12.80	-10.05%
Council Tax collection rate	97.10%	97.10%	0.00%
Cost per premise on refuse collection	£48.90	£48.30	-1.23%

The following provides examples of areas where performance has improved or declined by over 10%

- **+32%** Percentage of Councils' procurement spent on local enterprises increased from 40.9% to 54.2%
- **+42%** Teachers sickness absence (average working days lost) increased from 5.12 to 7.30. *Future improvement:* A recently revised Mental Health Policy to ensure absences are being managed in the most effective way
- **-10%** Percentage of unclassified roads in need of repair reduced from 50.5% to 45.6%
- **+13%** Spend (£ per 1,000 people) on providing environmental health has increased from £31,360 to £35,442. *Future improvement*: Establish further efficiencies through flexible use of staff.
- **+19%** Percentage of council buildings in a satisfactory condition has increased from 83% to 99%
- **-14%** Number of weeks to deliver commercial planning application reduced from 14.7 to 12.7
- **+45%** Spend on providing care to support older people to live at home (per person, per week) increased from £32 to £47. *Future improvement:* Continue to drive efficiencies and integrate services to reduce costs and while increasing opportunities for people to stay at home longer
- **-10%** Cost per home of Council Tax collection reduced from £14.23 to £12.80
- **-12%** Number of days to complete non-emergency housing repairs reduced from 17.5 to 15.4

Key Risks

The Council maintains a Corporate Risk register and reports progress on a quarterly basis to the Policy & Resources Committee. The latest report was presented on 13 May 2019 and can be found here: http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=24037

This report highlights two risks considered to be high in both likelihood and probability. These are extracted as follows:

Risk 1: Infrastructure Maintenance	Actions to mitigate risk
The Council invested heavily in infrastructure at the time when the oil industry was taking off. This infrastructure was funded from income generated from the oil industry. That infrastructure is now ageing and will need to be replaced, however, the financial situation is now tighter which will mean that it will be challenging to finance this.	The current Asset Investment Plan focuses on the maintenance of existing assets in order to prolong their useful economic lives. This should mitigate against the risk of immediate failure. In order to address the longer term replacement of assets, a Borrowing Policy was approved by Council on 11 December 2013. Other measures in place include: MTFP, budget monitoring and scrutiny, clear and robust roles and responsibilities for managers and financial procedures and regulations.
Risk 2: Pension Fund	**Actions to mitigate risk**
The SIC Pension Fund is not currently 100% funded. At 31 March 2017 triennial evaluation the Fund was 90% funded. The Fund, as well as the Council has a number of Scheduled and Admitted Bodies that have liabilities to fund over the long term. Admitted bodies failing or being unable to meet their contributions places risk from these arrangements on the Council, as the largest contributor to the Pension Fund.	Bodies seeking admission to the Pension Fund they now have to be supported in doing so by the Council (as a Schedule 1 Body) and also provide a guarantee / bond to meet any liabilities should they default in the future. This mitigates the risk to the Fund in relation to new employers.

Uncertainties

Funding
Uncertainty over the state of public sector finances and the impact this will have on the level of funding the Council receives from the Scottish Government in the future. In the absence of a fair funding settlement from the Scottish Government, the Council may need to consider significant reductions to internal ferry services in the near future.

Demand for services
The ability to maintain services with an ever-increasing cost base, arising either from local decisions or externally-imposed changes, while funding is reduced.

Demographic changes
Change in the age demographics of the population will increase service demand in areas such as Social Care.

European Union
The proposed exit of the United Kingdom from the European Union may impact the Council in various ways including constraints on the supply chain for imports and exports, withdrawal of funding, political and economic uncertainty, legislative and regulatory uncertainty, impact on investments and uncertainty on non-UK EU nationals employed in Shetland. The Council will continue to monitor this, regularly reviewing and updating the risk registers, having in place contingency plans and reporting to the Corporate Management Team and Committee.

Workforce
Impact of an ageing workforce on staffing requirements.

Council Highlights 2018/19

Shetland Leasing and Property Developments Limited

In October 2018 the Council acquired Shetland Leasing and Property Developments Limited (SLAP), a property development and investment company for £17.3m. The company has a portfolio of 22 properties which are leased to local private sector businesses, national entities and Shetland Islands Council. The landmark deal is a major investment for the Council and will see the Council increase its net annual rental income and will assist the Council with its Property Asset Management Strategy.

Year of Young People (YoYP)

The BIG Takeover, one of a number of YoYP events that celebrate the talents and achievements of young people in Scotland, saw young people working together to plan and deliver a broad range of arts, sports and cultural events in Shetland venues. The three-day programme involved over 80 events and activities showcasing musical and drama performances, sports events, film screenings, writing, arts and crafts, all developed by young people in Shetland who took on leading roles to design and deliver the events.

New Eric Gray Resource Centre

The start of 2019 saw the new Eric Gray@Seafield open to service users, with final construction costs amounting to £6m.
The new facility provides specialist supported vocational activities for adults with learning disability, autistic spectrum disorder and complex needs.

The Islands Bill

The Islands Bill which became an Act of the Scottish Parliament is a key aim of the Our Islands Our Future, a campaign led by the Councils in Shetland, Orkney and the Western Isles to secure more decision making at a local level and greater economic prosperity for communities. The Bill will allow further devolution of powers for island communities and enable existing and future policies and legislation to take into account the special circumstances of island communities

Knab Masterplan

In June 2019, the Council formally adopted the Knab Masterplan as supplementary guidance to the Local Development Plan. The first stage of implementing the Masterplan was approved to demolish all buildings on the former Anderson High School at the Knab with the exception of the listed buildings and the former science block.

Customer First Strategy and Charter

During 2018/19, the Council's new Customer First Strategy and Charter was launched setting out the standards of service which the public can expect when dealing with the Council, and which services and employees can expect when working with each other.

Extension to fibre network

The Council was awarded £1.91m from the UK Government's Department of Digital, Culture, Media and Sport (DCMS) to fund a network of full fibre broadband connections between public sector premises across Yell and Unst. Work is expected to start in summer 2019 with project completion expected in late 2019 or early 2020.

Kerbside Recycling

The new kerbside collection service was rolled out on a phased basis across Shetland in 2018. At just 8%, Shetland Islands Council had the lowest recycling rate in Scotland in 2017/18 and the new scheme aimed to address this. Following the roll out of the service, the percentage of household waste recycled is continuing to improve with the third quarter of 2018/19 at 17.5%.

Primary Financial Statements

The annual accounts summarise the Council's transactions for the year, its year-end position at 31 March 2019 and its cashflows. The annual accounts are prepared in accordance with the International Accounting Standards Board (IASB) Framework for the Preparation and Presentation of Financial Statements (the IASB Framework) as interpreted by the Code of Practice on Local Authority Accounting in the United Kingdom.

A description of the purpose of the primary statements has been included immediately prior to the four single entity statements: the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet and Cash Flow Statement.

These four statements are accompanied by notes to the accounts which set out the accounting policies adopted by the Council and provide more detailed analysis of the figures disclosed on the face of the primary financial statements.

The primary financial statements and notes to the accounts, including the accounting policies, form the relevant annual accounts for the purpose of the audit report.

Financial Performance in 2018/19

The Comprehensive Income and Expenditure Statement (CIES) on page 33 presents the full economic cost of providing Council services in 2018/19. This differs from the budgeted outturn position that was reported to the Policy & Resources Committee of the Council on 11 June 2019 and is available on the Council's website. The reasons for this difference are two-fold:

(i) the application of appropriate accounting standards to ensure that corporate activities not included within operational budgets are identified and included in the accounts, as these costs require to be met from local taxation; and

(ii) the CIES includes accounting adjustments required to comply with proper accounting practice, but which under statute do not impact upon local taxation payers.

The final reporting position reflects only those costs that are required to be met from local taxation. Therefore, the difference between the CIES and the actual outturn position is as a result of necessary accounting adjustments.

The Gain on Provision of Services of £97.2m, disclosed on the CIES, has been reconciled to the outturn used for management decision-making of £12.1m in the Expenditure and Funding Analysis on page 42.

The Council's day-to-day operations and the recording of its financial transactions (revenue income and expenditure) are charged to two primary reserves, which have been established by legislation: the General Fund and Harbour Account. There is also a legal requirement to separately identify expenditure and income that relates to the operation of the Council's housing stock; this is referred to as the Housing Revenue Account.

Capital investment expenditure is supported by a range of means including funding from revenue resources, external borrowing and use of retained reserves. Legislation enables the Council to retain capital reserves in order to support its long-term asset investment plans, an example being the Capital Fund.

The table that follows shows that the draw on reserves, excluding accounting adjustments, was £15.3m for 2018/19. This is significantly lower than the planned draw on reserves of £20.1m. A breakdown of the variances can be seen in this table and is explained in further detail in the following sections.

As a result of an overall budget underspend and by applying the Council's carry-forward scheme, a sum of £4.1m has been committed for use in 2019/20. Of this, £2.3m will support the 2019/20 revenue budget and £1.8m will support capital investment activities.

The actual Total Revenue Draw figure below of £12.1m reconciles to the deficit shown in Note 1: Expenditure and Funding Analysis on page 42.

The narrative following the table explains the financial performance of each of the funds during the year.

Budget v Expenditure draw from / (contribution to) Reserves 2018/19	Revised Budget £m	Actual £m	Budget v Actual variance Under / (Over) £m	Carry forwards £m	Revised variance Under / (Over) £m
General Fund	19.408	23.773	(4.365)	1.198	(5.563)
Revenue Spend to Save	0.674	0.346	0.328	0.328	0.000
Housing Revenue Account	1.289	1.644	(0.355)	0.008	(0.363)
Harbour Account	(8.914)	(13.688)	4.774	0.780	3.994
Total Revenue Draw	**12.457**	**12.075**	**0.382**	**2.314**	**(1.932)**
Capital Spend to Save	1.595	0.798	0.797	0.063	0.734
Asset Investment Plan	6.093	2.394	3.699	1.699	2.000
Total	**20.145**	**15.267**	**4.878**	**4.076**	**0.802**

General Fund

Under the Local Government (Scotland) Act 1973, the Council is permitted to carry forward balances on the General Fund.

General Fund expenditure for 2018/19 totalled £114.1m against an approved budget of £109.9m. The overspend of £4.1m is attributed to:

- a provision recognising the likely impact of pension scheme cessation costs as the planned merger of Shetland's tertiary education sector progresses.
- a repayment of European Regional Development Funding (ERDF) grant in respect of Shetland College, and
- the acquisition of SLAP not being incorporated into the Council within financial year 2018/19.

In 2018/19 the Council's General Fund received the majority of its funding from the Scottish Government, which is made up of General Revenue Grant and National Non-Domestic Rates (NDR).

The funding breakdown is shown below:

Funding of Net General Fund Expenditure	2018/19 £000	2018/19 %
General Revenue Grant	(56,727)	49.7
Non Domestic Rates	(23,853)	20.9
Council Tax	(9,372)	8.2
Draw on Reserves	(24,128)	21.2

Council Tax represents 10.4% of the Council's overall annual external revenue funding. During 2018/19, the Council collected 97.1% of the total billable Council Tax (i.e. the total amount of Council Tax that would have been collected if everyone liable had paid what they were supposed to).

The remainder of funding comes from Council's own reserves. The Council holds a range of long-term investments which help ensure the reserves increase in value over the longer-term. The Council is able to draw down some of the returns from these investments to support service delivery, while maintaining a robust asset base that continues to grow. The level of funding drawn from reserves is deemed to be at a sustainable level, based on assumptions about investment income and longer-term growth.

Resources deployed by the Council through its General Fund were used in the delivery and commissioning of services to the population of Shetland. As mentioned above, there have been some notable high-level achievements that have developed and improved these services during 2018/19.

Given the current economic climate and the UK Government's financial objectives over the coming years, it is anticipated that there will be further reductions in the core revenue grant from the Scottish Government. At the same time, the Council must manage rising costs due to inflation, demographic changes and increased demand for services, particularly in health and social care.

Harbour Account

The Zetland County Council Act 1974 empowers the Council to transfer surpluses arising on the Harbour Account to the Harbour Reserve Fund. The Harbour Account budgeted for a £8.9m contribution to the Harbour Reserve Fund in 2018/19.

The actual contribution was £13.7m due to additional tanker income, higher than expected throughput income from the Shetland Gas Plant, and delayed ferry terminal works.

Housing Revenue Account

The Housing Revenue Account (HRA) is a separate account within the Council. The HRA budgeted for a £1.3m contribution from its reserve in 2018/19 which was exceeded by £0.3m, giving a total contribution to the HRA of £1.6m in the year. The increase is mainly due to increased repair and maintenance costs.

The financial position of the HRA continues to be a challenge for the Council, due to a need to invest in current housing stock to meet national housing targets, as well as managing a high demand for new build housing.

A five-year business plan for the HRA was approved in 2016/17, underpinned by a 30-year financial model to ensure affordability and sustainability over the long term.

At 31 March 2019 the HRA was responsible for 1,659 properties, a decrease of 3 since 31 March 2018. Historically there has been a consistent reduction in housing properties due to a high level of housing sales through the tenants 'Right to Buy' scheme, however the right to request a council house purchase under the scheme ended on 31 July 2016.

The Council continues to support Hjaltland Housing Association in its building programme to secure increased provision of affordable housing within Shetland.

Asset Investment Plan

In 2018/19 Shetland Islands Council incurred capital expenditure of £23.2m against a budget of £38.0m representing an underspend of £14.8m in the year.

The main reason for this underspend is a revision to the timing of construction in relation to Lerwick Library Redevelopment, Recycling Sorting Shed, Stoganess Bridge Replacement, and Street Lighting Replacement, as well as delays in ferry replacement and life extension works.

£3.6m will be carried forward to future years to enable work to be completed.

More information about capital expenditure and funding can be found in Note 35: Capital Expenditure and Capital Financing on page 79.

The Balance Sheet

The Balance Sheet sets out the total net worth of Shetland Islands Council and is a snapshot of the position as at 31 March 2019. When comparing this to the position at 31 March 2018, there has been an overall decrease in the net worth of the Council of £15.5m. This is different to the total figure in the Comprehensive Income and Expenditure Statement which also includes the transfer of Unrealised Gains from the Available for Sale Financial Instruments Reserve. This is a requirement following the adoption of IFRS9 which resulted in a change in measurement basis for this category of financial instrument.

Material Transactions

Long-Term Investments

Financial investments are covered by the Council's Investment Strategy 2018, which sets out the overarching investment approach to complement the Council's Medium-Term Financial Plan, to achieve investment returns that are sufficient to enable an annual sum to be withdrawn to support the Revenue Budget and which protect the annual sum withdrawn from the impact of inflation, and to mitigate investment risk by the diversification of asset classes, global coverage and a number of fund managers.

The Investment Strategy is supported by an Annual Investment and Treasury Strategy report, which includes more detail on capital and treasury activities, including key treasury indicators. It can be found at http://www.shetland.gov.uk/about_finances/

As at 31 March 2019 the Council had £341m invested with three external Fund Managers, a decrease of £4m from the previous year. There was a positive investment return of £26m attributable to excellent equity growth throughout the year and the Fund Managers' management of the investments. During the year the Council withdrew £30m from investments to support the purchase of SLAP and to meet its cashflow requirements.

The Fund Management Annual Investment Report 2018/19 was presented to Council on 15 May 2019 and this summarised the performance of the Council's investments during the year. The report indicates that the Council's investments experienced positive returns of 7.4% during the year against a target of 7.3%.

External Borrowing

External borrowing is regulated by the Borrowing Policy, part of the Council's Annual Investment and Treasury Strategy, which aims to secure best value in the financing of capital expenditure.

The Council's Capital Financing Requirement (CFR) is £98.6m as at 31 March 2019, of which £49.1m relates to external borrowing. It represents the capital expenditure to be funded from borrowing. Whilst the CFR is a guide to the Council's underlying need to borrow, the Executive Manager – Finance can manage the Council's actual borrowing position by either borrowing to finance the CFR, choosing to utilise some temporary cashflow funds instead of borrowing (under-borrowing), or borrowing for future increases in the CFR (borrowing up to two years in advance of need).

As at 31 March 2019, external borrowing was £49.1m (£41.2m at 31 March 2018) and this is reflected on the Council's Balance Sheet on page 36.

Debt financing costs currently represent 2.0% of the Council's net revenue stream (2.1% 2017/18) from General Revenue Grant (including NDR), Council Tax, housing rents and harbour income. This provides an indication on the affordability of the Council's debt in terms of how much income can be directed to provide front-line service delivery rather than funding capital expenditure costs. Ongoing revenue implications of investment decisions will be managed within existing budgetary levels and the estimated cost of debt for 2019/20 is 3.5% of the net revenue stream.

Pension

The Council is the administering authority for the Shetland Islands Council Local Government Pension Scheme, which has a statutory requirement to prepare a separate annual report and accounts. The 2018/19 report can be accessed on the Council's website at: http://www.shetland.gov.uk/about_finances/.

The impact of the Local Government Pension Scheme and Teachers' Superannuation Scheme on the Council's accounts has been disclosed in Notes 28 and 29 to the accounts. The pension liabilities continue to outstrip pension assets and as such the net pension liability for the Council is £207.4m as at 31 March 2019 (£165.2m at 31 March 2018). This figure represents the amount that actuaries estimate that Shetland Islands Council will have to pay out in future years for all pension entitlements earned by current and previous staff up and until 31 March 2019.

During 2018/19, the net pension liability has increased by £42.2m as a result of updated assumptions. The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £70m. The assumptions interact in complex ways, however, and are established for particular reasons.

The Council continues to monitor and measure its pension liability and make changes to cash contributions as part of the regular assessment made by an independent actuary. A scheduled triennial valuation of the Pension Fund as at 31 March 2017 was undertaken during 2017/18 and the results were presented to the Pension Fund Committee in February 2018. It showed that the Pension Fund is valued at £450m and is 90% funded, with a deficit of £52m. Further detail can be found in the 2017/18 Annual Report and Accounts.

Health and Social Care Integration

The Public Bodies (Joint Working) (Scotland) Act 2014 introduced significant changes to the provision of social and health care across Scotland. The legislation means changes to the law that require health boards and local authorities to integrate their services, resulting in more joined up, seamless and improved quality of health and social care provision.

Shetland Islands Council Integration Joint Board (IJB) was formally constituted on 27 June 2015 with voting members from both the Council and the Health Board.

In 2018/19, the Council contributed £21.2m to the IJB and received income from it of £22.5m, a result of some social care funding being channelled through the NHS Shetland financial settlement.

The annual accounts of the IJB can be found on the Council's website at: http://www.shetland.gov.uk/about_finances/.

The Council's Reserves

The Council holds the following balances in reserves:

Reserves	As at 1 April 2018 £m	As at 31 March 2019 £m
General Fund	60.318	177.667
Housing Revenue Account	17.335	15.767
Harbour Reserve Funds	63.221	65.968
Capital Funds	66.330	68.964
Other Usable Funds	42.593	40.801
Total Usable Reserves	**249.797**	**369.167**

The overall level of usable reserves was £369.2m at 31 March 2019, an increase of £119.4m from the previous year. This is mainly attributed to the transfer of unrealised gains from 'Available for Sale' financial instruments, from unusable reserves to Financing and Investment Income and Expenditure. The movement on reserves differs from the outturn position reported. The reserves position is required to reflect a number of accounting adjustments for matters such as asset transfers, provisions and capital grants, which are not reflected in the reports to management during the year. The Movement in Reserves Statement (page 35) and associated notes provide further detail.

The reserves of the Council reflect the historic financial performance of the Council and decisions that have been taken to provide a financial foundation upon which to plan for the future delivery and provision of Council services.

Reserves are split between discretionary and earmarked reserves to recognise these decisions taken and also the availability of funds should any unplanned or unexpected liabilities or expenditure arise. The impact of various reserve movements and earmarking of funds is that the uncommitted General Fund reserve has increased by £4.4m to £27.2m as at 31 March 2019 from the previous year (see page 49). The uncommitted balance represents 24.7% of the Council's annual budgeted net expenditure and is considered sufficient to manage financial risks in the short term.

The Council uses its reserves on an annual basis to support delivery of frontline services. This is based on money being available from the anticipated income and growth achieved from the Council's long-term investments.

The value of the Council's long-term investments, which are quite separate from its usable reserves, represent the money that has been invested by the Council for long-term return. The increase in value is measured in terms of income generated by those investments and a change in their value reflected by unrealised gains, plus any injection of new money by the Council during the year. More information is outlined in the 'Long-Term Investments' section on page 10.

Usable reserves on the other hand reflect a level of resources that the Council has available to carry out its future business; these reserves can be applied to the provision of services.

Group Accounts

The Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code) requires the Council to prepare group accounts where the Council has material interests in subsidiaries, associates and / or jointly controlled entities.

In October 2018 the Council acquired 100% interest in Shetland Leasing and Property Developments Limited (SLAP). The Council is principle shareholder in the company, representing 100% of the issued share capital. The Council also has interests in Orkney and Shetland Valuation Joint Board (OSVJB), Zetland Transport Partnership (ZetTrans) and the Integration Joint Board (IJB).

The Council has controlling interest in SLAP and has therefore been consolidated in group accounts. OSVJB is deemed to be not material and is therefore not consolidated in group accounts. The results of the remaining two bodies have a net nil impact on both the Comprehensive Income and Expenditure Statement and the Balance Sheet and are therefore not consolidated in the group accounts. More detail can be found in Group Accounts section.

The accounts of SLAP, OSVJB, ZetTrans and IJB can be found on the Council's website at: http://www.shetland.gov.uk/about_finances/.

2019/20 Budget and Medium-Term Financial Outlook

2019/20 Budget

The Council's 2019/20 budget has been developed in conjunction with the Medium Term Financial Plan 2018/19-2022/23 (MTFP) which sets out expected levels of expenditure for the period. The budget does not align with the expectations of the MTFP as the Council has been unable to reduce service expenditure to the assumed levels contained in the MTFP. The General Fund budget will be supplemented with an additional £24.7m from its reserves, including a one-off, draw of £3.5m to meet the expected shortfall in funding for the year ahead. The financial settlement for the Council included £5m of funding to support the operating costs of the inter-island ferry services which is £2.9m less than expected.

For more information, please refer to the 2019/20 Council Budget Book which can be found on the Council's website at: http://www.shetland.gov.uk/about_finances/.

Comparative figures for the 2018/19 settlement are shown in the following table. Revenue funding has increased by 1%. Capital funding has increased by 19% as a result of additional funding for early years expansion.

Note that 2018/19 figures have been redetermined by the Scottish Government (Circular 2/2019).

	2018/19	2019/20	Movement	
Scotland	**£bn**	**£bn**	**£bn**	**%**
Revenue	9.778	10.016	(0.238)	-2%
Capital	0.877	1.084	(0.207)	-19%
Total	**10.655**	**11.100**	**(0.445)**	**-4%**
Shetland	**£m**	**£m**	**£m**	**%**
Revenue	86.267	86.748	(0.481)	-1%
Capital	7.743	9.232	(1.489)	-16%
Total	**94.010**	**95.980**	**(1.970)**	**-2%**

Within the finance settlement from the Scottish Government there are certain conditions that local authorities must meet, which bring further financial pressures. These conditions are:

- Overall teacher-to-pupil ratios to be maintained and all probationer placements secured;
- £210m revenue and £25m capital funding to deliver the programme for the expansion of Early Years provision;
- £120m for additional investment in integration;
- £95.5m funding for social care, to be used for specific purposes;
- £50m Town Centre Fund for the regeneration and sustainability of town centres;
- £3.3m for the Barclay Review; and
- Council Tax increases capped at 3% in real terms which equates to 4.79% for 2019/20

Following the announcement of the financial settlement for 2019/20, seminars were held with Councillors in January 2019 to discuss the impact of the settlement and revised budget strategy. A report on the settlement was also prepared and the Council considered this ahead of the formal budget-setting meeting.

The revised budget strategy took into account the funding gap including the lower than anticipated funding to support the operating costs of the inter-island ferry services. The 2019/20 budget was formally approved by the Council on 26 February 2019.

Medium-Term Financial Outlook

The Medium-Term Financial Plan is the Council's strategic finance document which focuses on the next five years and provides the financial framework for the delivery of Council services to the citizens of Shetland. It is anticipated that there will be significant cash reductions in the general revenue grant from the Scottish Government over the forthcoming years and therefore an increasingly unaffordable cost of service delivery is inevitable.

At the same time, the Council must manage increasing demand for services from school roll changes and areas such as community care, where the IJB will direct service development and adapt to these demands.

The latest MTFP was approved by the Council on 22 August 2018; it covers a five-year period to March 2023 and will be refreshed in autumn 2019. The MTFP is based on the following key principles:

- The Council will live within its means and in doing so approve an annual budget that is balanced and affordable;

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

Outlook - Projects and Initiatives

Service Redesign Programme

Progress on the Service Redesign Project is reported on a regular basis to Committee. The most recent update report was presented to the Policy & Resources Committee on 6 March 2019 and can be found here: http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=23817

The projects which have been prioritised are:

Review of tertiary education in Shetland

A Full Business Case was presented to the Council and approved on 12 December 2018. An implementation plan for the merger of Shetland's tertiary education sector, namely Shetland College, NAFC Marine Centre and Train Shetland is currently underway.

Review of bus contracts

'Shetland Transport Programme Board' has been formed to manage this and other transport projects. A Project Initiation Document has been issued. The current school and public bus contracts which are tendered on a 5-year cycle and which expire in August 2019 have been extended by one year. This is to allow sufficient time for the review to take place.

Review of internal air service contracts

The Outline Business Case is currently being prepared for the Inter-island Air Service which will address what is required in terms of a sustainable network of inter-island air services.

Fair Funding for Ferries

The Scottish Government settlement for 2019/20 included £5m towards the operating costs of Shetland's inter-island ferry services, the allocation was £2.94m lower than the £7.94m required to fully fund the ferry service. The Council continues to engage with Transport Scotland with a view to reaching a fair funding agreement.

Early learning and child care

Seven settings are now in place to offer the increased provision. The phased programme of capital works continues to progress with four more schools to be complete for the new term in autumn 2019.

Mental Health Review

Review has been completed and although the anticipated savings have not been realised, the review has affirmed that the service provided is appropriate and efficient. Future efficiencies and improving outcomes will continue to be explored.

Learning Disability Service

A project board has been established to progress the project which will review Adult Services for adults with learning disabilities, autism and complex needs. The first area of service to be examined is short breaks and respite.

Community Care Resources

A Business Case is being prepared which aims to assess early intervention and preventative services, to further develop the objective of enabling people to live independently in their own home.

Community Area Structures

Regular case reviews have been undertaken which support individual residents to continue living in their communities and in their own homes, with each locality establishing multi-disciplinary ways of working.

Business Transformation Programme

The Council continues to develop its Business Transformation Programme, approved by the Council in February 2017. This seeks to provide the framework to review and transform the services provided to the population of Shetland and the ways those services are delivered.

The most recent update report was presented to the Policy & Resources Committee on 6 March 2019 and can be found here: http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=22952

Work stream	Description	Progress / Key achievements	Future Plans
Customer First	Embed Customer First Strategy and Charter to ensure that the Council is a customer focused organisation.	The Customer First Strategy and Charter was agreed by Committee in June 2018. The implementation plan continues in its second stage, to embed the strategy and charter to ensure that the Council is a customer focused organisation.	Once implementation is complete, work to continue to embed the ethos of Customer First will become part of the work of Executive Services and will feature in the Service Plan and associated action plans.
Commissioning and Procurement Framework	Establish new procedures to maximise efficient procurement and create concise commissioning and procurement guidance.	A Commissioning Guidance for Officers document has been prepared and detailed commissioning guidance has also been drafted which is to be rolled out to staff involved in commissioning.	An annual review of The Procurement Strategy is to be completed. Work continues to implement the framework with the intention to produce best practice documents.
Workforce Strategy	Implement Workforce Strategy across the Council and to carry out a review of the workforce requirements in Corporate and Executive Services.	Workforce planning sessions have been held with Council Directorates throughout 2018/19, the information gathered will be used to inform next steps.	A draft Workforce Plan is to be developed for informal consultation by the end of summer 2019 and the existing Council Workforce Strategy is to be refreshed.
Accommodation Rationalisation	Service Redesign Project to rationalise and make best use of the properties which the Council operates.	In June 2019, the Council formally adopted the Knab Masterplan as supplementary guidance to the Local Development Plan. The first stage of implementing the Masterplan was approved to demolish all buildings on the former Anderson High School at the Knab with the exception of the listed buildings and the former science block. 8 North Ness office accommodation is expected to be fully re-occupied by July 2019.	A revised Property Asset Management Strategy was reported to Council in June 2019. Approval of the strategy has been deferred to allow further work to be done on the strategy. There is a proposed development to establish a single reception point in Lerwick for all Council services.
Digital First	Investigate enablers for Digital Service Delivery.	A number of processes have been identified which are suitable for implementation on the Firm Step platform, with some forms going live in 2018/19. A procurement exercise to replace the Council's website has been completed and an implementation project is ongoing.	Firmstep forms are under development for various departments. Work is being done to explore the joint use of the Firmstep Platform with NHS which would allow forms to be administered and shared between the Council and NHS.

Work stream	Description	Progress / Key achievements	Future Plans
Broadband and Connectivity	To improve highspeed broadband and mobile connections throughout Shetland.	The Council has been awarded £1.91m from the UK Government's Department of Digital, Culture, Media and Sport (DCMS) to fund a network of full fibre broadband connections between public sector premises across Yell and Unst. Work is expected to start in summer 2019 with project completion expected in late 2019 or early 2020.	Opportunities are being taken to lobby the Cabinet Secretary and Ministers, through CoHI, Islands Deal and Committee visits. The Scottish Government's 'Reaching 100%' (R100) Programme is progressing and an announcement of which supplier has been chosen and where the new network will reach is expected this summer.
Information Management & Improvement	Review Information Management and Improvement Programme.	The Information Governance Board has approved the Information Governance Policy, Governance and Accountability Management Structure, and Policy and Procedures Framework.	Work continues on the implementation of the General Data Protection Regulations including the creation of service Privacy Statements, reviewing personal information audits, management briefings and staff training.
Performance Management & Reporting	Develop a new Planning and Performance Management Framework, review Public Performance Reporting arrangements and review Complaints Handling and lessons learned.	The Project Initiation Document was presented to Policy and Resources Committee in December 2018. Work to develop a draft "Performance Management and Reporting Framework for Shetland" encompassing the full commissioning cycle is complete.	The Performance Management and Reporting Framework will be presented to the Council and Community Planning partners in July 2019 for approval. 2019/20 will see full implementation of the Framework for SIC and community planning partners.

Conclusion

In summary, the Council has had a financially challenging year in 2018/19 which will continue in the future as the Council looks to maintain service demand while managing an increased cost base and reduced Government funding. The continuing challenges that lie ahead will be addressed by the Council in line with the Medium Term Financial Plan.

....	....	....
Maggie Sandison Chief Executive 26 June 2019	Steven Coutts Leader of the Council 26 June 2019	Jamie Manson CPFA Section 95 Officer 26 June 2019

Annual Governance Statement

Scope of Responsibility

Shetland Islands Council is responsible for ensuring that its business is conducted in accordance with the law and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. The Council also has a statutory duty to make arrangements to secure continuous improvement in the way it operates.

In discharging this accountability, the Council is responsible for establishing proper arrangements for the governance of its affairs, including arrangements for the management of risk.

The Council approved and adopted its code of governance in 2012. It is consistent with the principles of the CIPFA/SOLACE Framework *'Delivering Good Governance in Local Government'*. This statement explains how the Council has complied with the code.

In August 2018 the Council approved the restructure of the Audit, Risk and Improvement service. With effect from 1st January 2019, the role of Chief Internal Auditor is now undertaken by Audit Glasgow, the commercial arm of Glasgow City Council's Internal Audit team, who also provide the strategic planning, professional management and reporting for the Council's Internal Audit function.

This statement explains how the Council complies with the Governance Code and extends to the entity included in the Council's Group Accounts.

The Governance Framework

The governance framework comprises the systems and processes, culture and values by which the Council is directed and controlled and the activities through which it engages with its community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The system of internal control is a significant part of the governance framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Council's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place for the year ended 31 March 2019 and up to the date of approval of the annual accounts.
The key elements of Shetland Islands Council's governance framework are:

- the legal powers, duties and functions of the Council, and roles and responsibilities of the people who take decisions on behalf of the community;
- the levels at which decisions can be made, referred to as the Scheme of Administration and Delegations;
- the Standing Orders and the rules around how committees are run and decisions are made;
- the Financial Regulations and rules about contracting with other parties;
- the Council's performance in relation to delivering services and securing value for money; and
- the process of internal control and checking that the Council's policies and procedures are being followed, through the work of the Internal Audit staff and others.

In March 2017, the Council approved a revised set of governance documents, including the Scheme of Delegation, Financial Regulations, Contract Standing Orders and Code of Corporate Governance. These documents can be found on the Council's website at: http://www.shetland.gov.uk/about_how_we_wo r k/constitutionandgovernance.asp

The Council is in the process of reviewing the Governance Framework. Initial findings were reported to Council on 11 June 2019, and included approval of an updated Code of Corporate Governance. A further update will be presented to Council in September 2019.

Review of Effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior officers who have responsibility for the development and maintenance of the governance environment, the Internal Audit Annual Report presented by Audit Glasgow, and also by comments made by external auditors and other review agencies and inspectorates. The Annual Report can be viewed on the Council's website at: http://www.shetland.gov.uk/coins/calendar.asp

The effectiveness of the Council's governance framework has been evaluated as follows:

- Each **director** has reviewed the arrangements in their portfolio and certified their effectiveness to the Executive Manager – Finance. These assurances include internal financial controls and provide the opportunity to highlight any weaknesses or areas of concern. For 2018/19, no areas of weakness or concern were raised.
- The Council's **financial management** arrangements comply with the requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).
- The Council's **committee structure** supports the organisational and management structure of the Council, incorporating a culture of accountability that has been developed throughout.
- The Council's **Constitution** promotes good decision-making and adherence to the Building Better Business Cases methodology, supporting evidence-based options appraisal for the commissioning and procurement of services.
- The **Audit Committee** remains responsible for ensuring the effectiveness of the internal audit function and considering all reports prepared by the external auditor. Its remit ensures that the work of the Council, from both a control and performance perspective, is checked and scrutinised.
- A significant **induction and training programme** for new and returning councillors is delivered after each local election, including the May 2017 election.
- A professional, independent and objective **internal audit** service is one of the key elements of good governance. The Council's internal audit function operates in accordance with the Public Sector Internal Audit Standards (PSIAS).
- The internal audit service followed their **Audit Plan** during the year and their work revealed a range of findings. Management are undertaking work to implement agreed recommendations. This is described in the Internal Audit Annual Report.
- The Council's **external auditor** is Deloitte LLP. They regularly report to the Audit Committee and their reports cover the annual accounts audit and wider scope requirements set out within the Code of Audit Practice.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Corporate Management Team and the Audit Committee and that arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are outlined below.

Update on Significant Governance Issues previously reported

The following table details the actions taken to address the significant governance issues reported in the 2017/18 Annual Governance Statement.

Prior Year Significant Governance Issue	Responsible Officer	Action taken	Further action required
Fire risk assessments either not being in place or out of date.	Corporate Management Team	New process for recording and monitoring introduced in 2018/19. Recommendations have been addressed.	No further action required.
Health & Safety risk assessments either not being in place or out of date.	Corporate Management Team	New process for Health & Safety risk assessments implemented April 2019.	To be reviewed in 2019/20 as part of follow up monitoring.
No adequate Health & Safety monitoring programme in place to ensure services are fulfilling their requirements.	Corporate Management Team	A programme of 22 premise visits was scheduled for completion in 2018/19. 11 have been fully carried out.	Remaining premise visits to be undertaken, and progress to be reviewed as part of 2019/20 follow-up monitoring.
Contractual and procurement issues identified in procurement reviews.	Corporate Management Team	Officers in the process of updating the Contract Standing Orders and steps are being taken to progress a "Procurement Knowledge Workshop" for relevant officers.	To be reviewed in 2019/20 as part of a Procurement audit.
Operational grants processing and monitoring issues.	Corporate Management Team	Creation of Grants and Third Parties Payments Framework which addresses the audit issues raised.	To be reviewed in 2019/20 as part of follow up monitoring.

Significant Governance Issues

During the year, the Audit Committee received a range of reports produced by Internal Audit that enabled scrutiny and questioning of officers, such that the Committee gained assurance about any weaknesses identified as well as the actions being taken to address them.

The following issues and related action plans were highlighted in the Internal Audit Annual Report as specific areas of concern:

Significant Governance Issue	Responsible Officer	Potential Impact	Mitigating actions currently in place	Proposed Action	Target Date
Business Continuity – lack of an up to date corporate policy on business continuity. Some services identified which have not yet developed a Business Continuity Plan (BCP), and other services which have a BCP in place but it is out of date.	Executive Manager – Governance & Law	There is an increased risk that that the Council's business critical functions cannot be delivered in the event of a business continuity incident.	Although there are services with either an out of date or no BCP in place, there is a Resilience Advisor in post who can advise services through the recovery process. In addition, the recovery and relocation of ICT services is all co-ordinated by the ICT team who have an up to date recovery plan which was audited during 2017/18 with no areas of concern identified.	A new policy is in the process of being finalised which will be communicated to all service users. The new policy will be presented to CMT (acting as Risk Board) then Policy and Resources for approval. The possibility of utilising Firmstep for BCPs will be explored which will ensure consistent development and central storage of plans throughout the Council.	31/10/2019
Fraud Controls – Reconciliations not carried out between key financial systems. System administrators have access to undertake entire accounts payable process, and there is no monitoring of audit logs as a compensating control.	Executive Manager – Finance	Significant financial fraud (this audit was undertaken following reported findings of a fraud valued at over £1million at Dundee City Council).	The Accounts Payable Supervisor is notified of any changes to Masterfile data by a system generated email. The post holder is not a system administrator and would be aware of any changes that have occurred by users outwith the Accounts Payable team.	Quarterly reconciliations and monthly sample checks will be incorporated into the Finance team's monthly assurance checks.	30/09/2019

The 2018/19 Local Scrutiny Plan which sets out any scrutiny risks identified by the local area network (LAN), addressed several areas requiring oversight and monitoring:

- Financial sustainability and transformation: The Council acknowledges the challenges it faces of maintaining service delivery within the levels of decreasing Scottish Government funding. The Council through the Business Transformation Programme and Service Redesign Programme is taking action to address the funding gap and constrain growth in service demand.
- Social Care Adult Services: the risk of failing to maintain an adequate level of service due to staff recruitment difficulties and change in senior management.
- Children & Families Service: the ability to sustain quality assurance and improvement work due to a lack of capacity and recruitment difficulties. A service review is to be conducted with the aim of achieving a better balance of service delivery in the longer term in relation to accommodated children, as well as a more integrated and robust structure.
- Housing Service: the supply of housing has been challenging, and the use of temporary accommodation has been increasing. A review of performance of social landlord services by the Scottish Housing Regulator (SHR) identified the Council as being in the bottom quartile for several areas including tenant satisfaction of the quality of their home, rent arrears and non-emergency repairs. Ongoing dialogue continues between the Council and SHR to fully understand the performance.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Conclusion

Overall, we consider that the governance and internal control environment operating in 2018/19 provides reasonable and objective assurance that any significant risks impacting on the achievement of our principal objectives will be identified, and actions taken to avoid or mitigate their impact.

....

Steven Coutts
Leader of the Council
26 June 2019

....

Maggie Sandison
Chief Executive
26 June 2019

Remuneration Report

The Remuneration Report is set out in accordance with the Local Government Accounts (Scotland) Regulations 2014. These Regulations require various disclosures on the remuneration and pension benefits of senior councillors and employees.

The Code of Practice on Local Authority Accounting in the UK (the Code) also requires the disclosure of exit packages.

Remuneration Arrangements of Senior Councillors

The remuneration of councillors is regulated by the Local Governance (Scotland) Act 2004 and the (Remuneration) Regulations 2007 (as amended). The Regulations provide for the grading of councillors for the purposes of remuneration arrangements, as either the convener of a council, senior councillors or councillors. A senior councillor is a councillor who holds a significant position of responsibility in a council's political management structure, usually referred to as the chair or vice-chair of a committee, sub-committee or board.

When determining the level of remuneration for councillors the Scottish Ministers consider the recommendations of the Scottish Local Authority Remuneration Committee (SLARC). SLARC is an advisory Non-Departmental Public Body set up in 2005 to advise Scottish Ministers on the remuneration, allowances and expenses incurred by local authority councillors.

The salary that is to be paid to the Convener of the Council is set out in the amended Regulations SSI 2008/415, which came into effect on 10 February 2009 (later amended by the 2013 and 2015 Regulations). For 2018/19 the level of remuneration (including expenses) for the Leader S Coutts was £38.8k (£38.7k in 2017/18 for the Former Leaders, G Robinson and C Smith), and £34.9k for the Convener (£36.4k in 2017/18).

The Regulations also set out the remuneration that may be paid to senior councillors and the total number of senior councillors a council may have. The maximum yearly amount that may be paid to a senior councillor is 75% of the total yearly amount payable to the leader of a council. The total yearly amount payable by the Council for remuneration of all of its Senior Councillors shall not exceed £172k in 2018/19 (£171k in 2017/18).
The Council is able to exercise local flexibility in the determination of the precise number of Senior Councillors and their salary within these maximum limits.

The senior councillor positions are:

- Chair of Education and Families Committee
- Chair / Vice Chair of Integration Joint Board
- Chair of Development Committee
- Chair of Environment and Transport Committee
- Chair of Audit Committee
- Chair of Planning Committee
- Chair of Licensing Committee
- Chair of Harbour Board
- Chair of Shetland College Board

Excluding the Convener and the Leader, the total remuneration paid to these Councillors in 2018/19 was £168k (£171k in 2017/18).

The Regulations also permit the Council to pay contributions or other payments as required to the Local Government Pension Scheme, in respect of those Councillors who elect to become councillor members of the Local Government Pension Scheme.

All reports are available from the Council's website at http://www.shetland.gov.uk/

Remuneration of Conveners and Vice-Conveners for Joint Boards

In addition to the senior councillors of the Council, the Regulations also set out the remuneration payable to councillors with the responsibility of a Convener or a Vice-Convener of a Joint Board, such as the Orkney and Shetland Valuation Joint Board.

The Regulations require the remuneration to be paid by the Council of which the Convener or Vice-Convener (as the case may be) is a member.

The Council is also required to pay any pension contributions arising from the Convener or Vice-Convener being a member of the Local Government Pension Scheme.

The Convener of the Orkney and Shetland Valuation Joint Board from May 2017 has been a senior councillor of Orkney Islands Council, who are reimbursed by the Joint Board for additional remuneration paid in respect of this role.

Remuneration of Senior Employees

Remuneration is the term used to describe the total payments made to employees and will include salary payments and allowances such as distant islands allowance and statutory duty allowances.

The salary of senior employees is set by reference to national arrangements and agreements. The Scottish Joint Negotiating Committee (SJNC) for Local Authority Services sets the salaries for the Chief Executives of Scottish Local Authorities. Circular CO/150 sets the amount of salary for the Chief Executive of Shetland Islands Council for 2018/19.

The salaries of the directors are based on a fixed percentage of the Chief Executive's salary, namely 80% of the value of the Chief Executive's salary.

Executive managers fall into two bandings, the second reflecting the additional level of statutory responsibility held by the Monitoring Officer, the Section 95 Officer and the Chief Social Work Officer.

- Chief Executive
- Director - Children's Services
- Director - Community Health and Social Care
- Director - Corporate Services
- Director - Development
- Director - Infrastructure
- Executive Manager - Children and Families (Chief Social Work Officer)
- Executive Manager - Finance (Section 95 Officer)
- Executive Manager - Governance and Law (Monitoring Officer)

In order to ensure that recruitment of senior employees is properly managed, a protocol for chief officer appointments is in place. The protocol applies to appointments to the chief officer posts of Chief Executive and Director. The protocol is designed to ensure that:

- the appointment is widely known and the best available candidates are attracted to apply;
- the best information is available to the Council about qualities, skills, experience and personal attributes of candidates; and
- information about candidates is assessed effectively and fairly during the assessment, selection and appointment process.

Allowances

Senior employees are entitled to claim mileage costs paid at rates recommended by HM Revenue & Customs.

General Disclosure by Pay Band

The Regulations require the Remuneration Report to provide information on the number of persons whose remuneration was £50k or more, disclosed in bands of £5k.

This table includes payments made in the year for salary, pension contributions, redundancy and compensatory added years of pension.

Bands that do not appear in the table had nil employees in both 2018/19 and 2017/18.

Number of Employees							
Total at 31 March 2018	Remuneration Bands	Children's Services	Infra-structure Services	Community Health & Social Care	Development Services	Corporate & Executive Services	Total at 31 March 2019
58	£50,000 - £54,999	29	36	2	2	3	72
27	£55,000 - £59,999	10	21	1	2	1	35
19	£60,000 - £64,999	6	12	0	2	2	22
9	£65,000 - £69,999	1	11	0	0	0	12
11	£70,000 - £74,999	1	3	1	0	0	5
5	£75,000 - £79,999	1	2	0	1	1	5
0	£80,000 - £84,999	0	2	0	0	0	2
5	£85,000 - £89,999	1	1	0	1	1	4
1	£90,000 - £94,999	0	1	0	0	0	1
0	£105,000 - £109,999	0	0	0	0	2	2
1	£115,000 - £119,999	0	0	0	0	0	0
0	£120,000 - £124,999	0	3	0	0	0	3
0	£125,000 - £129,999	0	1	0	0	0	1
0	£130,000 - £134,999	0	1	0	0	0	1
2	£135,000 - £139,999	0	0	0	0	0	0
1	£140,000 - £144,999	0	0	0	0	0	0
1	£145,000 - £149,999	0	0	0	0	0	0
140	**Total**	**49**	**94**	**4**	**8**	**10**	**165**

Of the 49 staff (42 in 2017/18) in Children's Services noted above, 21 were head teachers or senior teaching staff (20 in 2017/18).

Of the 94 staff (78 in 2017/18) in Infrastructure Services noted above, 85 worked in Ports and Harbours Operations or Ferry Operations (67 in 2017/18).

Summary of Remuneration paid to Councillors

The Council paid the following salaries, additional allowances (for senior councillors) and expenses in respect of all elected members:

	2018/19 £000	2017/18 £000
Salaries	374	368
Expenses	58	59
Allowances	30	30
Total	**462**	**457**

The annual return of Councillors' salaries and expenses for 2018/19 is available for any member of the public to view at the Finance Service, 8 North Ness Business Park, Lerwick during normal working hours or on the Council's website at http://www.shetland.gov.uk/

Exit Packages

The Regulations require the Remuneration Report to provide information on the number of exit packages awarded in bandings of £20k up to £100k, and thereafter in bandings of £50k, along with the total cost of the exit packages within each band.

The Regulations also require disclosure of the number of compulsory redundancies and other agreed departures. The cost of exit packages must pay back within three years, with ongoing salary savings realised thereafter.

The total cost for 2018/19 of £401k (£138k in 2017/18) in the table includes £296k (£40k in 2017/18) for termination benefits agreed, accrued for and charged to the Comprehensive Income and Expenditure Statement (CIES) in the current year, comprising redundancy payments and pension strain costs.

In addition, the table includes £105k (£98k in 2017/18) for the capitalised cost of compensatory added years, agreed in 2018/19, that will be charged to the CIES in future years.

Exit package cost band (including special payments)	(a) Number of compulsory redundancies		(b) Number of other departures agreed		(a+b) Total number of exit packages by cost band		Total cost of exit packages in each band	
	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19 £000	2017/18 £000
£0 - £19,999	2	0	1	5	**3**	**5**	**5**	**32**
£20,000 - £39,999	0	0	0	0	**0**	**0**	**0**	**0**
£40,000 - £59,999	0	0	1	1	**1**	**1**	**46**	**45**
£60,000 - £79,999	0	0	0	1	**0**	**1**	**0**	**61**
£80,000 - £99,999	0	0	0	0	**0**	**0**	**0**	**0**
£100,000 - £149,999	0	0	0	0	**0**	**0**	**0**	**0**
£150,000 - £179,999	0	0	1	0	**1**	**0**	**151**	**0**
£180,000 - £199,999	0	0	1	0	**1**	**0**	**199**	**0**
Total	**2**	**0**	**4**	**7**	**6**	**7**	**401**	**138**

The table above details the number and cost of exit packages awarded in 2018/19 and 2017/18. Included in the cost of the exit packages are:

- Any termination payment, such as a redundancy payment;
- Strain on the fund cost (the amount payable by the Council to the pension fund because the employee has retired before the assumed retirement age);
- Any enhanced payments, such as compensatory added years;
- A capitalised value of the recurring compensatory added years payment. This is paid annually by the Council once an employee has left and is therefore a notional cost at 31 March 2019.

Disclosure of Remuneration for Senior Councillors

Councillor Name	Designation	2018/19 Salary, Fees and Allowances £	2018/19 Taxable Expenses £	2018/19 Total Remuneration £	2017/18 Total Remuneration £
M Bell	Convener	21,245	103	**21,348**	**20,973**
S Coutts (b)	Leader of the Council	27,115	122	**27,238**	**N/A**
C Smith	Leader of the Council	N/A	N/A	**N/A**	**24,427**
G Robinson	Leader of the Council	N/A	N/A	**N/A**	**2,616**
A Duncan	Chair - Audit Committee	19,684	120	**19,804**	**19,342**
A Cooper	Chair - Development Committee	19,684	137	**19,821**	**19,485**
G Smith	Chair - Education & Families Committee	19,684	120	**19,804**	**17,637**
V Wishart	Chair - Education & Families Committee	N/A	N/A	**N/A**	**1,769**
R Thomson	Chair - Environment & Transport Committee	19,684	121	**19,805**	**17,672**
M Stout	Chair - Environment & Transport Committee	N/A	N/A	**N/A**	**1,890**
A Manson	Chair - Harbour Board	18,666	(4)	**18,662**	**18,433**
C Smith (c)	Chair - Integration Joint Board	N/A	N/A	**N/A**	**1,769**
I Scott	Chair - Licensing Committee	18,666	145	**18,811**	**16,777**
G Smith	Chair - Licensing Committee	N/A	N/A	**N/A**	**1,678**
T Smith (d)	Chair - Planning Committee	16,994	372	**17,366**	**16,798**
F Robertson	Chair - Planning Committee	N/A	N/A	**N/A**	**1,847**
P Campbell	Chair - Shetland College Board	18,666	120	**18,786**	**18,472**

Notes:

a) Taxable expenses include telephone line rental / broadband costs;

b) S Coutts held the Leader of the Council post on an interim basis from 8 March 2018, until he was formally appointed as Leader on 9 May 2018;

c) The Chair of the Integration Joint Board from 8 May 2017 has been appointed to a person not employed by Shetland Islands Council;

d) T Smith received an allowance from the Orkney and Shetland Valuation Joint Board as Vice Convener and therefore did not receive additional remuneration for holding the Chair of Planning Committee Post.

Remuneration of Senior Employees of the Council

Name of Senior Official	Designation	2018/19 Salary, Fees and Allowances £	2018/19 Taxable Expenses £	2018/19 Total Remuneration £	2017/18 Total Remuneration £
M Sandison (c)	Chief Executive	106,280	0	**106,280**	**8,888**
M Boden	Chief Executive	N/A	N/A	**N/A**	**87,731**
N Grant	Interim Chief Executive	N/A	N/A	**N/A**	**1,300**
H Budge	Director - Children's Services	88,860	0	**88,860**	**87,206**
C Ferguson	Director - Corporate Services	88,860	420	**89,280**	**87,543**
N Grant	Director - Development Services	88,860	0	**88,860**	**87,242**
J Smith (d)	Director - Infrastructure Services	82,180	0	**82,180**	**N/A**
M Sandison	Director - Infrastructure Services	N/A	N/A	**N/A**	**79,797**
M Nicolson	Executive Manager - Children & Families (Chief Social Work Officer)	71,491	0	**71,491**	**68,729**
J Manson (e)	Executive Manager - Finance (Section 95 Officer)	38,963	0	**38,963**	**N/A**
J Belford	Executive Manager - Finance (Section 95 Officer)	33,095	0	**33,095**	**76,331**
J Riise	Executive Manager - Governance & Law (Monitoring Officer)	78,984	37	**79,022**	**76,354**

Notes:

a) Remuneration includes ad-hoc elements that are part of the normal duties of the post, ie call-out and stand-by allowances;

b) Taxable expenses include taxable mileage and / or expenses outwith HMRC's dispensation;

c) Chief Executive position held by M Boden until 31 January 2018. N Grant held the position of Interim Chief Executive from 1 February 2018 to 28 February 2018. M Sandison was appointed as Chief Executive from 19 March 2018. The full-time equivalent remuneration for the post of Chief Executive in 2017/18 was £104,648;

d) M Sandison held the post of Director of Infrastructure Services until 18 March 2018. The post remained vacant until J Smith was appointed on 11 June 2018. The full-time equivalent remuneration for the post of Director of Infrastructure Services in 2018/19 was £85,621 (£87,229 in 2017/18);

e) J Belford held the post of Executive Manager - Finance (Section 95 Officer) until 31 August 2018. The post remained vacant until J Manson was appointed on 24 September 2018. The full-time equivalent remuneration for the post of Executive Manager - Finance (Section 95 Officer) in 2018/19 was £75,249;

f) The post of Director of Community Health & Social Care is held by S Boker-Ingram, who is employed by NHS Shetland; 50% of the cost of this post is funded by the Council. In 2018/19 the Council paid £60k (£60k for 2017/18) to NHS Shetland in respect of this post and his remuneration is disclosed in the Remuneration Report of the Integration Joint Board.

Pension Benefits – Senior Councillors

The pension entitlements for Senior Councillors are shown in the table below, together with the contribution made by the Council to each Senior Councillor during the year. Councillors can be members of the Pension Scheme until the eve of their 75th birthday and on the completion of their term can access the pension benefits that have accrued to them if they have attained / exceeded their normal pension age.

Name of Councillor	Designation	In-Year Employer Pension Contributions		Accrued Pension Benefits			
				As at 31 March 2019		Difference from 31 March 2018	
		31 March 2019 £000	31 March 2018 £000	Pension £000	Lump Sum £000	Pension £000	Lump Sum £000
M Bell	Convener	4	4	3	0	1	0
S Coutts (a)	Leader of the Council	6	0	2	0	2	0
C Smith (b)	Leader of the Council	4	5	1	0	-3	-20
G Robinson (c)	Leader of the Council	0	1	6	2	0	0
A Duncan	Chair - Audit Committee	4	4	1	0	1	0
A Cooper	Chair - Development Committee	4	4	1	0	1	0
G Smith	Chair - Education & Families Committee	4	4	3	0	1	0
R Thomson (d)	Chair - Environment & Transport Committee	3	0	0	0	0	0
M Stout (e)	Chair - Environment & Transport Committee	0	0	2	0	0	0
A Manson	Chair - Harbour Board	4	4	3	0	1	0
I Scott	Chair - Licensing Committee	4	3	1	0	1	0
T Smith	Chair - Planning Committee	4	4	1	0	1	0
P Campbell	Chair - Shetland College Board	4	4	3	0	0	0

Notes:

a) S Coutts figures for 2018/19 are reported from the commencement date of becoming Leader of the Council on 9 May 2018;

b) C Smith stepped down as Leader of the Council on 8 March 2018. Accrued pension benefits accessed on 4 May 2017 and new pension accruing from 8 May 2017;

c) G Robinson stepped down as Leader of the Council on 3 May 2017;

d) R Thomson, Chair of the Environment & Transport Committee became a member of the pension scheme with effect from 1 July 2019.

e) M Stout ceased as a councillor on 3 May 2017.

Pension Benefits - Senior Employees

Name of Senior Official	Designation	In-Year Employer Pension Contributions		Accrued Pension Benefits			
				As at 31 March 2019		Difference from 31 March 2018	
		31 March 2019 £000	31 March 2018 £000	Pension £000	Lump Sum £000	Pension £000	Lump Sum £000
M Boden (a)	Chief Executive	0	18	0	0	-8	0
M Sandison (b)	Chief Executive Director - Infrastructure Services	22 N/A	18	37 N/A	55 N/A	7	9
H Budge	Director - Children's Services	15	15	30	89	2	5
C Ferguson	Director - Corporate Services	18	18	49	98	3	2
N Grant	Director - Development Services	18	18	23	21	2	0
J Smith (c)	Director - Infrastructure Services	17	N/A	30	47	30	47
J Manson (d)	Executive Manager - Finance	8	N/A	1	0	1	0
J Belford (e)	Executive Manager - Finance	7	16	30	51	1	0
M Nicolson	Executive Manager - Children & Families	15	14	25	37	2	1
J Riise (f)	Executive Manager - Governance & Law	16	17	38	69	2	2

Notes:

a) M Boden figures are reported up to the retirement date of 31 January 2018;

b) M Sandison figures for 2017/18 are reported jointly for the post of Director of Infrastructure Services and Chief Executive;

c) J Smith figures for 2018/19 are reported jointly for the post of Acting Executive Manager Ports & Harbours and Director of Infrastructure Services;

d) J Manson figures for 2018/19 are reported from the commencement date of 24 September 2018;

e) J Belford figures for 2018/19 are reported up to the leave date of 31 August 2018;

f) The Executive Manager – Governance & Law also has pension benefits arising from Returning Officer (RO) duties in respect of Local Government, Scottish and European Parliamentary elections. A single disclosure of the pension benefits is detailed above and includes RO accrued Pension benefits of £1.7k and lump sum of £2.5k at 31 March 2019. In 2017/18 the comparative figures were £1.8k and £2.7k respectively;

g) Whilst 50% of remuneration costs of the Director of Community Health & Social Care are funded by the Council, the associated pension benefits are administered by NHS Shetland and disclosed in the Remuneration Report of the Integration Joint Board.

Pension Benefits

Pension benefits for councillors and local government employees are provided through the Local Government Pension Scheme (LGPS), apart from teachers, whose pension benefits are provided through the Scottish Teachers Superannuation Scheme (STSS). The LGPS is a funded pension scheme that receives contribution payments from both Scheme members and participating employers.

Councillors' pension benefits to 31 March 2015 were based on career average pay. Councillors' pay for each year or part up to 31 March 2015 (other than the pay in the final year commencing 1 April 2014) is increased by the increase in the cost of living, as measured by the appropriate index (or indices) between the end of that year and the last day of the month in which their membership of the Scheme ends. The total of the revalued pay is then divided by the period of membership to calculate the career average pay. This is the value used to calculate the pension benefits up to 31 March 2015.

From 1 April 2015, the Pension Scheme moved to a career average related earnings scheme for all scheme members. Councillors and local government employees build up a pension at a rate of 1/49th of the amount of pensionable pay they receive in a scheme year. The amount of pension built up is increased in line with HM Treasury Orders at the end of each scheme year.

Benefits built up before 1 April 2015 will continue to be calculated on final pay for employees and average revalued pay for councillors.

The Scheme's normal retirement age for both councillors and employees is now linked to their own state pension age (with a minimum age 65).

From 1 April 2015 the five-tier employee pension contribution system still remains, with contributions from scheme members based on how much pay falls into each tier. This is designed to give more equality between the cost and benefits of Scheme membership. Prior to 2009 contribution rates were set at 6% for all non-manual employees.

Tiered contribution rates on whole time pay are as follows:	2018/19 %
On earnings up to and including £21,300	5.50
On earnings above £21,300 and up to £26,100	7.25
On earnings above £26,100 and up to £35,700	8.50
On earnings above £35,700 and up to £47,600	9.50
On earnings above £47,600	12.00

From April 2015, if a person works part-time, their contribution rate is worked out on their actual pay rate for the job and contributions are paid on actual pay earned. Prior to April 2015, the contribution rate was worked out on their whole-time equivalent rate of pay, with contributions paid on actual pay earned.

There is no automatic entitlement to a lump sum. Members may opt to give up (commute) up to 25% of their pension for lump sum, per the Finance Act 2004. From April 2015 pensions are built up at a rate of 1/49th of annual pensionable pay for that year. Prior to April 2015, the accrual rate guaranteed a pension based on 1/60th of final pensionable salary and years of pensionable service. (Prior to 2009 the accrual rate guaranteed a pension based on 1/80th and a lump sum based on 3/80th of final pensionable salary and years of pensionable service).

The value of the accrued benefits has been calculated on the basis of the age at which the person will first become entitled to receive a pension on retirement without reduction on account of its payment at that age; without exercising any option to commute pension entitlement into a lump sum, and without any adjustment for the effects of future inflation.

The pension figures shown relate to the benefits that accrued as a consequence of an individual's total Local Government Service, not just their current appointment. The figures also reflect any transfer of pension benefits from another pension fund or scheme.

Trade Union Facility Time Report 2018/19

The Trade Union (Facility Time Publication Requirements) Regulations 2017 came into force on 1 April 2017. These regulations place a legislative requirement on relevant public sector employees to collate and publish, on an annual basis, a range of data on the amount and cost of facility time within their organisation.

The 2018/19 data which must be published by 31 July 2019 will be presented in the 2018/19 Audited Annual Accounts.

………………………………….	………………………………….
Steven Coutts	Maggie Sandison
Leader of the Council	Chief Executive
26 June 2019	26 June 2019

Statement of Responsibilities for the Annual Accounts

The Council's Responsibilities

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that the proper officer has the responsibility for the administration of those affairs (section 95 of the Local Government (Scotland) Act 1973). In this Council the proper officer is the Executive Manager - Finance;
- manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets;
- ensure the annual accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014) and, so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003); and
- approve the annual accounts for signature.

I can confirm that these annual accounts were approved for signature by the Council on 26 June 2019.

Signed on behalf of Shetland Islands Council.

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Steven Coutts
Leader of the Council
26 June 2019

The Executive Manager - Finance's Responsibilities

The Executive Manager - Finance is responsible for the preparation of the Council's annual accounts in accordance with proper practices as required by legislation and as set out in the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing the annual accounts, the Executive Manager - Finance has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with legislation; and
- complied with the local authority Accounting Code (in so far as it is compatible with legislation).

The Executive Manager - Finance has also:

- kept adequate accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the annual accounts give a true and fair view of the financial position of the Council at the reporting date and the transactions of the Council for the year ended 31 March 2019.

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Jamie Manson CPFA
Executive Manager - Finance
26 June 2019

Primary Financial Statements

Comprehensive Income and Expenditure Statement for year ended 31 March 2019

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Councils raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in both the Movement in Reserves Statement on page 35 and in Note 1: Expenditure and Funding Analysis on page 42.

2017/18 (Restated) Gross Expenditure £000	2017/18 (Restated) Gross Income £000	2017/18 (Restated) Net Expenditure £000		Notes	2018/19 Gross Expenditure £000	2018/19 Gross Income £000	2018/19 Net Expenditure £000
2,327	(12)	2,315	Chief Executive and Cost of Democracy		2,467	(689)	1,778
56,436	(4,675)	51,761	Children's Services		54,392	(6,933)	47,459
51,420	(28,164)	23,256	Community Care Services		53,912	(29,565)	24,347
14,014	(4,190)	9,824	Corporate Services		15,730	(4,444)	11,286
22,756	(7,201)	15,555	Development Services		29,142	(7,677)	21,465
36,642	(7,173)	29,469	Infrastructure Services		36,901	(11,956)	24,945
5,523	(6,836)	(1,313)	Housing Revenue Account		5,554	(6,965)	(1,411)
19,559	(27,302)	(7,743)	Harbour Account		19,868	(30,237)	(10,369)
208,677	**(85,553)**	**123,124**	**Net Cost of Services**		**217,966**	**(98,466)**	**119,500**
3,357	0	3,357	Other operating income and expenditure	8	4,859	0	4,859
10,025	(13,644)	(3,619)	Financing and investment income and expenditure	9	10,256	(135,358)	(125,102)
0	(97,371)	(97,371)	Taxation and non-specific grant income	10	0	(96,413)	(96,413)
222,059	**(196,568)**	**25,491**	**Gain on Provision of Services**		**233,081**	**(330,237)**	**(97,156)**
			Items that will not be reclassified to the (surplus) or deficit on the provision of services			**Notes**	
		(10,305)	Surplus on revaluation of non-current assets			11	(23,701)
		(57,555)	Surplus on revaluation of available for sale financial assets			11	(16,965)
		(78,203)	Remeasurement of the net defined benefit liability			11	28,975
		(146,063)					**(11,691)**
			Items that may be reclassified to the (surplus) or deficit on the provision of services				
		47,791	Amounts recycled from the AFSFI reserve upon derecognition			11	14,441
		(98,272)	**Other Comprehensive Income and Expenditure**				**2,750**
		(72,781)	**Total Comprehensive Income and Expenditure**				**(94,406)**

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable' reserves. This statement shows how the movements in year of the Council's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to Council Tax or rents for the year. The Net Increase / Decrease line shows the statutory General Fund and Housing Revenue Account movements in the year following those adjustments.

	General Fund £000	Housing Revenue Account £000	Capital Funds £000	Other Revenue/ Statutory Funds £000	Total Usable Reserves £000	Unusable Reserves £000	Total Reserves £000
Balance at 1 April 2018	**(60,318)**	**(17,335)**	**(66,330)**	**(105,814)**	**(249,797)**	**(301,540)**	**(551,337)**
Movement in reserves during the year:							
Adjustment for the restatement of financial instruments	(108,464)	0	0	0	**(108,464)**	108,464	**0**
Total Comprehensive Income and Expenditure	9,419	1,889	0	0	**11,308**	4,209	**15,517**
Adjustments between accounting basis & funding basis per regulations (Note 6)	(24,407)	(321)	3,579	0	**(21,149)**	21,149	**0**
Net (Increase)/Decrease before transfers	**(123,452)**	**1,568**	**3,579**	**0**	**(118,305)**	**133,822**	**15,517**
Net Transfers to/(from) Other Statutory Reserves	6,103	0	(6,213)	(955)	**(1,065)**	1,065	**0**
(Increase)/Decrease in year	**(117,349)**	**1,568**	**(2,634)**	**(955)**	**(119,370)**	**134,887**	**15,517**
Balance at 31 March 2019	**(177,667)**	**(15,767)**	**(68,964)**	**(106,769)**	**(369,167)**	**(166,653)**	**(535,820)**

Comparative movements in 2017/18	General Fund £000	Housing Revenue Account £000	Capital Funds £000	Other Revenue/ Statutory Funds £000	Total Usable Reserves £000	Unusable Reserves £000	Total Reserves £000
Balance at 1 April 2017	**(54,292)**	**(15,614)**	**(66,498)**	**(107,896)**	**(244,300)**	**(234,494)**	**(478,794)**
Movement in reserves during the year:							
Total Comprehensive Income and Expenditure	25,351	140	0	0	**25,491**	(98,272)	**(72,781)**
Removal of IJB surplus (Note 2)	238	0	0	0	**238**	0	**238**
Adjustments between accounting basis & funding basis per regulations (Note 6)	(30,525)	(2,023)	1,322	0	**(31,226)**	31,226	**0**
Net (Increase)/Decrease before transfers	**(4,936)**	**(1,883)**	**1,322**	**0**	**(5,497)**	**(67,046)**	**(72,543)**
Net Transfers to/(from) Other Statutory Reserves	(1,090)	162	(1,154)	2,082	0	0	**0**
(Increase)/Decrease in year	**(6,026)**	**(1,721)**	**168**	**2,082**	**(5,497)**	**(67,046)**	**(72,543)**
Balance at 31 March 2018	**(60,318)**	**(17,335)**	**(66,330)**	**(105,814)**	**(249,797)**	**(301,540)**	**(551,337)**

Balance Sheet as at 31 March 2019

This shows the value as at the Balance Sheet date of the assets and liabilities held by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council.

Reserves are reported in two categories. The first category of reserves is usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations or earmarking on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt and the Unrealised Investment Gains which is earmarked and not available to fund the delivery of services). The second category of reserves is those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold, and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

As at 31 March 2018 £000		Notes	As at 31 March 2019 £000
423,052	Property, Plant and Equipment	13	438,842
4,853	Heritage Assets	15	4,839
27,160	Intangible Assets	16	33,508
345,392	Long-term Investments (including investment in Subsidiary)	18	357,778
1,911	Long-term Debtors	23	1,731
802,368	**Long-Term Assets**		**836,698**
557	Assets held for Sale	21	205
4,704	Inventories	25	4,998
16,876	Short-term Debtors	22	15,829
4,002	Cash and Cash equivalents	20	7,753
26,139	**Current Assets**		**28,785**
(18,620)	Short-term Creditors	24	(20,407)
(1,378)	Short-term Provisions	26	(3,769)
(197)	Grant Receipts in Advance - Revenue	11	(48)
(20,195)	**Current Liabilities**		**(24,224)**
(41,202)	Long-term Borrowing	18	(49,164)
(165,171)	Pension Liability	28	(207,384)
(579)	Long-term Provisions	26	(203)
(44,321)	Deferred Liabilities	17	(43,098)
(5,702)	Other Long-term Liabilities	18	(5,590)
(256,975)	**Long-Term Liabilities**		**(305,439)**
551,337	**Net Assets**		**535,820**
(249,797)	Usable Reserves	6	(369,167)
(301,540)	Unusable Reserves	12	(166,653)
(551,337)	**Total Reserves**		**(535,820)**

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Jamie Manson CPFA
Executive Manager - Finance
26 June 2019

Cash Flow Statement for year ended 31 March 2019

This statement shows the changes in cash and cash equivalents of the Council during the financial year. It shows how the Council generates and uses cash and cash equivalents by classifying cashflows as operating, investing and financing activities.

The amount of net cashflows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income, or from the recipients of services provided by the Council.

Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery.

Cashflows arising from financing activities are useful in predicting claims on future cashflows by providers of capital (i.e. borrowing) to the Council.

2017/18 £000		Notes	2018/19 £000
	Operating activities		
25,491	Net deficit on the provision of services		(97,157)
(52,886)	Adjustment to net surplus or deficit on the provision of services for non-cash movements	30	64,952
9,738	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	30	6,425
(17,657)	**Net cash flows from Operating Activities**		**(25,780)**
27,088	Investing activities	31	28,730
(9,524)	Financing activities	32	(6,701)
(93)	**Net increase in cash and cash equivalents**		**(3,751)**
3,909	Opening Cash and Cash Equivalents		4,002
93	Net movement of Cash and Cash Equivalents during the year		3,751
4,002	**Closing Cash & Cash Equivalents**		**7,753**

Housing Revenue Account

Introduction and Statutory Background

The Housing (Scotland) Act 1987 provides the statutory framework for the housing accounts of Scottish local authorities. Part X of the 1987 Act requires a local authority to keep a Housing Revenue Account (HRA) of the income and expenditure for each year in respect of the houses, buildings and land specified in Part I of Schedule 15.

Part X of the 1987 Act and Schedule 15 thereto make significant provisions relevant to the preparation of the financial statements:

- Section 203(1) – housing authorities have a duty to keep an HRA;
- Section 203(5) – the HRA must be kept in accordance with Part II of Schedule 15 regarding debits, credits and supplementary provisions;
- Section 204 – the Scottish Government has the power to limit General Fund contributions to HRA;
- Schedule 15 – housing authorities have a duty to avoid a deficit in the HRA but if there is a deficit, a General Fund contribution must be made equal to the deficit;
- Schedule 15 – the Scottish Government may decide that items of income or expenditure, either generally or of a specific category, shall be included or excluded from the HRA;
- Schedule 15 – with the consent of the Scottish Government, a housing authority may exclude or include any items of income or expenditure in the HRA; and
- Schedule 15 – the Scottish Government may direct rectification of the account if it is of the opinion that items of income or expenditure have not been, or have been improperly, credited or debited in the HRA.

The operation of the HRA in terms of statutory debits and credits is governed by Part II of Schedule 15 of the 1987 Act and will include income (dwelling rents, services and other charges, Housing Support Grant) and expenditure (repairs, maintenance and management, capital financing costs, bad debts and voids).

In parallel with the treatment for the Council's wider operations, the transactions relating to the HRA have been separated into two statements:

- the HRA Income and Expenditure Statement;
- the Movement on the HRA Statement.

The HRA Income and Expenditure Statement

The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Councils charge rents to cover expenditure in accordance with the legislative framework; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.

Housing Revenue Account Income and Expenditure Statement

2017/18 £000		2018/19 £000
	Expenditure	
2,368	Repairs and maintenance	2,701
592	Supervision and management	788
2,235	Depreciation and impairment of non-current assets	1,707
60	Movement in the allowance for bad debts	24
206	Other expenditure	261
5,461	**Total expenditure**	**5,481**
	Income	
(6,577)	Dwelling rents	(6,694)
(221)	Non-Dwelling rents	(222)
(22)	Other Income	(41)
(6,820)	**Total income**	**(6,957)**
(1,359)	**Net income of HRA services as included in the CIES**	**(1,476)**
89	HRA services' share of Corporate and Democratic Core	65
(1,270)	**Net Income of HRA Services**	**(1,411)**
	HRA share of operating income and expenditure included in the CIES	
(114)	Taxation and non-specific grant income	0
1,764	(Gain) or Loss on sale of HRA non-current assets	2,786
497	Interest payable and similar charges	515
(836)	Interest and investment income	(1,732)
99	Pension interest cost and expected return on pension assets	74
1,410	**Net HRA share of operating expenditure**	**1,643**
140	**(Surplus) / Deficit for the year on HRA services**	**232**

Movement on the Housing Revenue Account Statement

2017/18 £000		2018/19 £000
(15,614)	**Opening balance on the HRA**	**(17,335)**
140	(Surplus) / Deficit on the HRA Income and Expenditure Statement	232
(2,023)	Adjustment between accounting basis and funding basis under statute	(321)
(1,883)	**Increase in year on the HRA**	**(89)**
162	Transfers to reserves	0
(17,335)	**Closing balance on the HRA**	**(17,424)**

The adjustments between accounting basis and funding basis for the HRA are shown in disclosure Note 6: Adjustments between Accounting Basis and Funding Basis under Regulations on page 46 and transfers to or reserves are shown in Note 7: Transfers to / (from) Earmarked Reserves on page 45.

Further information on HRA activities can be found in Note 14: Notes to the Housing Revenue Account on page 63.

Council Tax Income Account

The Council Tax Income Account shows the gross income raised from council taxes levied and deductions made under statute. The resultant net income is transferred to the Council's Comprehensive Income and Expenditure Statement.

Council Tax Income Account

2017/18 £000		2018/19 £000
(11,056)	Gross Council Tax levied and contributions in lieu	(11,473)
625	Council Tax Reduction Scheme	651
1,299	Other discounts and reductions	1,393
51	Write-offs of uncollectable debts	26
39	Adjustment to previous years' Community Charge and Council Tax	31
(9,042)	**Transfer to General Fund**	**(9,372)**

Council Tax Base

The table below shows the Council Tax base used to set the 2018/19 charges. The amount of Council Tax payable depends on the valuation band of the dwelling. The following analysis sets out the number of chargeable dwellings in each valuation band, before and after adjustment for exemptions and discounts, with all figures also shown after conversion to band D equivalents.

2018/19	Number of dwellings	Number of exemptions	Disabled relief	Discounts	Council Tax Reduction	Total dwellings	Ratio to Band D	2018/19 Band D equivalents	2017/18 Band D equivalents
Band A*			11	(1)	(2)	8	0.56	4	4
Band A	2,956	(118)	4	(458)	(285)	2,099	0.67	1,399	1,388
Band B	1,830	(75)	8	(227)	(167)	1,369	0.78	1,065	1,063
Band C	2,793	(82)	11	(312)	(217)	2,193	0.89	1,949	1,953
Band D	1,816	(30)	5	(140)	(45)	1,606	1.00	1,606	1,599
Band E	1,397	(11)	1	(71)	(12)	1,304	1.31	1,708	1,685
Band F	282	(6)	1	(8)	(1)	268	1.63	437	429
Band G	64	(4)	0	(4)	(1)	55	1.96	108	112
Band H	1	(1)	0	0	0	0	2.45	0	0
Sub-total								**8,276**	**8,232**
Less Bad Debt provision								(58)	(247)
Council Tax Base								**8,218**	**7,985**

** Relates to Band A properties subject to disabled relief*

The gross charge to a given property may be affected by the following deductions:

Council Tax Reduction Scheme:

This is a scheme that reduces the Council Tax liability of low income households in Scotland.

Exemptions:

Houses where all the residents are students, or under 18 years old, or are persons with a severe mental impairment will be exempt. Some classes of empty property, in many cases only for a limited period, will also be exempt.

Discounts:

If only one adult lives in a property, the bill may be cut by 25%. If the property is unoccupied and is no-one's sole or main residence, the bill may be cut by up to 50%. If the property is a second home or long-term empty, the discount will only be 10%.

Reliefs:

If a house has been structurally altered for a disabled person, the Council Tax bill may be set at the next band lower in value than that shown in the Valuation List (Band A* shown above). A reduction is also offered for properties in Band A.

Non-Domestic Rate Income Account

Statutory Background

The Non-Domestic Rate Account (Scotland) is a statement that reflects the statutory obligation for billing authorities to maintain a separate Non-Domestic Rate Account. The statement shows the gross income from the rates and deductions made under statute. The net income is paid to the Scottish Government as a contribution to the national non-domestic rate pool.

Non-Domestic Rate Income Account

2017/18 £000		2018/19 £000
29,875	Gross rates levied and contributions in lieu	30,740
(4,569)	Reliefs and other deductions	(4,607)
(16)	Write-offs of uncollectable debts	(47)
25,290	**Net non-domestic rate income**	**26,086**
(409)	Adjustment to previous years' national non-domestic rates	(465)
24,881	**Contribution to non-domestic rate pool**	**25,621**
(23,240)	Distribution from non-domestic rate pool	(23,851)
(23,240)	**Transfer to Comprehensive Income & Expenditure Statement**	**(23,851)**

Analysis of Rateable Value

The amount paid for non-domestic rates is determined by the rateable value agreed by the Assessor multiplied by the rate per £ (rate poundage) that is announced annually by the Scottish Government.

The national non-domestic rate poundage set for 2018/19 is 48.0p (46.6p in 2017/18) with a large business supplement of 2.6p (2.6p in 2017/18) for all subjects with a rateable value above £51,000 (£51,000 in 2017/18).

The large business supplement contributes to the cost of the Small Business Bonus Scheme, which was introduced by the Scottish Government from 1 April 2008, replacing the Small Business Rate Relief Scheme and applies to properties with a rateable value of £18,000 or less.

The table below sets out the number of subjects liable for General Rates and the rateable values at the start of the year.

Rateable values at 1 April 2018	Number of Subjects	Rateable Value £000
Commercial	570	8,720
Industrial	492	37,425
Other	1,314	15,669
Total	**2,376**	**61,814**

Note 1: Expenditure and Funding Analysis

The objective of the Expenditure and Funding Analysis is to demonstrate to Council Tax and rent payers how the funding available to the Council (i.e. government grants, rents, Council Tax and business rates) for the year has been used in providing services, in comparison with those resources consumed or earned in accordance with accounting practices. It also shows how this expenditure is allocated for decision-making purposes between the Council's directorates. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the CIES.

2018/19	Net Expenditure chargeable to the General Fund and HRA £000	Adjustments between Funding and Accounting Basis £000	Present-ational Adjustments £000	Net Expenditure in the CIES £000
Chief Executive and Cost of Democracy	2,597	393	(1,212)	1,778
Children's Services	42,887	4,746	(174)	47,459
Community Care Services	20,064	3,364	919	24,347
Corporate Services	9,556	1,500	230	11,286
Development Services	17,869	4,184	(1,077)	20,976
Infrastructure Services	21,011	6,201	(2,273)	24,939
Housing Revenue Account	1,644	(2,541)	(20)	(917)
Harbour Account	(13,652)	3,839	(556)	(10,369)
Net Cost of Services	**101,976**	**21,686**	**(4,163)**	**119,499**
Other income and expenditure	(89,858)	3,042	(129,840)	(216,656)
(Surplus) or Deficit	**12,118**	**24,728**	**(134,003)**	**(97,157)**
Opening General Fund and HRA balance*		**77,653**		
Add (Surplus) / Deficit in the year		12,118		
Add other items not charged to the (Surplus) / Deficit		103,661		
Closing General Fund and HRA balance		**193,432**		

2017/18	Net Expenditure chargeable to the General Fund and HRA £000	Adjustments between Funding and Accounting Basis £000	Present-ational Adjustments £000	Net Expenditure in the CIES £000
Chief Executive and Cost of Democracy	1,706	198	(1,827)	77
Children's Services	40,417	10,127	4,024	54,568
Community Care Services	19,229	3,021	3,091	25,341
Corporate Services	9,411	1,870	(4,911)	6,370
Development Services	13,997	2,309	1,083	17,389
Infrastructure Services	24,426	7,935	(3,200)	29,161
Housing Revenue Account	(1,048)	274	(539)	(1,313)
Harbour Account	(11,324)	3,127	(272)	(8,469)
Net Cost of Services	**96,814**	**28,861**	**(2,551)**	**123,124**
Other income and expenditure	(89,841)	3,686	(11,478)	(97,633)
(Surplus) or Deficit	**6,973**	**32,547**	**(14,029)**	**25,491**
Opening General Fund and HRA balance*		**70,031**		
Add (Surplus) / Deficit in the year		6,973		
Add other items not charged to the (Surplus) / Deficit		649		
Closing General Fund and HRA balance		**77,653**		

**For a split between General Fund and HRA balances, see the Movement in Reserves Statement on page 35.*

The following table analyses the Adjustments between Funding and Accounting Basis figure outlined above:

2018/19	Adjustments for capital £000	Adjustment for pensions net change £000	Other adjustments £000	Total adjustments £000
Chief Executive and Cost of Democracy	36	357	0	393
Children's Services	3,363	1,347	36	4,746
Community Care Services	457	2,747	160	3,364
Corporate Services	591	898	11	1,500
Development Services	3,446	737	1	4,184
Infrastructure Services	4,377	1,751	73	6,201
Housing Revenue Account	(2,687)	161	(15)	(2,541)
Harbour Account	3,121	665	53	3,839
Net Cost of Services	**12,704**	**8,663**	**319**	**21,686**
Other income and expenditure	(1,531)	4,573	0	3,042
Total adjustments between accounting basis and funding basis	**11,173**	**13,236**	**319**	**24,728**

2017/18	Adjustments for capital £000	Adjustment for pensions net change £000	Other adjustments £000	Total adjustments £000
Chief Executive and Cost of Democracy	56	142	0	198
Children's Services	9,188	1,103	(164)	10,127
Community Care Services	858	2,479	(316)	3,021
Corporate Services	1,044	925	(99)	1,870
Development Services	1,706	621	(18)	2,309
Infrastructure Services	6,365	1,613	(43)	7,935
Housing Revenue Account	148	147	(21)	274
Harbour Account	2,666	603	(142)	3,127
Net Cost of Services	**22,031**	**7,633**	**(803)**	**28,861**
Other income and expenditure	(4,309)	6,066	1,929	3,686
Total adjustments between accounting basis and funding basis	**17,722**	**13,699**	**1,126**	**32,547**

Capital Adjustments

This column includes depreciation, impairment and revaluation gains and losses, income on disposal of assets and the amounts written off for those assets; statutory charges for capital financing and capital grants not chargeable under generally accepted accounting practices.

Pensions Adjustments

Employer pension contributions made by the Council are removed here and replaced with current service costs and past service costs according to IAS 19. Net interest on the defined benefit liability is charged to the CIES.

Other Adjustments

Other differences between amounts charged to the CIES and amounts to be recognised under statute include the amount by which finance costs charged to the CIES are different from finance costs chargeable in the year and the amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year.

Presentational Adjustments

Further adjusting differences between amounts charged to the CIES and amounts reported internally to management include year-end internal recharges. These are removed from Gross Expenditure and Gross Income in the CIES and net to nil overall; i.e. income to one service line is a cost to another. Some items of investment income and expenditure are not reported internally and therefore must also be presented here.

Note 2: Accounting Standards Issued and Adopted in Year

The following accounting standards were new or amended in the 2018/19 Code:

- IFRS9 Financial Instruments;
- IFRS15: Revenue from Contracts with Customers, including amendments and clarifications;
- Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses; and
- Amendments to IAS 7 Statement of Cashflows: Disclosure Initiative

The Cde required implementation in the financial statements from 1 April 2018. The amendments to IAS12 and IAS7 has not had any significant impact on the Council's financial statements. The adoption of IFRS9 has had significant impact resulting in the reclassification of 'Available for Sale' financial instruments as Fair Value through Profit and Loss. IFRS15 has had limited impact on the Council's financial statements. Further details are provided in Note 10: Revenue from Contracts with Service Recipients.

Note 3: Accounting Standards Issued not Adopted

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued, but not yet adopted. This applies to the adoption of the following new or amended standards within the 2019/20 Code:

- Amendments to IAS 40 Investment Property: Transfers of Investment Property;
- Annual Improvements to IFRS Standards 2014 – 2016 Cycle;
- IFRIC 22: Foreign Currency Transactions and Advance Consideration;
- IFRIC23: Uncertainty over Income Tax Treatments; and
- Amendments to IFRS9 Financial Instruments: Prepayment Features with Negative Compensation.

The Code requires implementation in the accounts from 1 April 2019 and there is therefore no impact on the 2018/19 financial statements.

Note 4: Material Items of Income and Expenditure

The CIES includes an actuarial loss on the pension liability of £29m (see Note 12: Unusable Reserves on page 55).

The Balance Sheet includes a long term investment of £17.3m for the Council's acquisition of 100% interest in SLAP (see Note 18: Financial Instruments on page 64).

Note 5: Assumptions and Major Estimation Uncertainty

The annual accounts contain estimated figures that are based on assumptions made by the Council about the future, or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. Because balances cannot be determined with certainty, however, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are shown in the following table:

Item	Uncertainties - Estimates	Effect if actual results differ from assumptions
Pension Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in a decrease in the pension liability of £70.1m; however, the assumptions interact in complex ways.
Fair Value Measurement	When the fair value of financial assets and liabilities cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured using valuation techniques. Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. The Council holds Financial Assets (Equity Investments and Financial Guarantees) at fair value.	This will be different in each case, but changes in any assumptions used in all asset valuation could affect the values disclosed in the accounts.
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. Any reduction in anticipated spending on repairs and maintenance may reduce the useful lives assigned to assets.	If the useful life of an asset is reduced, depreciation accelerates and the carrying value of the asset falls. It is estimated that the annual depreciation charge for buildings would increase by £0.4m for every year that useful lives were reduced.
Fishing Quota	Fishing quota held by the Council were valued at £32.7m by an independent broker at 31 March 2019. The price that quota attract is affected by the quantity of Fixed Quota Allocation Units (FQAs) in the market. It is highly probably that Brexit will have a long-term impact on the quantity of FQAs in the market, however the transitional period to 31 December 2020 provides some short-term assurance.	The effect will vary depending on market conditions at the time of valuation; it is not quantifiable at this time.
Item	**Uncertainties - Judgements**	**Effect if actual results differ from assumptions**
Arrears	At 31 March 2019, the Council had a balance on short-term sundry debtors of £4.06m. A simplified approach as per IFRS15 has been used to determine an impairment loss balance of £0.27m based on lifetime expected credit losses. Council Tax collection does not impose a significant impairment risk as historically, less than 0.6% of charges levied are ever written off.	If sundry debtor collection rates were to deteriorate, for example if the amount of expected credit loss doubled, an additional £0.22m would need to be set aside as an allowance. It is estimated that no more than £0.06m will eventually be written off from Council Tax charges of £9.4m levied during 2018/19.

Note 6: Adjustments between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the CIES, recognised by the Council in the year in accordance with proper accounting practice, to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.
The following sets out a description of the reserves that the adjustments are made against:

General Fund

The General Fund is the statutory fund into which all the receipts of the Council are required to be paid and out of which all liabilities of the Council are to be met, except to the extent that statutory rules might provide otherwise.

These rules can also specify the financial year in which liabilities and payments should impact on the General Fund balance, which is not necessarily in accordance with proper accounting practice. The General Fund balance therefore summarises those resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Council is required to recover) at the end of the financial year. The balance is not available to be applied to fund Housing Revenue Account services.

Housing Revenue Account

The Housing Revenue Account balance reflects the statutory obligation to maintain a revenue account for local authority housing provision in accordance with Part X of the Housing (Scotland) Act 1987. It contains the balance of income and expenditure as defined by the 1987 Act that is available to fund future expenditure in connection with the Council's landlord function or (where in deficit) that is required to be recovered from tenants in future years.

Capital Usable Reserves

This includes the Capital Receipts Reserve and Capital Grants Unapplied Account.

The former holds the proceeds from the disposal of land or other assets which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end.

The Capital Grants Unapplied Account holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies, but which have yet to be applied to meet expenditure.

The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which it can take place.

2018/19	Usable Reserves General Fund £000	Housing Revenue Account £000	Capital Usable Reserves £000	Total Usable Reserves £000	Unusable Reserves £000
Adjustments primarily involving the Capital Adjustment Account:					
Reversal of items charged to the CIES:					
Charges for depreciation of non-current assets	(16,161)	(2,082)	0	**(18,243)**	18,243
Charges for impairment of non-current assets	(153)	402	0	**249**	(249)
Amortisation of intangible assets	(1,491)	(23)	0	**(1,514)**	1,514
Capital grants and contributions applied	6,387	0	0	**6,387**	(6,387)
Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal to the CIES	(2,731)	(2,911)	0	**(5,642)**	5,642
Capital repayment in respect of finance leases	105	0	0	**105**	(105)
Insertion of items not charged to the CIES:					
Statutory provision for the financing of capital investment (principal repayments)	2,257	808	0	**3,065**	(3,065)
Capital expenditure charged against the General Fund and HRA balances	52	3,585	0	**3,637**	(3,637)
Adjustments primarily involving the Capital Grants Unapplied Account:					
Capital grants and contributions unapplied credited to the CIES	0	0	0	**0**	0
Adjustments involving the Capital Fund:					
Use of Capital Fund to fund capital expenditure in the year	0	0	2,162	**2,162**	(2,162)
Adjustments primarily involving the Capital Receipts Reserve:					
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CIES	658	125	0	**783**	(783)
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	1,417	**1,417**	(1,417)
Adjustments primarily involving the Pensions Reserve:					
Reversal of items relating to retirement benefits charged to the CIES	(26,295)	(433)	0	**(26,728)**	26,728
Employer's pensions contributions and direct payments to pensioners payable in the year	13,298	193	0	**13,491**	(13,491)
Adjustment primarily involving the Employee Statutory Adjustment Account:					
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(333)	15	0	**(318)**	318
Total Adjustments	**(24,407)**	**(321)**	**3,579**	**(21,149)**	**21,149**

2017/18	Usable Reserves General Fund £000	 Housing Revenue Account £000	 Capital Usable Reserves £000	 Total Usable Reserves £000	Unusable Reserves £000
Adjustments primarily involving the Capital Adjustment Account:					
Reversal of items charged to the CIES:					
Charges for depreciation of non-current assets	(14,901)	(2,059)	0	**(16,960)**	16,960
Charges for impairment of non-current assets	(6,987)	(153)	0	**(7,140)**	7,140
Amortisation of intangible assets	(1,332)	(23)	0	**(1,355)**	1,355
Capital grants and contributions applied	7,537	114	8	**7,659**	(7,659)
Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal to the CIES	(2,008)	(3,421)	0	**(5,429)**	5,429
Capital repayment in respect of finance leases	99	0	0	**99**	(99)
Insertion of items not charged to the CIES:					
Statutory provision for the financing of capital investment (principal repayments)	968	827	0	**1,795**	(1,795)
Capital expenditure charged against the General Fund and HRA balances	268	1,260	0	**1,528**	(1,528)
Adjustments primarily involving the Capital Grants Unapplied Account:					
Capital grants and contributions unapplied credited to the CIES	10	0	(10)	**0**	0
Adjustments involving the Capital Fund:					
Use of Capital Fund to fund capital expenditure in the year	0	0	103	**103**	(103)
Adjustments primarily involving the Capital Receipts Reserve:					
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CIES	422	1,657	0	**2,079**	(2,079)
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	1,221	**1,221**	(1,221)
Adjustments involving the Financial Instruments Adjustment Account:					
Transfer of former Shetland Development Trust balances to the Local Investment Fund	(1,929)	0	0	**(1,929)**	1,929
Adjustments primarily involving the Pensions Reserve:					
Reversal of items relating to retirement benefits charged to the CIES	(26,009)	(429)	0	**(26,438)**	26,438
Employer's pensions contributions and direct payments to pensioners payable in the year	12,556	183	0	**12,739**	(12,739)
Adjustment primarily involving the Employee Statutory Adjustment Account:					
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	782	21	0	**803**	(803)
Total Adjustments	**(30,524)**	**(2,023)**	**1,322**	**(31,225)**	**31,225**

Note 7: Transfers to / (from) Earmarked Reserves

This note sets out the amounts transferred to and from General Fund and Housing Revenue Account balances and other earmarked reserves to meet General Fund and Housing Revenue Account expenditure in 2018/19.

	Balance at 31 March 2018 £000	Transfers out £000	Transfers in £000	Balance at 31 March 2019 £000
General Fund Balance (unearmarked)	(22,878)	23,797	(28,166)	**(27,247)**
Unrealised Investment Gains (earmarked)	0	0	(110,988)	**(110,988)**
Equalisation Fund (unearmarked)	(16,928)	0	(1,691)	**(18,619)**
Revenue Spend to Save Fund	(2,011)	346	(201)	**(1,866)**
Council Tax Second Homes Receipts	(1,328)	355	(305)	**(1,278)**
Welfare Reform Fund	(219)	0	(22)	**(241)**
Hansel Funds	(160)	5	0	**(155)**
School Funds	(235)	(58)	0	**(293)**
Central Energy Efficiency Fund	(76)	38	0	**(38)**
Community Care Fund	(229)	187	(21)	**(63)**
Local Investment Fund	(16,254)	0	(623)	**(16,877)**
Total General Fund	**(60,318)**	**24,670**	**(142,017)**	**(177,665)**
Capital Fund	(66,330)	3,784	(6,419)	**(68,965)**
Repairs & Renewals Fund	(40,693)	6,298	(4,066)	**(38,461)**
Housing Revenue Account	(17,335)	3,300	(1,732)	**(15,767)**
Harbour Reserve Fund	(63,221)	13,652	(16,400)	**(65,969)**
Insurance Fund	(1,900)	0	(440)	**(2,340)**
Total Statutory Reserves	**(189,479)**	**27,034**	**(29,057)**	**(191,502)**
Total Usable Reserves	**(249,797)**	**51,704**	**(171,074)**	**(369,167)**

General Fund Reserves

Under the Local Government (Scotland) Act 1973, the Council is permitted to carry forward balances on the General Fund.

General Fund Balance: established to defray General Fund expenditure.

Unrealised Investment Gains Reserve: The adoption of IFRS9 changed the measurement basis of ‘Available for Sale’ financial instruments to Fair Value through Profit and Loss. This resulted in the transfer of reserves from the Unusable Available for Sale Financial Instruments Reserve to the Usable General Fund Unrealised Investment Gains. This element of the General Fund is earmarked and is not available to fund the delivery of services. It represents the difference between the fair value of investments at 31 March 2019 compared with their original cost. The net gain (increases less decreases) is ‘unrealised’ because the underlying investments have not been sold as at 31 March. The amount of the unrealised gain that is earmarked are those gains that are not readily converted to cash, plus those unrealised gains that are readily converted to cash but the Council does not consider it prudent to use to fund services. The following table shows the movement of ‘Available for Sale’ Financial Instruments.

	Balance at 31 March 2018 £000	Transfer between Reserves £000	Movement in year £000	Balance at 31 March 2019 £000
Unusable - Available for Sale Financial Instruments Reserve	(108,464)	108,464	0	0
Usable - General Fund Unrealised Investment Gains (earmarked)	0	(108,464)	(2,524)	(110,988)
Total	**(108,464)**	**0**	**(2,524)**	**(110,988)**

Equalisation Fund: realised returns that exceed the long-term average rate of return that can be released in future years.

Revenue Spend to Save Fund: to fund savings initiatives upfront, to be repaid when a saving is realised.

Council Tax Second Homes Receipts: to fund affordable housing expenditure from receipts from second homes' Council Tax.

Welfare Reform Fund: to earmark income received from Government grants to fund initiatives relating to Welfare Reform and the introduction of Universal Credit.

Hansel Funds: held for the benefit of residents in care establishments.

School Funds: to contribute to the good of the schools of Shetland or enhance educational or social activities for children.

Central Energy Efficiency Fund: to fund the reduction in energy consumption and carbon emissions.

Community Care Fund: balances relating to the Integrated Joint Board.

Local Investment Fund: income from Shetland Development Trust for investment in local

Other Statutory Reserves

The **Capital Fund** was established under the Local Government (Scotland) Act 1975. This fund may be used to defray certain items of capital expenditure and for the repayment of loan principals. It also incorporates funds established to facilitate the capital costs associated with implementing future savings plans; and the holding of capital grants and receipts to finance subsequent capital expenditure.

The **Repairs and Renewals Fund** was established under the provisions of the Local Government (Scotland) Act 1975 for the purpose of defraying expenditure in repairing, maintaining, replacing and renewing any buildings, works, plant, equipment or articles belonging to the Council. This now incorporates the former Quarry Repairs and Renewals Fund.

The **Insurance Fund** may be used to make good loss or damage suffered by the Council as a result of an occurrence against the risk of which the Council can insure. It can also be used in paying premiums on a policy of insurance against the risk.

The **Housing Revenue Account** carries forward the accumulated surplus or deficit generated by the HRA each year. The fund is set aside to defray certain expenditure on the HRA, such as the future maintenance of housing stock.

The **Harbour Reserve Fund** was established under Section 67(i) of the Zetland County Council Act 1974. This Act empowers the Council to transfer to the fund surpluses arising on the Harbour Account. The fund may be used to defray certain expenditure on the harbour undertaking and for any other purpose that is solely in the interest of the County and its inhabitants. It now incorporates the former Harbour Contingency and Pilot Boat Renewal Funds.

Note 8: Other Operating Income and Expenditure

2017/18 £000		2018/19 £000
3,357	(Gains)/losses on the disposal of non-current assets	4,859
3,357	**Total**	**4,859**

Note 9: Financing and Investment Income and Expenditure

2017/18 £000		2018/19 £000
3,959	Interest payable and similar charges	5,596
6,066	Pensions interest cost and expected return on pensions assets	4,573
(2,312)	Interest receivable and similar income	(2,129)
(3,401)	Other investment income	(4,384)
(7,854)	Realised gains in relation to available for sale	(17,523)
-	Unrealised gains in relation to available for sale	(110,988)
(77)	Income from transferred SDT financial instruments	(247)
(3,619)	**Total**	**(125,102)**

Note 10: Revenue from Contracts with Service Recipients

The Council has recognised £44m in 2018/19 (£41m in 2017/18) from contracts with service recipients.

The Council typically satisfies its performance obligations as services are rendered, or on delivery of goods. Revenue is recognised as (or when) the performance obligation is met.

Performance obligations which are partially unsatisfied include ferry fare multi-journey tickets. The Council expects to satisfy the performance obligation within 12 months.

Amounts included in the Comprehensive Income and Expenditure Statement for contracts with service recipients are detailed in the tables shown on page 52 and 53. The Council determines that the categories used in disclosing debtor balances can be used to meet the objective of the disaggregation disclosure requirements of IFRS15, which is to disaggregate revenue from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The tables on page 52 and 53 illustrate the disaggregation disclosure by type of service recipient.

2018/19	Central Government £000	Other Local Authorities £000	NHS Bodies £000	Public Corporations and Trading Funds £000	Other Entities and Individuals £000
Agency Income	0	0	(24)	(944)	(620)
Care home fees	0	0	0	0	(2,356)
Course Fees	(1)	0	(2)	0	(698)
Other Income	(45)	(72)	(57)	(19)	(1,059)
Planning applications / Building Warrants	0	0	0	0	(464)
Premise and Accommodation Rent	(1)	0	0	0	(529)
Registration & Licensing Fees	(10)	0	0	0	(212)
Rent of equipment/plant	0	0	(19)	(3)	(209)
Sale of materials/equipment/plant	0	0	(2)	0	(1,009)
Sale of Meals	(1)	0	(1)	0	(1,222)
Transport Income	(77)	(15)	(1)	(16)	(1,960)
Waste disposal	(3)	(435)	(17)	(217)	(1,112)
General Fund	**(138)**	**(522)**	**(123)**	**(1,199)**	**(11,450)**
Dues	0	0	0	0	(1,655)
Harbour Agreement	0	0	0	0	(367)
Jetty and Spur Booms Income	0	0	0	0	(3,159)
Other Income	(27)	(12)	0	0	(369)
Tanker income	0	0	0	0	(20,146)
Harbour Account	**(27)**	**(12)**	**0**	**0**	**(25,696)**
Rental Income	0	0	0	0	(6,918)
Other Income	0	0	0	0	(48)
Housing Revenue Account	**0**	**0**	**0**	**0**	**(6,966)**
Total included in Comprehensive Income and Expenditure Statement	**(165)**	**(534)**	**(123)**	**(1,199)**	**(44,112)**

2017/18	Central Government £000	Other Local Authorities £000	NHS Bodies £000	Public Corporations and Trading Funds £000	Other Entities and Individuals £000
Agency Income	0	(30)	(26)	(808)	(474)
Care home fees	0	0	0	0	(1,941)
Course Fees	0	0	0	0	(702)
Other Income	(24)	0	(14)	(18)	(1,193)
Planning applications / Building Warrants	0	0	0	0	(366)
Premise and Accommodation Rent	0	0	0	0	(476)
Registration & Licensing Fees	0	0	0	0	(209)
Rent of equipment/plant	0	0	(22)	(3)	(232)
Sale of materials/equipment/plant	0	0	0	0	(1,065)
Sale of Meals	0	0	0	0	(1,267)
Transport Income	(78)	(15)	(2)	(18)	(1,965)
Waste disposal	(3)	(381)	(15)	(208)	(992)
General Fund	**(105)**	**(426)**	**(79)**	**(1,055)**	**(10,882)**
Dues	0	0	0	0	(1,658)
Harbour Agreement	0	0	0	0	(325)
Jetty and Spur Booms Income	0	0	0	0	(3,903)
Other Income	(27)	0	0	0	(363)
Tanker income	0	0	0	0	(17,499)
Harbour Account	**(27)**	**0**	**0**	**0**	**(23,748)**
Rental Income	0	0	0	0	(6,799)
Other Income	0	0	0	0	(37)
Housing Revenue Account	**0**	**0**	**0**	**0**	**(6,836)**
Total included in Comprehensive Income and Expenditure Statement	**(132)**	**(426)**	**(79)**	**(1,055)**	**(41,466)**

Note 11: Grant Income

The Council credited the following grants, contributions and donations to the CIES in 2018/19:

2017/18 £000		2018/19 £000
	Credited to Taxation and Non-Specific Grant Income	
(57,428)	Revenue Support Grant	(56,727)
(23,240)	Non-domestic Rates	(23,853)
(9,042)	Council Tax	(9,372)
(7,648)	Capital Grants and Contributions	(6,461)
(13)	Donated Assets	0
(97,371)	**Total**	**(96,413)**
	Credited to Services	
0	Support for Ferries	(5,000)
(1,601)	Scottish Government PFI Support	(3,299)
(3,134)	Housing Benefit funding	(3,137)
(2,752)	FE and HE funding	(2,615)
(527)	EU grants	(885)
(312)	Sports Development and Facilities funding	(659)
(184)	Expansion of early learning and childcare	(519)
(360)	Skills Development Scotland	(353)
(336)	NHS grants	(332)
(336)	Criminal Justice grant	(323)
(157)	Energy grants	(255)
(187)	Educational attainment / Pupil equity funding	(233)
(25)	Transport grants	(211)
(186)	Active Schools funding	(185)
(515)	Household Recycling Charter	(159)
(82)	Employability funding	(158)
(98)	Training grants	(145)
0	Support for Lecturer's National Pay Bargaining	(144)
(88)	Education Maintenance Allowance funding	(96)
(71)	Department of Work and Pensions funding	(90)
0	Grants for Economic Development	(83)
(78)	Youth Music funding	(76)
(39)	Languages funding	(62)
(10)	Housing grants	(52)
(50)	Empowering Communities	(49)
(62)	Electric Vehicle funding	(48)
0	Bikeability Scotland	(24)
0	Peatland Restoration grant	(24)
(19)	Youth Legacy / Year of Young People	(21)
0	MCR Pathways	(20)
(8)	Milk Subsidy	(15)
0	Sanitary product funding	(14)
(10)	Athlete Support Programme funding	(10)
(12)	Community Development funding	0
(49)	Smarter Choices Smarter Places	1
(50)	Other grants and contributions	(13)
(11,338)	**Total**	**(19,308)**

(197)	**Value of grants received in advance not recognised**	**(48)**

Note 12: Unusable Reserves

Reconciliation of Unusable Funds to the Balance Sheet

2017/18 £000		2018/19 £000
(96,359)	Revaluation Reserve	(116,953)
(108,464)	Available for Sale Financial Instruments Reserve	0
0	Financial Instruments Adjustment Account	0
165,171	Pensions Reserve	207,384
(264,267)	Capital Adjustment Account	(259,781)
2,379	Employee Statutory Adjustment Account	2,697
(301,540)	**Total Unusable Reserves**	**(166,653)**

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its property, plant and equipment and intangible assets. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost;
- used in the provision of services and the gains are consumed through depreciation; or
- disposed of and the gains are realised.

The Revaluation Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2017/18 £000		2018/19 £000
(89,850)	**Opening balance**	**(96,359)**
(10,305)	Surplus on revaluation of non-current assets	(23,701)
	Amounts written off to the Capital Adjustment Account:	
2,672	Difference between fair value depreciation and historical cost depreciation	2,603
1,124	Assets sold or scrapped	504
(96,359)	**Closing balance**	**(116,953)**

Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the Council arising from increases in the market price value of its investments. The balance is reduced when investments with accumulated gains are revalued downwards or impaired and the gains are lost, or disposed of and the gains are realised. The balance on the reserve has been transferred to the Financing and Investment Income and Expenditure line within the Comprehensive Income and Expenditure Statement. This is due to a change in measurement basis to Fair Value through Profit or Loss following the adoption of IFRS9 from 1 April 2018.

2017/18 £000		2018/19 £000
(98,700)	**Opening balance**	**(108,464)**
(57,555)	Surplus on revaluation of available for sale financial assets	(16,965)
47,791	Removal of previously unrealised gains in relation to assets sold	14,441
0	Amounts written out to Usable Reserves	110,988
(108,464)	**Closing balance**	**0**

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits, and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the CIES as the benefits earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions, and investment returns on any resources set aside to meet the costs.

However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the resources set aside by the Council to meet the benefits earned by past and current employees. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2017/18 £000		2018/19 £000
229,675	**Opening balance**	**165,171**
(78,203)	Actuarial (gains) and losses on pensions assets and liabilities	28,975
26,438	Reversal of items relating to retirement benefits debited or credited to the Deficit on the Provision of Services in the CIES	26,728
(12,739)	Employer's pensions contributions and direct payments to pensioners payable in the year	(13,490)
165,171	**Closing balance**	**207,384**

Employee Statutory Adjustment Account

This Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

2017/18 £000		2018/19 £000
3,181	**Opening balance**	**2,379**
(3,181)	Settlement or cancellation of accrual made at the end of the preceding year	(2,379)
2,379	Amounts accrued at the end of the current year	2,697
2,379	**Closing balance**	**2,697**

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the CIES (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis) and credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on investment properties, gains recognised on donated assets that have yet to be consumed by the Council, and revaluation gains accumulated on property, plant and equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

2017/18 £000		2018/19 £000
(276,871)	**Opening balance**	**(264,267)**
	Reversal of items relating to capital expenditure debited or credited to the CIES:	
16,960	Charges for depreciation of non-current assets	18,243
7,140	Charges for impairment of non-current assets	5,019
1,355	Amortisation of intangible assets	1,515
(99)	Repayment of capital on finance leases	(105)
(514)	Repayment of capital on PFI contract	(1,165)
5,429	Amounts of Non-Current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	374
0	Prior year disposal of asset transferred to stock	0
(3,796)	Adjustment amounts written out of the Revaluation Reserve	(3,107)
	Capital financing applied in the year:	
(3,300)	Use of the Capital Receipts Reserve to finance new capital expenditure	(1,403)
(7,651)	Capital grants and contributions credited to the CIES that have been applied to capital financing	(6,388)
(8)	Application of grants to capital financing from the Capital Grants Unapplied Account	0
(1,281)	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(1,901)
(1,528)	Capital expenditure charged against the General Fund and HRA balances	(3,637)
(103)	Capital Fund Reserve	(2,959)
(264,267)	**Closing balance**	**(259,781)**

Note 13: Property, Plant and Equipment

	Council Dwellings £000	Other Land & Buildings £000	Vehicles, Furniture, Plant & Equipment £000	Infra-structure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000	PFI Assets included in Total £000
Cost or Valuation									
Opening Balance at 1 April 2018	**62,269**	**207,274**	**56,345**	**169,298**	**7,482**	**247**	**5,661**	**508,576**	**46,000**
Additions	3,482	1,648	13,934	1,631	0	0	2,456	23,151	181
Revaluation increases/(decreases) recognised in the Revaluation Reserve	5,473	4,663	11	0	0	0	0	10,147	0
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	89	(1,365)	(621)	0	0	0	0	(1,897)	0
Derecognition – disposals	(48)	(117)	(1,404)	0	(4)	0	0	(1,573)	0
Derecognition – other	(2,756)	(1,225)	(1,038)	0	0	0	0	(5,019)	(181)
Assets reclassified (to) / from Assets Held for Sale	39	0	0	0	0	(51)	0	(12)	0
Other movements in cost or valuation	0	5,678	81	0	0	(45)	(5,714)	0	0
Closing Balance at 31 March 2019	**68,548**	**216,556**	**67,308**	**170,929**	**7,478**	**151**	**2,403**	**533,373**	**46,000**
Depreciation and Impairment									
Opening Balance at 1 April 2018	**(1,965)**	**(8,210)**	**(22,292)**	**(53,030)**	**0**	**(27)**	**0**	**(85,524)**	**(630)**
Depreciation charge	(2,002)	(7,258)	(4,636)	(4,319)	0	(14)	0	(18,229)	(1,284)
Depreciation written out to the Revaluation Reserve	3,652	2,100	0	0	0	4	0	5,756	0
Depreciation written out to the Surplus/ Deficit on the Provision of Services	312	1,597	233	0	0	2	0	2,144	0
Derecognition – disposals	3	9	1,310	0	0	0	0	1,322	0
Derecognition – other	0	0	0	0	0	0	0	0	0
Other movements in depreciation or impairment	0	(4)	0	0	0	4	0	0	0
Closing Balance at 31 March 2019	**0**	**(11,766)**	**(25,385)**	**(57,349)**	**0**	**(31)**	**0**	**(94,531)**	**(1,914)**
Net Book Value as at 31 March 2019	**68,548**	**204,790**	**41,923**	**113,580**	**7,478**	**120**	**2,403**	**438,842**	**44,086**
Net Book Value as at 31 March 2018	**60,304**	**199,064**	**34,053**	**116,268**	**7,482**	**220**	**5,661**	**423,052**	**45,370**

Movements in 2017/18	Council Dwellings £000	Other Land & Buildings £000	Vehicles, Furniture, Plant & Equipment £000	Infra-structure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000	PFI Assets included in Total £000
Cost or Valuation									
Opening Balance at 1 April 2017	**62,159**	**144,262**	**47,703**	**167,438**	**6,919**	**255**	**15,099**	**443,835**	**0**
Additions	3,167	49,035	10,481	1,860	0	0	9,208	73,751	46,000
Revaluation increases/(decreases) recognised in the Revaluation Reserve	8	3,303	(415)	0	563	17	0	3,476	0
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(153)	(7,041)	(15)	0	0	(2)	0	(7,211)	0
Derecognition – disposals	(641)	(64)	(626)	0	0	(71)	0	(1,402)	0
Derecognition – other	(2,277)	(745)	(433)	0	0	0	0	(3,455)	0
Assets reclassified (to)/ from Assets Held for Sale	(78)	0	(350)	0	0	10	0	(418)	0
Other movements in cost or valuation	84	18,524	0	0	0	38	(18,646)	0	0
Closing Balance at 31 March 2018	**62,269**	**207,274**	**56,345**	**169,298**	**7,482**	**247**	**5,661**	**508,576**	**46,000**
Accumulated Depreciation and									
Opening Balance at 1 April 2017	**0**	**(4,799)**	**(19,137)**	**(48,825)**	**0**	**(22)**	**0**	**(72,783)**	**0**
Depreciation charge	(1,987)	(6,381)	(4,451)	(4,205)	0	(5)	0	(17,029)	(630)
Depreciation written out to the Revaluation Reserve	2	2,800	690	0	0	1	0	3,493	0
Depreciation written out to the Surplus/Deficit on the Provision of Services	0	61	10	0	0	0	0	71	0
Derecognition – disposals	20	24	596	0	0	0	0	640	0
Derecognition – other	1	82	0	0	0	0	0	83	0
Other movements in depreciation or impairment	(1)	3	0	0	0	(1)	0	1	0
Closing Balance at 31 March 2018	**(1,965)**	**(8,210)**	**(22,292)**	**(53,030)**	**0**	**(27)**	**0**	**(85,524)**	**(630)**
Net Book Value									
Net Book Value as at 31 March 2018	**60,304**	**199,064**	**34,053**	**116,268**	**7,482**	**220**	**5,661**	**423,052**	**45,370**
Net Book Value as at 31 March 2017	**62,159**	**139,463**	**28,566**	**118,613**	**6,919**	**233**	**15,099**	**371,052**	**0**

Capital Commitments

At 31 March 2019 the Council had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in future years, budgeted to cost £8.2m. Similar commitments at 31 March 2018 were £3.3m. Major projects are detailed in the table below.

Major commitments at 31 March	£m
Scalloway Fishmarket Rebuild	5.139
Housing Quality Standard	1.192
Terminal Life Extension	1.014
New Toft Pier	0.181

Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. All valuations in the year were carried out internally. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

Surplus Assets were valued using fair value in accordance with the CIPFA Code of Practice. Valuations of vehicles, plant, furniture and equipment are based on current prices where there is an active second-hand market or latest list prices adjusted for the condition of the asset.

The significant assumptions applied in estimating the fair values are:

- the properties are all freehold with the exception of the Waste to Energy Plant which is held on a ground lease;
- that no high alumina cement, concrete or calcium chloride addition or other potentially deleterious material was used in the construction of the properties, and that none has been subsequently incorporated;
- that the properties are not subject to any unusual or especially onerous restrictions, encumbrances, or outgoings and that good title can be shown;
- that the properties and their values are unaffected by any matters which would be revealed by a local search or inspection of any register and the use and occupation are both lawful;
- that the inspection of those parts which have not been inspected would not cause the valuation to be altered;
- that the land and properties are not contaminated;
- that no statutory or other grants are available to carry out any improvements or repairs; and
- that there are no outstanding statutory notices affecting any of the properties.

The following table shows useful lives have been used in the calculation of depreciation and also details of revaluation programmes. The basis of valuation is set out in Note 41: Accounting Policies on page 81.

Category of Asset	Useful Life	Valuer	Basis of Valuation	Date of last full valuation
Council Dwellings	30 years	Asset Services Manager	Existing Use Value for Social Housing	31 March 2019
Other Land and Buildings (including PFI Assets)	1-120 years	Asset Services Manager	Existing Use Value or Depreciated Replacement Cost (for specialised operational properties)	Valued on 5-year rolling programme
Vehicles, Furniture, Plant & Equipment	1-32 years	Operational Manager	Existing Use Value	31 March 2016
Infrastructure Assets	2-47 years	n/a	Depreciated Historical Cost	n/a
Community Assets	Indefinite life	n/a	Historical Cost	n/a
Surplus Assets	2-20 years	Asset Services Manager	Fair Value (estimated at highest and best use)	Valued on 5-year rolling programme
Assets Under Construction	n/a	n/a	Historical Cost	n/a

Note 14: Notes to the Housing Revenue Account

Number and Types of Dwellings

The following table shows the stock movements by apartment size:

2017/18 Number	Housing Stock	2018/19 Number
78	1 Apartment	76
412	2 Apartment	412
521	3 Apartment	523
615	4 Apartment	611
33	5 Apartment	34
1	6 Apartment	1
2	8 Apartment	2
1,662	**Total**	**1,659**

Amount of Rent Arrears

The table below summarises the rent arrears position for HRA dwellings. The trend shown below is a slight increase in the amount of arrears per property.

2017/18 £000		2018/19 £000
232	Total value of rent arrears	235

2017/18		2018/19
520	Number of properties in arrears	514
31.3%	Properties in arrears as share of total stock (%)	31.0%
£446	Average amount per property in arrears (£)	£457

Provision for Bad Debts

Council approval is required to write off bad debts with a value over £5,000. The Expected Credit Loss impairment which includes HRA is detailed in Note 19: Nature and Extent of Risks arising from Financial Instruments on page 66.

Void Rents

The following table summarises the income lost due to voids in 2018/19. These amounts are included in the other expenditure line of the Housing Revenue Account Income and Expenditure Statement.

2017/18 £000		2018/19 £000
68	General needs void rents and charges	101
45	Sheltered housing void rents and charges	41
113	**Total**	**142**

Note 15: Heritage Assets

Net Value	Historic Buildings £000	Museum Collection £000	Total Assets £000
Opening Balance at 1 April 2018	**1,571**	**3,282**	**4,853**
Additions	0	0	**0**
Depreciation	(14)	0	**(14)**
Closing Balance at 31 March 2019	**1,557**	**3,282**	**4,839**

2017/18	Historic Buildings £000	Museum Collection £000	Total Assets £000
Opening Balance at 1 April 2017	**1,585**	**3,269**	**4,854**
Other movements	0	13	**13**
Depreciation	(14)	0	**(14)**
Closing Balance at 31 March 2018	**1,571**	**3,282**	**4,853**

Historic Buildings

The two historic buildings classified as heritage assets are the Dunrossness Crofthouse Museum and the Bod of Gremista.

The Dunrossness Crofthouse Museum is a restored 19th century crofthouse with thatched roof, outbuildings and a watermill. The property is open for public viewing during the months of May to September.

The Bod of Gremista is a two storey rectangular house built around 1790 to provide family accommodation and a store for fishing and fish curing activities. The property houses the Shetland Textile Museum and is open to the public from May to September.

Museum Collection

The Council's museum collections are on display at the Shetland Museum and Archives, open to the public all year. They are managed and curated by the Shetland Amenity Trust and any additions to the collection are treated as donated assets to the Council.

Note 16: Intangible Assets

The intangible assets disclosed on the Balance Sheet include fishing quota, fishing licences and software.

A fishing quota is the right to fish species over a defined period, usually one year. Quota are held by Government and distributed to the fishing industry through Producer Organisations. The Fishing Quota was originally purchased by the Shetland Development Trust to enable long-term access to a strategically important resource. The quota was transferred to the Council on 31 December 2014 as part of the wind-up of the Shetland Development Trust. The market value at 31 March 2019 is £32.7m. This is amortised on a straight-line basis over a 20-year period.

Fishing licences provide authority for a registered fishing vessel to fish for sea fish, subject to limitations stated in the licence. The licences were transferred to the Council on 31 December 2014 as part of the wind-up of the Shetland Development Trust. There were no disposals in 2018/19 (£0m in 2017/18). The market value as at 31 March 2019 was £0.1m (£0.1m in 2017/18). This is amortised on a straight-line basis over a 10-year period.

Software is accounted for to the extent that it is not an integral part of a particular IT system, rather part of the hardware item of property, plant and equipment. All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Council.

The carrying amount of intangible assets is amortised on a straight-line basis. Amortisation of £1.5m was charged directly to the Net Cost of Services in the CIES for 2018/19 (£1.4m in 2017/18).

The movement on Intangible Asset balances during the year is as follows:

As at 31 March 2018 £000		As at 31 March 2019 £000
	Balance at 1 April:	
27,301	Gross carrying amounts	29,495
(2,187)	Accumulated amortisation	(2,335)
25,114	**Net carrying amount at start of year**	**27,160**
14	Purchases	71
0	Disposals	(409)
0	Disposal amortisation	401
2,180	Revaluation increases	6,414
1,207	Revaluation amortisation	1,386
(1,355)	Amortisation for the period	(1,515)
27,160	**Net carrying amount at end of year**	**33,508**
	Comprising:	
29,495	Gross carrying amounts	35,571
(2,335)	Accumulated amortisation	(2,063)
27,160	**Balance at 31 March**	**33,508**

Note 17: Private Finance Initiatives and similar contracts

Anderson High School contract

The contract specifies minimum standards for the services to be provided by the contractor, with deductions from the fee payable being made if facilities are unavailable or performance is below the minimum standards.

The contractor took on the obligation to construct the school and maintain it in a minimum acceptable condition and to procure and maintain the plant and equipment needed to operate the school.

The buildings and any plant and equipment installed in them at the end of the contract will be transferred to Shetland Islands Council for nil consideration. The Council only has rights to terminate the contract if it compensates the contractor in full for costs incurred and future profits that would have been generated over the remaining term of the contract.

Property, Plant and Equipment

The assets used to provide services at the school are recognised on the Council's Balance Sheet. Movements in their value over the year are detailed in Note 13: Property, Plant and Equipment.

Payments

The Council makes an agreed payment each year, which is adjusted each year by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year, but which is otherwise fixed. Payments remaining to be made under the contract at 31 March 2019 (excluding any estimation of inflation and availability / performance deductions) are as follows:

	Payment for Services £000	Reimbursement of Capital £000	Interest £000	Contingent Rent	Total £000
Payable in 2019/20	258	1,223	2,235	60	**3,776**
Payable within 2 to 5 years	1,340	5,352	8,285	327	**15,304**
Payable within 6 to 10 years	3,222	7,335	8,740	307	**19,604**
Payable within 11 to 15 years	3,563	9,529	6,594	480	**20,166**
Payable within 16 to 20 years	6,101	10,976	3,971	(227)	**20,821**
Payable within 21 to 25 years	3,571	9,906	915	348	**14,740**
Total	**18,055**	**44,321**	**30,740**	**1,295**	**94,411**

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable while the capital expenditure remains to be reimbursed.

The liability outstanding to be paid to the contractor for capital expenditure incurred is as follows:

	2017/18 £000	2018/19 £000
Opening balance	**0**	**45,486**
Addition - asset brought into use	46,000	0
Capital payments incurred in the year	(514)	(1,165)
Closing balance	**45,486**	**44,321**

Note 18: Financial Instruments

Categories of Financial Instruments

Following the introduction of IFRS9 on 1 April 2018, where Financial Instruments are to be reclassified according to the business model to which they relate, the Available for Sale Financial Instruments category has been reclassified as Fair Value through Profit and Loss.

The following categories of financial instrument are carried in the Balance Sheet:

Financial Assets	Investments				Debtors				
	As at 31 March 2018		As at 31 March 2019		As at 31 March 2018		As at 31 March 2019		As at 31 March 2019
	Long-Term £000	Current £000	Long-Term £000	Current £000	Long-Term £000	Current £000	Long-Term £000	Current £000	Total £000
Fair value through profit or loss	0	0	357,778	0	0	0	0	0	357,778
Amortised cost	345,392	0	0	0	1,867	438	1,665	319	1,984
Total Financial Assets	**345,392**	**0**	**357,778**	**0**	**1,867**	**438**	**1,665**	**319**	**359,762**

Financial Liabilities	Borrowings				Creditors				
	As at 31 March 2018		As at 31 March 2019		As at 31 March 2018		As at 31 March 2019		As at 31 March 2019
	Long-Term £000	Current £000	Long-Term £000	Current £000	Long-Term £000	Current £000	Long-Term £000	Current £000	Total £000
Amortised cost	(85,523)	(1,694)	(92,262)	(1,768)	(5,702)	(105)	(5,590)	(112)	(55,411)
Total Financial	**(85,523)**	**(1,694)**	**(92,262)**	**(1,768)**	**(5,702)**	**(105)**	**(5,590)**	**(112)**	**(55,411)**

Fair Values of Assets and Liabilities

Financial liabilities and assets represented by loans, receivables and long-term debtors and creditors are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cashflows that will take place over the remaining term of the instruments.

In terms of the fair value measurement hierarchy, financial instruments measured at fair value are considered to be Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date.

The Fair Value calculations have been made using the following assumptions and are shown in the table below:

- no early repayment or impairment is recognised;
- where an instrument will mature in the next 12 months, the carrying amount is assumed to approximate to fair value; and

- the fair value of trade and other receivables is taken to be the invoiced or billed amount.

As at 31 March 2018			As at 31 March 2019	
Carrying Amount £000	Fair Value £000		Carrying Amount £000	Fair Value £000
2,305	2,310	Loans and receivables	1,984	1,984
(93,024)	(106,059)	Financial liabilities at amortised cost	(99,732)	(103,875)

Available for Sale assets and assets and liabilities at fair value through profit or loss are carried in the Balance Sheet at their fair value. These fair values are considered to be Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Market conditions are such that similar assets are actively sold and the level of observable inputs are significant, leading to this classification. Short-term debtors and creditors are carried at cost as this is a fair approximation of their value.

Income, Expense, Gains and Losses

	2017/18 Surplus or Deficit on the Provision of Services £000	2018/19 Surplus or Deficit on the Provision of Services £000
Net gains/losses on:		
Financial assets measured at fair value through profit or loss	(17,618)	(20,047)
Total net gains/losses	**(17,618)**	**(20,047)**
Interest revenue:		
Financial assets measured at amortised cost	(5,704)	(6,765)
Total interest revenue	**(5,704)**	**(6,765)**
Interest expense	3,054	4,458
Total interest expense	**3,054**	**4,458**
Fee income:		
Financial assets or financial liabilities that are not at fair value through profit or loss	(195)	(71)
Total interest revenue	**(195)**	**(71)**
Fee expense:		
Financial assets at fair value through profit or loss - Fee Expense	861	893
Financial assets measured at amortised cost	153	127
Total interest revenue	**1,014**	**1,020**

There were gains for available-for-sale financial assets on revaluation of £17m as at 31 March 2019 (£57.6m at 31 March 2018) and no other indicators of impairment have been identified.

Note 19: Nature and Extent of Risks arising from Financial Instruments

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

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

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

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. This risk is minimised through the Annual Investment and Treasury Strategy, which is available on the Council's website at http://www.shetland.gov.uk/about_finances/. The Council's credit risk management practices are set out on page 8 of the Annual Investment and Treasury Strategy.

Credit Risk Management Practices

The Council has a policy of lending to local businesses to maximise the benefit to the Shetland economy. Lending assists in sustainable economic growth with good employment opportunities, making Shetland a good place to live and work. In pursuing this policy, the Shetland Investment Fund was established on 18 April 2016 to provide a sustainable lending service of up to £15.0m.

As at 31 March 2019, £1.6m of this balance was loaned to local businesses, leaving £13.4m available for future lending.

As at 31 March 2018 £000	Shetland Investment Fund	As at 31 March 2019 £000
439	Less than 1 year	319
883	2-5 years	793
591	6-10 years	471
54	Over 10 years	0
1,967	**Total**	**1,583**

The majority of Shetland Investment Fund lending is secured against assets, minimising the risk of default. The Council has determined that the credit risk of these financial instruments has not increased since initial recognition. These financial assets present a low credit risk and therefore no impairment has been recognised for 2018/19.

Trade Receivables. A simplified approach as per IFRS 9 has been used to determine the impairment loss based on lifetime expected credit losses. A provision matrix has been used to calculate the impairment based on the number of days the receivable is past due, assessed on the basis of historical experience adjusted to reflect current conditions and forecasts of future conditions.

Amounts Arising from Expected Credit Losses

The changes in the loss allowance for Trade Receivables during the year are as follows:

Lifetime expected credit losses - simplified approach	£000
Opening Balance at 1 April 2018	**(126)**
Individual financial assets transferred to lifetime expected credit losses credit impaired	(214)
Amounts written off	70
Financial assets that have been derecognised	0
Closing Balance at 31 March 2019	**(270)**

Comparative year information for 2017/18 has not been provided. This is due to a change in impairment loss allowance measurement from 1 April 2018 as a result of the introduction of IFRS9.

Liquidity Risk

The Council has external investments with Fund Managers amounting to £341m at 31 March 2019. The Council has ready access to these funds to ensure that cash is available as needed, so there is no significant risk that it will be unable to meet its commitments under financial instruments. Instead, the risk is that the Council will be bound to sell external investments at a time of unfavourable market conditions.

The Council has ready access to borrowings from the money markets and the Public Works Loan Board. At 31 March 2019 the Council had fixed rate borrowings amounting to £49m from the Public Works Loan Board. The balance of £0.2m external borrowing is 0% finance for energy efficiency improvement projects.

The maturity analysis of the sums borrowed is as follows:

As at 31 March 2018 £000	Borrowing	As at 31 March 2019 £000
11,229	Less than 10 years	11,202
18,000	10-20 years	26,000
7,000	20-30 years	7,000
5,000	Over 40 years	5,000
41,229	**Total**	**49,202**

Market Risk

Interest Rate Risk

The Council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments.

The Council's investment strategy aims to manage interest rate risk within the Council's investments by having various investment portfolios managed by external Fund Managers.

The investment portfolios are also separated into different asset classes to minimise the overall exposure to interest rate movements. The entire investment portfolio is held in unitised funds which increases diversification.

As at 31 March 2019 the composition of these funds was diversified between the following asset classes:

- UK Equities
- Overseas Equities
- Diversified Growth Fund
- Emerging Market Equities
- UK Index Linked Gilts
- UK Corporate Bonds
- Other Bonds
- Cash

Not all of the General Fund reserves are held in a way that can be quickly converted to cash. There is no short-term risk associated with how the money is held but if the Council has a need to make a significant and unplanned draw on reserves, it may need to borrow to secure the cash required. This issue will be addressed in detail in the financial planning process.

The largest investment exposure is to Global Equities, and a risk assessment of a general shift of +/-1% in Global Equities would have resulted in a gain or loss in the region of £1.4m for 2018/19. This sensitivity was compiled using figures from Fund Managers' quarterly figures, consistent with Note 18: Financial Instruments.

At 31 March 2019, the Council had external fixed rate borrowing amounting to £49.2m and no variable rate borrowing. Borrowings are not valued at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure.

The Treasury Section actively assesses interest rate exposure to determine the impact on the Council's financial reserves strategy and medium to longer-term financial strategy, which in turn informs the annual budget setting process. The Council uses the services of Link Asset Services to advise on any borrowing requirements, including associated interest rate risks.

Price Risk

The Council had £341m of investments as at 31 March 2019 in the form of equity, bonds, diversified growth fund, and cash held within unitised products. The Council is consequently exposed to losses arising from movement in the price of these investment categories.

The Council's investment strategy reduces its exposure to price movements by diversifying its investment portfolio through the use of external Fund Managers, asset classes, investment guidelines and benchmarks.

The Council's external investments are all classified as 'available for sale' meaning that all movements in price will impact on gains and losses recognised in the CIES. A general shift of 5% in the general price of shares (positive or negative) would have resulted in a £11.2m gain or loss being recognised in the CIES for 2018/19.

Foreign Exchange Risk

The Council has £168m invested in overseas equities held within unitised products which are denominated in foreign currencies. The exposure to risk of loss in adverse movements in exchange rates is greatly reduced through the use of currency hedging strategies to specifically negate any currency movement impact.

Note 20: Cash and Cash Equivalents

The balance of cash and cash equivalents is made up of the following elements:

As at 31 March 2018 £000		As at 31 March 2019 £000
54	Cash held by the Council	55
3,948	Bank current accounts	7,698
4,002	**Total**	**7,753**

Note 21: Assets Held for Sale

2017/18 £000		2018/19 £000
1,355	**Opening balance**	**557**
	Assets newly classified as held for sale:	
428	Property, plant and equipment	90
	Assets declassified as held for sale:	
(10)	Property, plant and equipment	(78)
(1,216)	**Assets sold**	(364)
557	**Closing balance**	**205**

Note 22: Short-term Debtors

As at 31 March 2018 £000		As at 31 March 2019 £000
3,366	Central Government Bodies	4,595
2,403	Other Local Authorities	348
590	NHS Bodies	153
1,176	Public Corporations and Trading Funds	1,013
9,341	Other Entities and Individuals	9,720
16,876	**Total**	**15,829**

Movements in impairment allowance

The Council has made an allowance for expected credit loss on its General Fund and Housing Revenue Account. Debtor figures in the Balance Sheet are shown net of this allowance and the movement is shown in Note 19: Nature and Extent of Risks arising from Financial Instruments on page 66.

Note 23: Long-term Debtors

As at 31 March 2018 £000		As at 31 March 2019 £000
343	Sub Debt Investment	402
1,524	Development loans	1,263
44	Other long-term debtors	66
1,911	**Total**	**1,731**

Note 24: Short-term Creditors

As at 31 March 2018 £000		As at 31 March 2019 £000
(4,708)	Central Government Bodies	(4,459)
(2,254)	Other Local Authorities	(397)
(238)	NHS Bodies	(225)
(781)	Public Corporations and Trading Funds	(803)
(10,639)	Other Entities and Individuals	(14,523)
(18,620)	**Total**	**(20,407)**

Note 25: Inventories

	Ports & Harbours		Infrastructure		ICT Equipment		Total	
	2018/19 £000	2017/18 £000	2018/19 £000	2017/18 £000	2018/19 £000	2017/18 £000	2018/19 £000	2017/18 £000
Balance at 1 April	**2,979**	**2,870**	**1,490**	**1,399**	**235**	**242**	**4,704**	**4,511**
Purchases	846	894	2,743	2,618	300	186	3,889	3,698
Recognised as an expense in the year	(701)	(785)	(2,588)	(2,526)	(275)	(193)	(3,564)	(3,504)
Balances written off	0	0	(31)	(1)	0	0	(31)	(1)
Balance at 31 March	**3,124**	**2,979**	**1,614**	**1,490**	**260**	**235**	**4,998**	**4,704**

Inventories include consumable stores, maintenance materials, building services (work-in-progress, property acquired or constructed for sale) and items of ICT equipment.

Note 26: Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that will probably require settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

There are two classes of provision – short and long term. The Council recognises one long-term provision for asset decommissioning costs:

Long-term Provisions	Decommis-sioning £000
Balance at 1 April 2018	**(579)**
Unused amounts reversed in 2018/19	257
Unwinding of discounting in 2018/19	(24)
Transfer to Short-term Provisions	143
Balance at 31 March 2019	**(203)**

Provisions for asset decommissioning costs reflect the Council’s liability for restoration and ongoing maintenance in respect of the landfill site operated by the Council. These have been provided for based on the net present value of estimated future costs, which is expected to be incurred between 2019 and 2025.

The short-term element of this liability is estimated at £0.3m, which represents the expected payment due in 2019/20. Total estimated costs are adjusted in the year when events indicating a change become known.

The Council's short-term provisions are:

Short-term Provisions	Decommiss-ioning £000	Pension Cessation £000	Carbon Reduction Commitment £000	Symbister Peerie Dock £000	Other Provisions £000	Total £000
Balance at 1 April 2018	**(786)**	**0**	**(119)**	**(75)**	**(398)**	**(1,378)**
Additional provisions made in 2018/19	0	(3,271)	(81)	0	(8)	(3,360)
Amounts used in 2018/19	7	0	116	0	358	481
Unused amounts reversed in 2018/19	608	0	0	0	23	631
Transfer from Long-term Provisions	(143)	0	0	0	0	(143)
Balance at 31 March 2019	**(314)**	**(3,271)**	**(84)**	**(75)**	**(25)**	**(3,769)**

Following a review of the Tertiary sector, the Council is to meet the one-off pension cessation costs of the North Atlantic Fisheries College. This is expected to happen in 2019/20. An actuarial estimate of this liability at 31 March 2019 is the basis for the short-term provision of £3.3m.

The Council participates in the Carbon Reduction Commitment Energy Efficiency Scheme where it is required to purchase and surrender allowances, currently retrospectively, on the basis of carbon emissions. As carbon dioxide is emitted (i.e. as energy is used), a liability is recognised and then discharged by surrendering allowances. A provision of £0.1m is recognised, calculated on the basis of the current market price of allowances needed to meet the Council's liability at 31 March 2019.

A provision of £0.1m is recognised in relation to a grant payment for works at the Symbister Peerie Dock. The grant will only be paid out if certain conditions are met. The deadline for the drawdown of the grant is March 2020.

Other provisions include amounts provided for outstanding legal cases and financial guarantees. The estimates are based on information available as at 31 March 2019. The Council is required to respond to legal claims raised against it. The potential liabilities that arise from this consist of an estimate of legal fees and an estimate of the settlement of any actions. A number of financial guarantees transferred to the Council as part of the wind-up of the Shetland Development Trust. The likelihood of these guarantees being called have been assessed and a provision recognised

Note 27: Leases

The Council as a Lessee

Finance Leases

The Council acquired its office headquarters and a music, cinema and creative industries centre under finance leases. The assets acquired under these leases are carried as property, plant and equipment in the Balance Sheet at the following net amounts:

As at 31 March 2018 £000		As at 31 March 2019 £000
7,102	Property, plant and equipment	5,327
7,102		**5,327**

The Council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired and finance costs that will be payable by the Council in future years while the liability remains outstanding.

The present value of minimum lease payments is made up of the following amounts:

As at 31 March 2018 £000		As at 31 March 2019 £000
(75)	Current	(75)
(1,516)	Non-current	(1,441)
(2,221)	Finance costs payable in future years	(1,961)
(3,812)		**(3,477)**

The present value of minimum lease payments is payable over the following periods:

	Minimum Lease Payments		Finance Lease Liabilities	
	As at 31 March 2018 £000	As at 31 March 2019 £000	As at 31 March 2018 £000	As at 31 March 2019 £000
Not later than one year	(337)	(314)	(75)	(75)
Later than one year and not later than five years	(1,117)	(1,037)	(300)	(300)
Later than five years	(2,358)	(2,126)	(1,216)	(1,141)
	(3,812)	**(3,477)**	**(1,591)**	**(1,516)**

Operating Leases

The Council leases a number of buildings and areas of land in Shetland. The largest is at Sullom Voe Oil Terminal where the Council leases land from Shetland Charitable Trust for £0.9m per year and sub-leases it to Enquest for the same amount. This lease arrangement is due to run until 2025.

The minimum lease payments due under non-cancellable leases in future years are:

As at 31 March 2018 £000		As at 31 March 2019 £000
3,097	Not later than one year	2,121
6,840	Later than one year and not later than five years	6,208
5,627	Later than five years	4,430
15,564	**Total**	**12,759**

The expenditure charged to the CIES during the year in relation to these leases was:

As at 31 March 2018 £000		As at 31 March 2019 £000
2,310	Minimum lease payments	2,820
(1,033)	Sub-lease payments receivable	(881)
1,277	**Total**	**1,939**

The Council as a Lessor

Operating Leases

The Council rents out property and equipment under operating leases for the following purposes:

- for the provision of community services, such as culture and arts, sports facilities, tourism services and community centres; and
- for economic development purposes to provide suitable affordable accommodation for local businesses.

The minimum sub-lease payments expected to be received in future years are:

As at 31 March 2018 £000		As at 31 March 2019 £000
(1,001)	Not later than one year	(821)
(4,709)	Later than one year and not later than five years	(4,071)
(2,404)	Later than five years	(462)
(8,114)	**Total**	**(5,354)**

The total value of rental income, excluding sub-leases, recognised in 2018/19 was £1.8m (£1.4m in 2017/18).

The future minimum lease payments receivable under non-cancellable leases in future years are:

As at 31 March 2018 £000		As at 31 March 2019 £000
(904)	Not later than one year	(1,799)
(4,197)	Later than one year and not later than five years	(7,433)
(12,127)	Later than five years	(19,657)
(17,228)	**Total**	**(28,889)**

Note 28: Defined Benefit Pension Schemes

Participation in Pension Schemes

As part of the terms and conditions of employment of its employees, the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments and that needs to be disclosed at the time that employees earn their future entitlement.

The Council participates in the Local Government Pension Scheme, administered locally by Shetland Islands Council. It is a funded defined benefit scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets. From April 2015 the pensions accrual rate guarantees a pension based on 1/49th of pensionable pay. Prior to April 2015 the pension accrual rate guaranteed a pension based on 1/60th of final pensionable salary and years of pensionable service. Prior to 2009, the accrual rate guaranteed a pension based on 1/80th and a lump sum based on 3/80th of final pensionable salary and years of pensionable service.

There is no automatic entitlement to a lump sum in respect of post-2009 service. Members may however opt to give up (commute) up to 25% of their pension for a lump sum per the Finance Act 2004. The Scheme's Normal Retirement Age is now linked to the member's State Pension Age (the minimum age being 65). Pensions are increased annually in line with changes to the Pensions (Increases) Act 1971 and Section 59 of the Social Security Pensions Act 1975.

Arrangements for the award of discretionary post-retirement benefits upon early retirement is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made but there are no investment assets built up to meet these pensions liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due.

Shetland Islands Council Pension Fund is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the Scheme is the responsibility of the Pension Fund Committee and Pension Board. The Pension Fund Committee has delegated authority to discharge all functions and responsibilities relating to the Council's role as administrating authority for the Shetland Islands Council Pension Fund.

The Pension Fund Committee is made up of the councillors who currently sit on the Policy & Resources Committee.

The Pension Board comprises elected members of Shetland Islands Council along with employee and employer representatives and a pension / deferred member representative.

Policy is determined in accordance with the Pension Fund Regulations. Management of the Fund's investments is carried out by the Council which receives recommendations from the Pension Fund Committee and Pension Board. The Council selects and appoints a number of external investment managers / partners and monitors their investment performance.

Under the regulations, employers fall into three categories: scheme employers (also known as scheduled bodies), community admission bodies and transferee admission bodies. Admission agreements are generally assumed to be open-ended; however, either party can voluntarily terminate the admission agreement by giving an appropriate period of notice to the other parties. Any deficit arising from the cessation valuation will usually be levied on the departing admission body as a capital payment.

The principal risks to the Council of the Scheme are the longevity assumptions, statutory changes to the Scheme, structural changes or curtailments to the Scheme (i.e. large-scale withdrawals from the Scheme, including employers ceasing to participate in the Scheme), changes to inflation, bond yields, and the performance of the equity investments held by the Scheme.

These are mitigated to a certain extent by the statutory requirements to charge to the General Fund and Housing Revenue Account the amounts required by statute as described in the Note 41: Accounting Policies on page 81.

Transactions Relating to Post-Employment Benefits

The Council recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. The charge required to be made in the CIES, however, is based on the cash payable in the year, so the real cost of post-employment / retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement.

The following transactions have been made in the CIES and the General Fund via the Movement in Reserves Statement during the year:

2017/18 £000	Local Government Pension Scheme	2018/19 £000
	Comprehensive Income and Expenditure Statement (CIES)	
	Cost of Services	
20,157	Current service cost	21,882
215	Past service cost (including curtailments)	273
	Financing and Investment Income and Expenditure:	
6,066	Net interest expense	4,573
26,438	**Total pension benefit charged to the Surplus/Deficit on the Provision of Services**	**26,728**
	Other pension benefit charged to the CIES	
13,741	Return on plan assets (excluding the amount included in the net interest expense)	21,780
1,200	Actuarial (gains) and losses arising from changes in demographic assumptions	0
(43,830)	Actuarial (gains) and losses arising on changes in financial assumptions	(50,093)
(49,314)	Actuarial (gains) and losses arising from other experience	(662)
(51,765)	**Total pension benefit charged to the CIES**	**(2,247)**
	Movement in Reserves Statement	
(26,438)	Reversal of net charges made to the Surplus or Deficit for the Provision of Services for pension benefits in accordance with the Code	(26,728)
12,739	Employer's contributions and direct payments to pensioners payable in the year	13,490

The amount included in the Balance Sheet arising from the Council's obligation in respect of the Pension Fund is as follows:

2017/18 £000		2018/19 £000
(570,338)	Present value of the defined benefit obligation	(649,079)
405,167	Fair value of assets in the Local Government Pension Scheme	441,695
(165,171)	**Net liability arising from Defined Benefit Obligation**	**(207,384)**
(133,233)	Local Government Pension Scheme	(174,495)
(14,998)	Unfunded liabilities for Pension Fund	(15,654)
(16,940)	Unfunded liabilities for Teachers	(17,235)
(165,171)	**Total**	**(207,384)**

Assets and Liabilities in relation to Post-Employment Benefits

Reconciliation of fair value of the Scheme assets:

2017/18 £000		2018/19 £000
406,114	**Opening balance**	**405,167**
10,580	Interest income	10,982
	Re-measurement gains and (losses):	
(13,741)	Return on assets excluding amounts included in net interest	21,780
12,739	Employer contributions	13,490
3,310	Contributions by scheme participants	3,453
(13,835)	Benefits paid	(13,177)
405,167	**Closing balance**	**441,695**

Reconciliation of present value of the Scheme liabilities (defined benefit obligation):

2017/18 £000		2018/19 £000
635,789	**Opening balance**	**570,338**
20,157	Current service cost	21,882
16,646	Interest cost	15,555
3,310	Contributions by scheme participants	3,453
	Remeasurement (gains) and losses:	
1,200	Actuarial (gains) and losses from changes in demographic assumptions	0
(43,830)	Actuarial (gains) and losses from changes in financial assumptions	50,093
(49,314)	Actuarial (gains) and losses from other experience	662
(13,835)	Benefits paid	(13,177)
215	Past service costs including curtailments	273
570,338	**Closing balance**	**649,079**

Analysis of Pension Fund Assets

Shetland Islands Council's share of the Pension Fund assets at 31 March 2019 comprised:

2017/18 £000	Quoted Prices not in Active Markets	2018/19 £000
2,021	**Cash and cash equivalents**	**3,634**
	Property:	
47,120	UK property	50,781
440	Overseas property	325
47,560	**Sub-total Property**	**51,106**
	Investment Funds and Unit Trusts:	
254,562	Equities	279,641
34,563	Bonds	35,383
66,461	Other	71,932
355,586	**Sub-total Investment Funds and Unit Trusts**	**386,956**
405,167	**Total Assets**	**441,696**

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method which is an estimate of the pensions that will be payable in future years, dependent on assumptions about mortality rates, salary levels, etc. Hymans Robertson LLP, an independent firm of actuaries, has assessed both the Local Government Pension Scheme and Discretionary Benefits liabilities.

Estimates for the Shetland Islands Council's Pension Fund are based on the latest full valuation of the Scheme as at 31 March 2018, projected forward to 31 March 2019.

Shetland Islands Council does not have an asset and liability matching strategy.

The principal assumptions used by the actuary have been:

2017/18		2018/19
	Long-term expected rate of return on assets in the Scheme:	
2.6%	Investment Funds and Unit Trusts	2.5%
	Mortality Assumptions:	
	Longevity at 65 for current pensioners (in years):	
22.1	Men	22.1
24.0	Women	24.0
	Longevity at 65 for future pensioners (in years):	
23.9	Men	23.9
26.1	Women	26.1
3.4%	Rate of inflation	3.5%
3.0%	Rate of increase in salaries	3.1%
2.4%	Rate of increase in pensions	2.5%
2.7%	Rate for discounting scheme liabilities	2.4%
50.0%	Take-up of option to convert annual pension into retirement lump sum (Pre-April 2009)	50.0%
75.0%	Take-up of option to convert annual pension into retirement lump sum (Post-April 2009)	75.0%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the financial year and assumes for each change that the assumption analysed changes, while all the other assumptions remain constant. The principal demographic assumption is the longevity assumption (i.e. member life expectancy).

For sensitivity purposes, it is estimated that a one-year increase in life expectancy would approximately increase the Employer's Defined Benefit Obligation by around 3-5%. In practice the actual cost of a one-year increase in life expectancy will depend on the structure of the revised assumption (i.e. if improvements to survival rates predominantly apply at younger or older ages). Please note the figures in the table below have been derived based on the membership profile of the employer as at the date of the most recent actuarial valuation. The estimations in the sensitivity analysis have followed the accounting policies for the Scheme, i.e. on an actuarial basis using the projected unit credit method.

Impact of changes in assumptions	2018/19	
	%	£000
0.5% decrease in real discount rate	11%	70,059
0.5% increase in the salary increase rate	2%	12,257
0.5% increase in the pension increase rate	9%	56,440

Impact on the Council's Cashflows

The objectives of the Scheme are to keep employers' contributions at as constant a rate as possible. The Fund has agreed a strategy with the Scheme's actuary to achieve a funding level of 100% in the longer term. The Scheme is a multi-employer defined benefit plan and employers' contributions have been determined so that employee and employer rates are standard across all participating local authorities.

The most recent actuarial valuation carried out under Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2014 was as at 31 March 2017. This valuation revealed that the Fund's assets, which at 31 March 2017 were valued at £450m, were sufficient to meet 90% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2017 valuation was £51m.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability as per the Funding Strategy Statement (FSS). Asset-liability modelling has been carried out which demonstrates that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is at least a 66% chance that the Fund will return to full funding over 14 years.

The employers' common contribution rate was set at 20.8% for 2018/19. Rates for the next two years, set out in the latest triennial valuation as at 31 March 2017, are as follows:

Year	Employer contributions
2019/20	20.80%
2020/21	20.80%

The total contributions expected to be made by the Council to the Pension Fund in the year to 31 March 2020 are £11.7m.

The weighted average duration of the defined benefit obligation for Scheme members is 20.6 years for 2018/19.

Note 29: Pension Schemes Accounted for as Defined Contribution Schemes

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by the Scottish Public Pensions Agency (SPPA). The Scheme provides teachers with specified benefits upon their retirement and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The Scheme is a multi-employer defined benefit scheme. The Scheme is unfunded and the SPPA uses a notional fund as the basis for calculating the employer's contribution rate paid by local authorities.

Valuations of the notional fund are undertaken every four years. The Scheme has in excess of 160 participating employers and consequently, the Council is not able to identify its share of the underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of these annual accounts it is therefore accounted for on the same basis as a defined contribution scheme.

As a proportion of the total contributions into the Teachers' Pension Scheme, the Council's own contributions equated to approximately 0.6% in 2018/19 (0.6% for 2017/18).

In 2018/19, the Council paid £2.7m to the SPPA in respect of teachers' pension costs, representing 17.2% of pensionable pay (£2.6m and 17.2% for 2017/18). There were no contributions remaining payable at the year-end. The estimated contribution for 2019/20 is £3.7m.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the Teachers' Pension Scheme. In 2018/19 these amounted to £0.9m, representing 5.8% of teachers' pensionable pay (£0.9m and 5.7% for 2017/18). These costs are accounted for on a defined benefit basis. The Council is not liable to the Scheme for any other entities' obligation.

Note 30: External Audit Costs

The Council has incurred the following costs in respect of external audit services provided in accordance with the Code:

2017/18 £000		2018/19 £000
212	Fees payable with regard to external audit services carried out by the appointed auditor for the year	231
212	**Total**	**231**

Note 31: Cash Flow Statement – Operating Activities

Cashflows for operating activities include the following:

2017/18 £000		2018/19 £000
(2,437)	Interest received	(2,262)
4,068	Interest paid	5,481
(3,456)	Dividends received	(4,585)
(1,825)	**Total**	**(1,366)**

The Surplus or Deficit on the Provision of Services has been adjusted for these non-cash movements:

2017/18 £000		2018/19 £000
(24,100)	Depreciation, impairment and revaluations	(18,594)
(1,355)	Amortisation	(1,514)
16	Decrease in impairment for bad debts	(190)
(2,792)	Increase in creditors	(1,489)
2,711	Increase in debtors	(945)
193	Decrease in inventories	294
(13,699)	Movement in pension liability	(13,237)
(5,429)	Carrying amount of non-current assets sold or de-recognised	(5,642)
(8,431)	Other non-cash items charged to the net surplus or deficit on the provision of services	106,269
(52,886)	**Total**	**64,952**

The Surplus or Deficit on the Provision of Services has been adjusted for the following items that are investing and financing activities:

2017/18 £000		2018/19 £000
2,079	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	783
7,659	Any other items for which the cash effects are investing or financing cash flows	5,642
9,738	**Total**	**6,425**

Note 32: Cash Flow Statement – Investing Activities

2017/18 £000		2018/19 £000
27,775	Purchase of property, plant and equipment, investment property and intangible assets	23,156
11,608	Purchase of short-term and long-term investments	12,546
(2,079)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(783)
(2,557)	Proceeds from short-term and long-term investments	(547)
(7,659)	Other receipts from investing activities	(5,642)
27,088	**Total**	**28,730**

Note 33: Cash Flow Statement – Financing Activities

2017/18 £000		2018/19 £000
(10,155)	Cash receipts of short and long-term borrowing	(7,999)
613	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	1,270
18	Repayments of short and long-term borrowing	28
(9,524)	**Total**	**(6,701)**

Note 34: Related Parties

The Council is required to disclose material transactions with related parties, bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently, or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central Government and Other Public Bodies

Central Government has effective control over the general operations of the Council; it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. Council Tax, housing benefits). Details of all grants received from Central Government and other public bodies can be found on page 53.

Members

Elected Members of the Council have direct control over the Council's financial and operating policies. The Council holds a Register of Members' Interests, which is open to public inspection at the Office Headquarters, 8 North Ness, Lerwick, during office hours. It is also available to view on the Council's website by inspecting each individual Member at https://www.shetland.gov.uk/coins/allMembers.asp?sort=0. The Register details the bodies where Members are represented or for which they have declared an interest. The Council made payments totalling £2.9m in 2018/19 (£6.0m in 2017/18) to these bodies.

Officers

At the end of the financial year all senior managers were required to disclose any involvement with related parties of the Council. On 23rd October 2018 the Council acquired 100% interest in SLAP for £17.3m. Two Council Officers were appointed as the Directors of SLAP, and one as the Company Secretary. The Council continues to lease property from SLAP.

Local Government Pension Scheme

The Local Government Pension Scheme is administered locally by Shetland Islands Council for the benefit of employees. The Council has made payments to the Local Government Pension Scheme as detailed in Note 28: Defined Benefit Pension Schemes.

Group Entities

On 23rd October 2018 the Council acquired 100% interest in SLAP. The Council is the principle shareholder in the company holding all ordinary shares, representing 100% of the issued share capital. Under accounting standards, the Council has the controlling interest in this company, and therefore falls under the criteria of a subsidiary as at 31 March 2019. The entity has been consolidated into the Group Statements.

The Integration Joint Board (IJB) is responsible for the strategic planning of the functions delegated to it by the Council and the Shetland Health Board; it is a Joint Venture between the two bodies.

Zetland Transport Partnership is a Regional Transport Partnership set up to deliver transport services for Shetland. It is an associate of the Council and is deficit funded by them.

The Orkney and Shetland Valuation Joint Board provides the valuation service for Orkney and Shetland and is funded by both Councils.

For details of members' influence on these entities and the transactions between them and the Council, please refer to the Group Accounts.

Note 35: Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the following table, together with the resources that have been used to finance it.

Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed.

2017/18 £000		2018/19 £000
33,702	**Opening Capital Financing Requirement**	**92,993**
	Capital investment:	
73,761	Property, plant and equipment	23,085
14	Intangible assets	71
0	Revenue Expenditure Funded from Capital	0
	Sources of finance:	
(3,300)	Capital receipts	(1,403)
(7,659)	Government grants and other contributions	(6,388)
(103)	Funding from reserves	(2,959)
	Sums set aside from revenue:	
(1,528)	Direct revenue contributions	(3,637)
(99)	Lease principal	(1,901)
(514)	PFI contract principal repayments	(105)
(1,281)	Loans fund principal	(1,165)
92,993	**Closing Capital Financing Requirement**	**98,591**
	Explanation of movements in year:	
13,899	Increase/(decrease) in underlying need to borrow	6,942
(99)	Assets acquired under finance leases	(105)
45,487	Assets acquired under PFI contracts	(1,165)
4	Assets acquired under Decommissioning Obligations	(73)
59,291	**Increase/(Decrease) in Capital Financing Requirement**	**5,599**

Note 36: Contingent Liabilities

Shetland Islands Council has one outstanding claim under the Equal Pay Act 1970 for past pay inequalities. It is not yet possible to provide any financial quantification at this stage, however, no material loss is anticipated.

There are a number of current legal claims against the Council that are being contested. Any potential financial liability cannot be assessed until these cases are finalised.

There are a number of admitted bodies within Shetland Islands Council Pension Fund. One body has defaulted on their obligations, the shortfall will likely have to be met by the Council over time and through an adjustment to employer contribution rates.

There is still uncertainty over the impact of the McCloud judgement which came about after two employment tribunal cases were brought against the government in relation to the reformed 2015 public service pension schemes. In the unfunded schemes, transitional protection enabled some members to remain in the pre-2015 schemes after 1 April 2015 until retirement or the end of a pre-determined tapered protection period. The Court of Appeal ruled that the transitional protections gave rise to unlawful discrimination. The legal process is ongoing with the Government currently seeking permission to appeal the rulling of the Court of Appeal. It is therefore not possible to quantify at this stage the impact that this may have.

Note 37: Contingent Assets

The Scottish Government is committed to re-distributing to relevant local authorities 100% of the net income generated by Crown Estate assets within 12 months. It is not yet possible to provide an estimate of the amount receivable.

The Share Purchase Agreement for the purchase of SLAP provided that the value paid by the Council is trued up to the value of net assets at completion. There is uncertainty over the right to seek any adjustment to the purchase price in the Council's favour due to a legal dispute.

Note 38: Trust Funds administered by the Council

The Council administers, as sole trustee, five trust funds related to specific services. These are varied in nature and relate principally to legacies left by individuals over many years. Funds are held in deposit accounts with local banks and in bond and equity investments. The bond and equity investments are valued at market value. The funds do not represent assets of the Council and are not included in the Balance Sheet.

The Bare Trust was set up following the cessation of the Shetland Development Trust to hold a number of loans and equity investments, which were not considered cost effective to transfer to the Council. All assets and income arising from the Bare Trust are paid or delivered to the Council. The Council, as Trustee, has full management powers as if they were absolute owners and not trustees. As at 31 March 2019, the remaining assets held by the Brae Trust are equity investments.

The Zetland Educational Trust (ZET), pays bursaries to university students, aids apprentices and supports educational trips. In 2018/19, the ZET received receipts of £0.030m and made payments of £0.024m.

The other trusts are essentially dormant due to their low annual income.

As at 31 March 2018 £000		Deposit accounts £000	Bond £000	Equity £000	As at 31 March 2019 £000
(668)	Bare Trust	0	0	(567)	(567)
(673)	Zetland Educational Trust	(19)	(657)	0	(676)
(3)	Others	(3)	0	0	(3)
(1,344)	**Total**	**(22)**	**(657)**	**(567)**	**(1,246)**

Note 39: Events after the Balance Sheet Date

The annual accounts were authorised for issue on 26 June 2019. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2019, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

Note 40: Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 41, the Council has had to make certain judgments about complex transactions or those involving uncertainty about future events. The critical judgments made in the Annual Accounts are:

- There are a number of legal claims currently outstanding against the Council. Where a reliable estimate can be made, these have been included as provisions within the Council's Balance Sheet. Where it has not been possible to establish a reliable estimate, the claims have been accounted for as contingent liabilities.
- There is a high degree of uncertainty about future levels of funding for local government. The Council has determined, however, that this uncertainty is not yet sufficient to provide an indication that its assets may be impaired as a result of (for example) reduced maintenance.

Note 41: Accounting Policies

A General Principles

The accounts summarise the Council's transactions for the 2018/19 financial year and its position at the year-end of 31 March 2019. The Council is required to prepare an annual Statement of Accounts by the Local Authority Accounts (Scotland) Regulations 2014, which Section 12 of the Local Government in Scotland Act 2003 requires to be prepared in accordance with proper accounting practices.

These practices, under Section 21 of the 2003 Act, primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the 2003 Act.

The accounting convention adopted in the accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments, which are consequently measured at fair value. The accounts have been prepared on a going concern basis.

B Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are made only when required by proper accounting practices, or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance.

Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

C Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract;
- supplies are recorded as expenditure when they are consumed, but where there is a gap between the date supplies are received and their consumption they are carried as inventories on the Balance Sheet;
- expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made;
- interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cashflows fixed or determined by the contract; and
- where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to the CIES for the income that might not be collected.

D Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand.

E Charges to Revenue for Non-Current Assets

Services are debited with the following amounts to record the cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant service;
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off; and
- amortisation of intangible assets attributable to the service.

The Council is not required to raise Council Tax to fund depreciation, revaluation or impairment losses, or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to the Statutory Repayment of Loans Fund Advances.

The General Fund is balanced by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two sums.

F Employee Benefits

Benefits payable during employment

Short-term employee benefits are those due to be fully settled within 12 months of the year-end, such as wages, salaries, paid annual leave, paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees, are recognised as an expense for services in the year incurred.

An accrual is made for the cost of leave entitlements earned by employees, but not taken before the year-end, which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit.

The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday entitlement arises.

Termination benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an employee's employment before the normal retirement date, or an employee's decision to accept voluntary redundancy in exchange for those benefits. They are charged on an accruals basis to the appropriate service or, where applicable, to a corporate service line in the CIES, at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits, and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post-employment benefits

Employees of the Council may be members of one of two separate pension schemes:

- The Teachers' Pension Scheme, administered by the Scottish Government; or
- The Local Government Pension Scheme, administered by Shetland Islands Council.

Both schemes provide defined benefits to members (retirement lump sums and pensions) which are earned as employees work for the Council.

The arrangements for the teachers' Scheme mean that liabilities for these benefits cannot be identified specifically to the Council. It is therefore accounted for as if it was a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Children's Services line in the CIES is charged with the employer's contributions payable in respect of teachers' pensions in the year.

The Local Government Pension Scheme

The Local Government Pension Scheme is accounted for as a defined benefits scheme.

The liabilities of Shetland Islands Council's pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method, i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, projections of earnings for current employees, etc.

Liabilities are discounted to their value at current prices using a discount rate derived from a corporate bond yield curve constructed from yields on high quality bonds and recognising the weighted average duration of the benefit obligation determined at the most recent actuarial valuation.

The pension fund assets attributable to the Council are included in the Balance Sheet at their fair value:

- quoted securities – current bid price;
- unquoted securities – professional estimate; and
- unitised securities – current bid price.

The change in the net pension liability is analysed into the following components:

- **current service cost** – the increase in liabilities as a result of years of service earned this year, allocated in the CIES to the services for which the employees worked;
- **past service cost** – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years, which is debited to the Surplus or Deficit on the Provision of Services in the CIES;
- **net interest cost on the defined benefit liability** – the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the CIES. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period, taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments;
- **return on scheme assets** – excluding amounts included in net interest on the net defined benefit liability which are charged to the Pensions Reserve as Other Comprehensive Income and Expenditure;
- **actuarial gains and losses** – changes in the net pension liability that arise because events have not coincided with assumptions made at the last actuarial valuation, or because the actuaries have updated their assumptions, which is charged to the Pensions Reserve. Actuarial gains and losses are shown within Other Comprehensive Income and Expenditure within the CIES; and
- **contributions paid to the pension fund** – cash paid as employer's contributions to the pension fund in settlement of liabilities which are not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards in the CIES.

In the Movement in Reserves Statement this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cashflows, rather than as benefits are earned by employees.

Discretionary benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

G Events after the Balance Sheet date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the annual accounts are authorised for issue.

Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the financial year, whereby the annual accounts are adjusted to reflect such events; and
- those that are indicative of conditions that arose after the financial year, whereby the annual accounts are not adjusted to reflect such events; where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the annual accounts.

H Financial Instruments

Financial liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument, and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the CIES for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

This means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest), and interest charged to the CIES is the amount payable for the year according to the loan agreement.

Financial guarantees are measured at fair value and are estimated by considering the probability of the guarantee being called.

Financial assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measure at:

- amortised cost;
- fair value through profit or loss (FVPL); and
- fair value through other comprehensive income (FVOCI).

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e where the cash flows do not take the form of a basic debt instrument).

Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at their fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the CIES for interest receivable are based on the carrying amount of the asset, multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

A soft loan is one granted at less than market rates. When a soft loan is made, a loss is recorded in the CIES (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal.

Interest is credited to the Financing and Investment Income and Expenditure line in the CIES at a marginally higher effective rate of interest than the rate receivable from the borrowing organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet.

Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year, the reconciliation of amounts debited and credited to the CIES to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financial and Investment Income and Expenditure line in the CIES.

The Council recognises expected credit losses on all of its financial assets held at amortised cost, either on a 12 month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12 month expected losses.

Fair Value through Profit or Loss (FVPL)

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measure at fair value. Fair value gains and losses are recognised as they arise in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices – the market price; and
- other instruments with fixed and determinable payments – discounted cashflow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the Council can access at the measurement date;
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly;
- Level 3 inputs – unobservable inputs for the asset.

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

The Council invests through three Fund Managers, Baillie Gifford, Blackrock and Insight. These Fund Managers all invest on behalf of the Council into unitised products. They record income and account for transactions relating to these units as follows:

- Both Insight and Baillie Gifford receive and record income during the year. The income is re-invested into their units.
- No income is generated by Blackrock outwith their units.

I Foreign Currency Translation

Where the Council has entered into a transaction denominated in a foreign currency the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the CIES.

J Government Grants and Contributions

Government grants, third party contributions and donations are recognised as due to the Council and credited to the CIES when there is reasonable assurance that the Council will comply with any conditions attached to payment of the grants and that the grants and contributions will be received.

Amounts recognised as due to the Council are not credited to the CIES until conditions attached to the grant or contribution have been satisfied.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and all capital grants) in the CIES.

Where capital grants are credited to the CIES they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

K Heritage Assets

Heritage assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical significance. Heritage assets include historical buildings and the museum collection.

Heritage assets are recognised on the Balance Sheet where the Council has information on the cost or value of the asset. Where information on cost or value is not available, and the cost of obtaining the information outweighs the benefits to the users of the financial statements, the asset is not recognised on the Balance Sheet.

The carrying amounts of heritage assets are reviewed where there is evidence of impairment, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment.

It is likely that disposals of heritage assets will be made only very occasionally. Where this does occur, the proceeds of such items will be accounted for in accordance with Council's provisions relating to the disposal of property, plant and equipment.

Historical buildings

These are held on the Balance Sheet at fair value, determined as the amount that would be paid for the asset in its existing use value but, where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost is used as an estimate of fair value. They are depreciated on a straight-line basis over their remaining useful life.

Museum collection

The Council's museum collection is reported in the Balance Sheet at valuations based on specialist judgement. Assets are valued in the year of acquisition and reviewed periodically.

L Intangible Assets

Expenditure on non-monetary assets that do not have physical substance, but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Intangible assets are measured initially at cost. Amounts are revalued where the fair value of the assets held by the Council can be determined by reference to an active market. Fishing quota and fishing licences meets this criterion. The depreciable amount of an intangible asset is amortised over its useful life on a straight-line basis to the relevant service lines in the CIES.

An asset is tested for impairment whenever there is an indication that the asset might be impaired; any losses recognised are posted to the relevant service lines in the CIES. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the CIES.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital Receipts Reserve.

M Inventories and Long-term Contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the weighted average costing formula, except for fuel which is calculated on a first in first out (FIFO) basis.

Long-term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the consideration allocated to the performance obligations satisfied based on the goods or services transferred to the service recipient during the financial year.

N Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital Receipts Reserve.

O Leases

Operating leases

The Council as lessee

Rentals paid under operating leases are charged to the CIES as an expense to the services benefitting from use of the leased property, plant or equipment.

The Council as lessor

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the CIES. Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

Finance leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee.

The Council as lessee

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower).

The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as an expense in the periods in which they are incurred.
Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment which is applied to write down the lease liability; and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the CIES).

Property, plant and equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise Council Tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

The Council as lessor

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease the carrying amount of the asset in the Balance Sheet (whether property, plant and equipment or assets held for sale) is written off to the Other Operating Expenditure line in the CIES as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the CIES also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property which is applied to write down the lease debtor (together with any premiums received); and

- finance income (credited to the Financing and Investment Income and Expenditure line in the CIES).

The gain credited to the CIES on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

P Overheads and Support Services

The costs of overheads and support services are charged to service segments in accordance with the Council's internal reporting arrangements for accountability and financial performance. In line with LASAAC guidance, these are removed from gross income and expenditure in the CIES.

Q Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as property, plant and equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains, but does not add to, an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price;
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Assets are carried in the Balance Sheet using the following measurement bases:

- infrastructure assets are held at depreciated historical cost;
- community assets and assets under construction are held at historical cost;
- surplus assets are held at fair value, estimated at highest and best use from a market participant's perspective;
- council dwellings are held at current value, determined using the basis of existing use value for social housing; and
- all other assets are held at current value, determined as the amount that would be paid for the asset in its existing use value.

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost is used as an estimate of current value.

Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

Assets included in the Balance Sheet at current value are revalued every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Unrealised gains arise from notional changes in value that have not been converted into cash.

Where decreases in value are identified, they are accounted for as follows:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains); and
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying

amount of the asset is written down against the relevant service lines in the CIES.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007, the date of its formal implementation. Gains arising before this date have been consolidated into the Capital Adjustment Account.

Impairment

Assets are assessed at each year-end as to whether there is any indication that they may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for as follows:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains);
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service lines in the CIES; and
- where an impairment loss is reversed subsequently, the reversal is credited to the relevant service lines in the CIES, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for all property, plant and equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain community and heritage assets) and assets that are under construction.

The following useful lives and depreciation rates have been used in the calculation of depreciation (straight-line method):

- council dwellings: 30 years
- other land and buildings: 1 - 120 years
- vehicles, plant, furniture and equipment: 1 - 32 years
- infrastructure: 2 - 47 years

Surplus assets are depreciated on a straight-line basis over their useful economic life. The relevant economic life for surplus assets is in line with those stated above for each category of asset.

Where an item of property, plant and equipment has major components whose costs are significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and non-current assets held for sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an asset held for sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the CIES. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on assets held for sale.

If an asset no longer meets the criteria to be classified as an asset held for sale, it is reclassified back to a non-current asset. It is valued at the lower of its carrying amount before the asset was classified as held for sale, adjusted for depreciation, amortisations or revaluations that would have been recognised if the asset had not been classified as an asset held for sale, and its recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as assets held for sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether property, plant and equipment or assets held for sale) is written off to the Other Operating Expenditure line in the CIES as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the CIES, also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal are categorised as capital receipts. The balance of receipts is required to be credited to the Capital Receipts Reserve and can then only be used for new capital investment. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing.

R Fair Value Measurement

The Council measures some of its non-financial assets, such as surplus assets and investment properties and some of its financial instruments, such as equity shareholdings, at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset takes place either in the principal market for the asset or liability; or, in the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of the asset using the assumptions that market participants would use when pricing the asset, assuming that market participants act in their economic best interest.

When measuring fair value, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available. Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council's accounts are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets that the authority can assess at the measurement date;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly;
- Level 3 – unobservable inputs for the asset.

S Private Finance Initiatives (PFI) and Similar Contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the authority.

The amounts payable to the PFI operators each year are analysed into five elements:

- fair value of the services received during the year – debited to the relevant service in the CIES;
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the CIES;
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the CIES;
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease); and
- lifecycle replacement costs – proportion of the amount payable is posted to the Balance Sheet as a prepayment and then recognised

as additions to property, plant and equipment when the relevant works are carried out.

T Provisions, Contingent Assets and Contingent Liabilities

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that will likely require settlement by a transfer of economic benefits and a reliable estimate can be made of the obligation's value.

Provisions are charged as an expense to the appropriate service lines in the CIES when the obligation arises and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated values are reviewed at the end of each financial year. Where it becomes less likely that a transfer of economic benefits will be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

Contingent Assets

A contingent asset is disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential not recognised in the Balance Sheet when an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent Liabilities

Contingent liabilities are disclosed in the accounts but not recognised in the Balance Sheet, in circumstances where:

- an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council; or
- a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

U Reserves

Reserves are created by transferring amounts from the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year in the CIES. The value is then transferred to the General Fund so that there is no net charge against Council Tax.

The Council also operates a Harbour Reserve Fund, as permitted under statute by the Zetland County Council Act 1974. Only surpluses from the Harbour Account can be credited to this reserve.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Council; these reserves are explained in the relevant policies.

V Revenue Expenditure funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions, but does not result in the creation of a non-current asset, has been charged as expenditure to the relevant service in the CIES in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account reverses out the amounts charged so that there is no impact on the level of Council Tax.

W Value Added Tax

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

Group Comprehensive Income and Expenditure Statement for year ended 31 March 2019

This statement shows the accounting cost in the year of providing Council and subsidiary services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Councils raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost.

2017/18 (Restated) Gross Expenditure £000	2017/18 (Restated) Gross Income £000	2017/18 (Restated) Net Expenditure £000		Notes	2018/19 Gross Expenditure £000	2018/19 Gross Income £000	2018/19 Net Expenditure £000
2,327	(12)	2,315	Chief Executive and Cost of Democracy		2,467	(689)	1,778
56,436	(4,675)	51,761	Children's Services		54,392	(6,933)	47,459
51,420	(28,164)	23,256	Community Care Services		53,912	(29,565)	24,347
14,014	(4,190)	9,824	Corporate Services		19,188	(5,259)	13,929
22,810	(7,201)	15,609	Development Services		28,085	(7,677)	20,408
36,639	(7,173)	29,466	Infrastructure Services		36,842	(11,957)	24,885
5,472	(6,836)	(1,364)	Housing Revenue Account		6,048	(6,965)	(917)
19,559	(27,302)	(7,743)	Harbour Account		19,868	(30,237)	(10,369)
208,677	**(85,553)**	**123,124**	**Net Cost of Services**		**220,802**	**(99,282)**	**121,520**
3,357	0	3,357	Other operating income and expenditure		4,859	(11)	4,848
10,025	(13,644)	(3,619)	Financing and investment income and expenditure	5	10,169	(135,271)	(125,107)
0	(97,371)	(97,371)	Taxation and non-specific grant income		0	(96,413)	(96,413)
222,059	**(196,568)**	**25,491**	**Surplus or Deficit on Provision of Services**		**235,830**	**(330,977)**	**(95,152)**
			Items that will not be reclassified to the (surplus) or deficit on the provision of services			Notes	
		(10,305)	Surplus on revaluation of non-current assets			11	(23,875)
		(57,555)	Surplus on revaluation of available for sale financial assets			11	(16,965)
		(78,203)	Remeasurement of the net defined benefit liability			11	28,975
		(146,063)					**(11,865)**
			Items that may be reclassified to the (surplus) or deficit on the provision of services				
		47,791	Amounts recycled from the AFSFI reserve upon derecognition			11	14,441
		(98,272)	**Other Comprehensive Income and Expenditure**				**2,576**
		(72,781)	**Total Comprehensive Income and Expenditure**				**(92,576)**

Group Balance Sheet as at 31 March 2019

This shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council and its subsidiary. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council and its subsidiary.

As at 31 March 2018 £000		Notes	As at 31 March 2019 £000
423,052	Property, Plant and Equipment	13	439,263
0	Investment Property	12	10,249
4,853	Heritage Assets		4,839
27,160	Intangible Assets		33,668
345,392	Long-term Investments		340,304
1,911	Long-term Debtors		1,731
802,368	**Long-Term Assets**		**830,054**
557	Assets held for Sale		205
4,704	Inventories		4,998
16,876	Short-term Debtors	6	15,867
4,002	Cash and Cash equivalents		8,715
26,139	**Current Assets**		**29,785**
(18,620)	Short-term Creditors	7	(20,573)
(1,378)	Short-term Provisions		(3,769)
(197)	Grant Receipts in Advance - Revenue		(48)
(20,195)	**Current Liabilities**		**(24,390)**
(41,202)	Long-term Borrowing		(49,164)
(165,171)	Pension Liability		(207,384)
(579)	Long-term Provisions		(203)
(44,321)	Deferred Liabilities		(43,098)
(5,702)	Other Long-term Liabilities		(5,590)
(256,975)	**Long-Term Liabilities**		**(305,439)**
551,337	**Net Assets**		**530,010**
(249,797)	Usable Reserves		(363,183)
(301,540)	Unusable Reserves		(166,827)
(551,337)	**Total Reserves**		**(530,010)**

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Jamie Manson CPFA
Executive Manager - Finance
26 June 2019

Group Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council and its subsidiary, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable' reserves. This statement shows how the movements in year of the Council's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to Council Tax or rents for the year. The Net (Increase) / Decrease line shows the statutory General Fund and Housing Revenue Account movements in the year following those adjustments.

	General Fund £000	Housing Revenue Account £000	Capital Funds £000	Other Revenue/ Statutory Funds £000	Council's share of Group usable reserves £000	Total Usable Reserves £000	Council's Unusable Reserves £000	Council's share of Group unusable reserves £000	Total Unusable Reserves £000	Total Group Reserves £000
Balance at 1 April 2018	**(60,318)**	**(17,335)**	**(66,330)**	**(105,814)**	**(2,319)**	**(252,116)**	**(301,540)**	**0**	**(301,540)**	**(553,656)**
Movement in reserves during the year:										
Adjustment for the restatement of financial instruments	(108,464)	0	0	0	0	**(108,464)**	108,464	0	**108,464**	**0**
Total Comprehensive Income and Expenditure	8,130	1,889	0	0	3,295	**13,314**	4,208	(174)	**4,034**	**17,348**
Adjustments between Group accounts and Council accounts	1,289	0	0	0	5,009	**6,298**	0	0	**0**	**6,298**
Adjustments between accounting basis & funding basis per regulations (Note 6)	(24,407)	(321)	3,579	0	0	**(21,149)**	21,149	0	**21,149**	**0**
Net (Increase)/Decrease before transfers	**(123,452)**	**1,568**	**3,579**	**0**	**8,304**	**(110,001)**	**133,821**	**(174)**	**133,647**	**23,646**
Net Transfers to/(from) Other Statutory Reserves	6,102	0	(6,213)	(955)	0	**(1,066)**	1,066	0	**1,066**	**0**
(Increase)/Decrease in year	**(117,350)**	**1,568**	**(2,634)**	**(955)**	**8,304**	**(111,067)**	**134,887**	**(174)**	**134,713**	**23,646**
Balance at 31 March 2019	**(177,668)**	**(15,767)**	**(68,964)**	**(106,769)**	**5,985**	**(363,183)**	**(166,653)**	**(174)**	**(166,827)**	**(530,010)**

Comparative movements in 2017/18	General Fund £000	Housing Revenue Account £000	Capital Funds £000	Other Revenue/ Statutory Funds £000	Council's share of Group usable reserves £000	Total Usable Reserves £000	Council's Unusable Reserves £000	Council's share of Group unusable reserves £000	Total Unusable Reserves £000	Total Group Reserves £000
Balance at 1 April 2017	**(54,292)**	**(15,614)**	**(66,498)**	**(107,896)**	**0**	**(244,300)**	**(234,494)**	**0**	**(234,494)**	**(478,794)**
Movement in reserves during the year:										
Total Comprehensive Income and Expenditure	25,351	140	0	0	0	**25,491**	(98,272)	0	**(98,272)**	**(72,781)**
Removal of IJB Surplus	238	0	0	0	0	**238**	0	0	**0**	**238**
Adjustments between accounting basis & funding basis per regulations (Note 6)	(30,525)	(2,023)	1,322	0	0	**(31,226)**	31,226	0	**31,226**	**0**
Net (Increase)/Decrease before transfers	**(4,936)**	**(1,883)**	**1,322**	**0**	**0**	**(5,497)**	**(67,046)**	**0**	**(67,046)**	**(72,543)**
Net Transfers to/(from) Other Statutory Reserves	(1,090)	162	(1,154)	2,082	0	**0**	0	0	**0**	**0**
(Increase)/Decrease in year	**(6,026)**	**(1,721)**	**168**	**2,082**	**0**	**(5,497)**	**(67,046)**	**0**	**(67,046)**	**(72,543)**
Balance at 31 March 2018	**(60,318)**	**(17,335)**	**(66,330)**	**(105,814)**	**0**	**(249,797)**	**(301,540)**	**0**	**(301,540)**	**(551,337)**

Group Cash Flow Statement for year ended 31 March 2019

This statement shows the changes in cash and cash equivalents of the Council and its subsidiary during the financial year.

2017/18 £000		2018/19 £000
	Operating activities	
25,491	Net surplus or deficit on the provision of services	(95,150)
(52,886)	Adjustment to net surplus or deficit on the provision of services for non-cash movements	66,360
9,738	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	6,462
(17,657)	**Net cash flows from Operating Activities**	**(22,328)**
27,088	Investing activities	28,693
(9,524)	Financing activities	(6,701)
(93)	**Net increase in cash and cash equivalents**	**(336)**
3,909	Opening Cash and Cash Equivalents	8,345
93	Net movement of Cash and Cash Equivalents during the year	370
4,002	**Closing Cash & Cash Equivalents**	**8,715**

Notes to the Group Financial Statements

The notes required for the Council accounts itself are disclosed separately in the preceding pages. The following notes provide material additional amounts and details in relation to the other combined entity.

Note 1: Disclosure of Interest and Non-Material Interest in Other Entities

Shetland Islands Council has considered all entities in which it has an interest for consolidation into the group accounts. To determine whether an entity should be included in the Council's group accounts, the factors of control, significant influence and materiality are considered.

Where the financial impact of omitting an entity from the group accounts would not cause a user of the accounts to form a different view on the accounts, the Council has opted not to include these entities within the group boundary.

Subsidiaries

The Code defines a subsidiary as an entity that is controlled by another entity. On 23rd October 2018 the Council acquired 100% interest in Shetland Leasing & Property Developments Ltd, a property investment and development company. The Council is the principle shareholder in the company holding all shares, representing 100% of the issued share capital. The Council holds all seats on the board, with each director entitled to one vote. Under accounting standards, the Council has the controlling interest in this company, and therefore falls under the criteria of subsidiary as at 31 March 2019. The entity has been consolidated into the Group Statements.

Joint Ventures

The Code defines joint venture as a joint arrangement whereby the parties that have joint control of the arrangements have rights to the net assets of the arrangements. The Shetland Health and Social Care Partnership (IJB) meets the definition of a joint venture. On the grounds of materiality, the (IJB) has not been consolidated into the Group Accounts.

Integration Joint Board (IJB)

The Integration Joint Board (IJB) was formally constituted on 27 June 2015 and is responsible for the strategic planning of the functions delegated to it by the Council and the Shetland Health Board. It represents a Joint Venture between these two bodies.

The Council contributed 45.5% of the Board's operating costs in 2018/19 (46.1% in 2017/18). It has three out of six voting members on the board. The Council's share of the net surplus of the Integration Joint Board was £0.27m as at 31 March 2019 (£0.12m at 31 March 2018), which is considered not material for consolidation in group accounts.

The following table details Shetland Islands Council's share of the IJB's financial results for the year:

2017/18 £000	Integration Joint Board	2018/19 £000
(23,665)	Gross Income	(24,956)
23,545	Gross Expenditure	24,686
(120)	**Net (Surplus) / Deficit**	**(270)**
182	Current Assets	453
0	Current Liabilities	0
182	**Net Assets**	**453**

Associates

The Code defines an associate as an entity for which the Council is an investor that has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the entity. The Council has identified two entities that meet the definition of an associate. These are:

- Orkney and Shetland Valuation Joint Board
- Zetland Transport Partnership (ZetTrans)

On the grounds of materiality the Orkney and Shetland Valuation Joint Board and Zetland Transport Parternship has not been consolidated in the Group Accounts.

Orkney and Shetland Valuation Joint Board (OSVJB)

The OSVJB provides the valuation service for Orkney and Shetland and is funded by both Councils. In 2018/19, the Council held five Board places out of ten and contributed 49.7% of the Board's operating costs (49.2% in 2017/18).

The Council's share of the year-end net liability is £1.1m as at 31 March 2019 (£1.0m at 31 March 2018), which is considered not material for consolidation in group accounts.

The following table details Shetland Islands Council's share of the OSVJB's financial results for the year:

2017/18 £000	Orkney and Shetland Valuation Joint Board	2018/19 £000
373	Gross Income	392
(339)	Gross Expenditure	(352)
34	**Net (Surplus) / Deficit**	**40**
24	Current Assets	13
(26)	Current Liabilities	(16)
(967)	Non-current Liabilities	(1,118)
969	Capital and Reserves	1,121
0	**Net Assets**	**0**

Zetland Transport Partnership (ZetTrans)

ZetTrans was formed in 2006/07 by the Regional Transport Partnerships (Establishment, Constitution and Membership) (Scotland) Order 2005, made under the Transport (Scotland) Act 2005.

The Council contributed 96.4% of the Partnership's operating costs in 2018/19 (93.7% in 2017/18) and holds four out of six seats on the Partnership.

The Council's share of the net liability is nil at 31 March 2019 (nil at 31 March 2018) and is therefore considered not material for consolidation in group accounts.

The table below details Shetland Islands Council's share of ZetTrans' financial results for the year:

2017/18 £000	Zetland Transport Partnership	2018/19 £000
(1,839)	Gross Income	(2,848)
1,839	Gross Expenditure	2,848
0	**Net (Surplus) / Deficit**	**0**
128	Current Assets	0
(128)	Current Liabilities	0
0	**Net Assets**	**0**

Note 2: Nature of combination

The Group Accounts have been prepared on the basis of a full consolidation of financial transactions and balances of the Council and its subsidiary. The subsidiary has been consolidated on a line by line basis. The values stated in the Group Accounts have been adjusted for the elimination of intergroup transactions and balances including debtors and creditors. As the Group didn't exist in 2017/18, the 2017/18 values are of the Council only and don't include SLAP.

Note 3: Group Accounting Policies

The group accounting policies are those specified for the single entity financial statements. Where materially different, accounting policies of group members are to be aligned to those of the single entity. Shetland Leasing and Property Developments Limited is a private company limited by shares and incorporated and domiciled in Scotland. It is not required to prepare its annual accounts on an IFRS basis. During 2018/19 the company changed its accounting policy with respect to the basis of preparation of the financial statements and the treatment of the valuation of investment properties. Shetland Leasing and Property Developments Limited has prepared it's accounts on a breakup basis as the Directors intend to liquidate the company in the 2019/20 financial year.

The accounting policies of the group member is materially the same as those of the single entity.

Note 4: Financial impact of Consolidation

The effect of inclusion of the subsidiary on the Group Balance Sheet is to decrease both Reserves and Net Assets by £5.8m.

Note 5: Financing and Investment Income and Expenditure

The inclusion of Shetland Leasing and Property Developments Limited had the following effect on the single entity Comprehensive Income and Expenditure Statement.

Subsidiary	2018/19 £000
Interest Income	5

Note 6: Group Short Term Creditors

2017/18 £000		2018/19 £000
(18,620)	Net Creditors Balance	(20,407)
0	Subsidiary Creditors	(181)
(18,620)	**Total Group Creditors**	**(20,588)**

Note 7: Group Short Term Debtors

2017/18 £000		2018/19 £000
16,876	Net Debtors Balance	15,797
0	Subsidiary Debtors	85
16,876	**Total Group Debtors**	**15,882**

Note 8: Cash Flow Statement – Group Operating Activities

Cashflows for operating activities include the following:

2017/18 £000		2018/19 £000
(2,437)	Interest received	(2,267)
4,068	Interest paid	5,481
(3,456)	Dividends received	(4,585)
(1,825)	**Total**	**(1,371)**

The Surplus or Deficit on the Provision of Servies has been adjusted for these non-cash movements:

2017/18 £000		2018/19 £000
(24,100)	Depreciation, impairment and revaluations	(18,799)
(1,355)	Amortisation	(1,514)
16	Decrease in impairment for bad debts	(190)
(2,792)	Increase in creditors	624
2,711	Increase in debtors	(1,177)
193	Decrease in inventories	294
(13,699)	Movement in pension liability	(13,237)
(5,429)	Carrying amount of non-current assets sold or de-recognised	(5,668)
(8,431)	Other non-cash items charged to the net surplus or deficit on the provision of services	106,027
(52,886)	**Total**	**66,360**

The Surplus or Deficit on the Provisoin of Services has been adjusted for the following items that are investing and financing activites:

2017/18 £000		2018/19 £000
2,079	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	820
7,659	Any other items for which the cash effects are investing or financing cash flows	5,642
9,738	**Total**	**6,462**

Note 9: Cash Flow Statement – Group Investing Activities

2017/18 £000		2018/19 £000
27,775	Purchase of property, plant and equipment, investment property and intangible assets	23,156
11,608	Purchase of short-term and long-term investments	12,546
(2,079)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(820)
(2,557)	Proceeds from short-term and long-term investments	(547)
(7,659)	Other receipts from investing activities	(5,642)
27,088	**Total**	**28,693**

Note 10: Cash Flow Statement – Group Financing Activities

2017/18 £000		2018/19 £000
(10,155)	Cash receipts of short and long-term borrowing	(7,999)
613	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	1,270
18	Repayments of short and long-term borrowing	28
(9,524)	**Total**	**(6,701)**

Note 11: Cash Flow Statement – Group Cash and Cash Equivalents

As at 31 March 2018 £000		As at 31 March 2019 £000
54	Cash held by the Council	55
3,948	Bank current accounts	8,660
4,002	**Total**	**8,715**

Note 12: Group Investment Properties

The following table summarises the movement in fair value of investment properties in 2018/19:

2017/18 £000		2018/19 £000
0	**Opening balance at 1 April 2018**	**17,035**
0	Additions	0
0	Disposals/Derecognition	(26)
0	Net gains/(losses) from fair value adjustments	(463)
0	**Closing balance at 31**	**16,546**

Note 13: Group Property, Plant and Equipment

Movements in 2018/19	Council Dwellings £000	Other Land & Buildings £000	Vehicles, Furniture, Plant & Equipment £000	Infra-structure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000	PFI Assets included in Total £000
Cost or Valuation									
Opening Balance at 1 April 2018	**62,269**	**207,274**	**57,216**	**169,298**	**7,482**	**247**	**5,661**	**509,447**	**45,370**
Additions	3,482	1,648	13,934	1,631	0	0	2,456	23,151	181
Revaluations	5,562	3,298	(610)	0	0	0	0	8,250	0
Derecognition/Disposals	(2,804)	(1,342)	(2,442)	0	(4)	0	0	(6,592)	(181)
Transfers	39	5,678	81	0	0	(96)	(5,714)	(12)	0
Closing Balance at 31 March 2019	**68,548**	**216,556**	**68,179**	**170,929**	**7,478**	**151**	**2,403**	**534,244**	**45,370**
Depreciation and Impairment									
Opening Balance at 1 April 2018	**(1,965)**	**(8,210)**	**(22,884)**	**(53,030)**	**0**	**(27)**	**0**	**(86,116)**	**(630)**
Depreciation charge	(2,002)	(7,258)	(4,668)	(4,319)	0	(14)	0	(18,261)	(1,284)
Depreciation written out	3,964	3,697	407	0	0	6	0	8,074	0
Derecognition/Disposals	3	9	1,310	0	0	0	0	1,322	0
Transfers	0	(4)	0	0	0	4	0	0	0
Closing Balance at 31 March 2019	**0**	**(11,766)**	**(25,835)**	**(57,349)**	**0**	**(31)**	**0**	**(94,981)**	**(1,914)**
Net Book Value as at 31 March 2019	**68,548**	**204,790**	**42,344**	**113,580**	**7,478**	**120**	**2,403**	**439,263**	**44,086**
Net Book Value as at 31 March 2018	**60,304**	**199,064**	**34,053**	**116,268**	**7,482**	**220**	**5,661**	**423,052**	**45,370**

Comparative movements in 2017/18	Council Dwellings £000	Other Land & Buildings £000	Vehicles, Furniture, Plant & Equipment £000	Infra-structure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000	PFI Assets included in Total £000
Cost or Valuation									
Opening Balance at 1 April 2017	**62,159**	**144,262**	**47,703**	**167,438**	**6,919**	**255**	**15,099**	**443,835**	**0**
Additions	3,167	49,035	10,481	1,860	0	0	9,208	73,751	46,000
Revaluations	(145)	(3,738)	(430)	0	563	15	0	(3,735)	0
Derecognition/Disposals	(2,918)	(809)	(1,059)	0	0	(71)	0	(4,857)	0
Transfers	6	18,524	(350)	0	0	48	(18,646)	(418)	0
Closing Balance at 31 March 2018	**62,269**	**207,274**	**56,345**	**169,298**	**7,482**	**247**	**5,661**	**508,576**	**46,000**
Depreciation and Impairment									
Opening Balance at 1 April 2017	**-**	**(4,799)**	**(19,137)**	**(48,825)**	**0**	**(22)**	**0**	**(72,783)**	**0**
Depreciation charge	(1,987)	(6,381)	(4,451)	(4,205)	0	(5)	0	(17,029)	(630)
Depreciation written out	2	2,861	700	0	0	1	0	3,564	0
Derecognition/Disposals	21	106	596	0	0	0	0	723	0
Transfers	(1)	3	0	0	0	(1)	0	1	0
Closing Balance at 31 March 2018	**(1,965)**	**(8,210)**	**(22,292)**	**(53,030)**	**0**	**(27)**	**0**	**(85,524)**	**(630)**
Net Book Value as at 31 March 2018	**60,304**	**199,064**	**34,053**	**116,268**	**7,482**	**220**	**5,661**	**423,052**	**45,370**
Net Book Value as at 31 March 2017	**62,159**	**139,463**	**28,566**	**118,613**	**6,919**	**233**	**15,099**	**371,052**	**0**

	Shetland Islands Council	Agenda Item **3**

Meeting(s):	Audit Committee Shetland Islands Council	26 June 2019
Report Title:	Interim Audit Report on the 2018/19 Audit – Shetland Islands Council	
Reference Number:	F-042-F	
Author / Job Title:	Executive Manager - Finance	

1.0 Decisions / Action required:

1.1 That the Audit Committee:

a) NOTES the interim findings of the 2018/19 audit as contained in the external auditor's Interim Report at Appendix 1;

b) NOTES the agreed Action Plan as outlined in the Interim Report;

c) CONSIDERS a verbal report by the external auditor;

1.2 That Shetland Islands Council RESOLVES to:

a) NOTE the interim findings of the 2018/19 audit as contained in the external auditor's Interim Report at Appendix 1;

b) APPROVE the agreed Action Plan as outlined in the Interim Report;

2.0 High Level Summary:

2.1 The Local Authority Accounts (Scotland) Regulations 2014 (“the Regulations”) require the Council to prepare and publish annual accounts that are subject to external audit. The Council’s appointed external auditor is Deloitte LLP.

2.2 Section 10 of the Regulations requires the Council to consider any report made by the appointed auditor before deciding whether to sign the audited accounts.

2.3 For 2018/19, Deloitte LLP have introduced an Interim Audit report that provides an update on the wider issues that auditors are required by Audit Scotland to examine as part of their overall audit of the Council.

2.4 The Interim Report contains a number of recommendations for improvement across the following four audit dimensions:

- Financial sustainability
- Financial management
- Governance and transparency
- Value for money

The recommendations are contained in the audit action plan, which has been agreed with officers.

2.5 The audit of the financial statements will take place before 30 August and a final audit report and opinion will be issued in September for consideration alongside the audited annual accounts for 2018/19.

3.0 Corporate Priorities and Joint Working:

3.1 The preparation and presentation of the annual accounts is a key element of the Council's overall governance and reporting arrangements.

4.0 Key Issues:

4.1 As part of the annual audit process, the Council's external auditors are required to deliver an independent report and opinion on whether the Council has prepared its annual accounts in line with applicable accounting standards, that income and expenditure is lawful and whether or not the financial statements represent a true and fair view. This part of the audit is currently underway and is on track to be completed before the statutory deadline of 30 August 2019.

4.2 In line with Audit Scotland's Code of Audit Practice, external auditors are also required to report on aspects other than the numbers and disclosures made in the annual accounts and financial statements. Audit Scotland require conclusions to be reported on the following four audit dimensions:

- Financial sustainability
- Financial management
- Governance and transparency
- Value for money

4.3 In previous years, external auditors have reported their conclusions, recommendations and overall audit opinion at the end of the audit process, in September, when the annual accounts are signed off.

4.4 For the 2018/19 audit, the external auditors have introduced an interim reporting stage into the audit process. This change allows the Council to receive recommendations earlier in the audit process so there is more time to demonstrate improvement ahead of the next years' audit. The change will also allow more time for the Council to consider the matters raised, rather than condensing all recommendations into one final audit report at the end of the process.

4.5 The Interim Report (Appendix 1) sets out the external auditors' findings in respect of the four audit dimensions outlined in 4.2. The key findings in these areas are:

- **Financial sustainability:** The Council is not in a financially sustainable position. While the Council is aware of its funding gap in the short-to medium term and is taking action to address this, it has planned an unsustainable draw on reserves of £3.4m to address the funding gap in 2019/20 and has not identified the savings required to close the £15.6m funding gap by 2023/24. We consider the medium-term funding gap identified by the Council to be optimistic and underestimates the significance of the funding gap by approximately 40%. The Council needs to prioritise and progress transformational change, considering alternative methods of service delivery or taking difficult decisions such as changes to the level of service provided in order to reach a financially sustainable position in the medium-to-longer term.

- **Financial management:** The Council has effective financial management processes in place. However, there is room for improvement in the budget setting process and the reporting of progress against budget and changes to the budget in year. There are particular concerns with the ability of the Council to budget for and deliver capital projects on time and on budget, having not delivered over £54m (30%) of projects between 2012/13 – 2018/19. To improve financial management, the Council should review the structure of its finance function and consider adopting a business partnering model. Given recent changes in key financial posts, the Council needs to consider the training provided to its finance function.

- **Governance and transparency:** The Council promotes a culture of openness and transparency, although there is room for improvement and the Council needs to adopt an approach of always 'striving for more'. While attendance at meetings is good, scrutiny could be improved through better sharing of Council workload and the development of tailored training plans for Members. The Council needs to significantly improve its approach to self-assessment. It should develop a self-assessment programme and assign a specific officer with responsibility for ensuring the Council has adequate self-assessment arrangements in place. The Council is not meeting all of its obligations under the Community Empowerment Act. It needs to develop and document its community empowerment arrangements, provide training to Members and officers on what empowerment means, and work to develop community capacity.

- **Value for money:** While the Council's performance continues to fare well against the national average, this comes at substantial cost to the Council. Given the current financial position, the Council needs to consider the targets it sets and outline what it considers acceptable performance in lower-priority areas, ensuring such decisions are made through engagement with the wider community. When preparing its budget, the Council should make clear links to outcomes and outline how spend is improving outcomes or how spend will be reduced in areas that are not. Substantial improvements are needed in relation to performance monitoring. The Council should report on an annual basis on the indicators it intends to monitor in the coming year, the targets for each quarter, and the target for the corresponding period in the previous year. This will enable Members to assure themselves that the Council is appropriately focussed on continuous improvement. The Council has numerous disparate improvement plans. Going forward, a clear and concise annual Improvement Plan should be reported to the Council to monitor performance Council-wide. This Improvement Plan should be informed by service self-assessments, stakeholder surveys and national reports.

5.0 Exempt and/or confidential information:

5.1 None.

6.0 Implications :	
6.1 **Service Users, Patients and Communities:**	None arising from this report.
6.2 **Human Resources and Organisational Development:**	None arising from this report.
6.3 **Equality, Diversity and Human Rights:**	None arising from this report.
6.4 **Legal:**	None arising from this report.
6.5 **Finance:**	None arising from this report.
6.6 **Assets and Property:**	None arising from this report.
6.7 **ICT and new technologies:**	None arising from this report.
6.8 **Environmental:**	None arising from this report.
6.9 **Risk Management:**	The Interim Audit Report includes the identification of key risks and internal control arrangements in place to manage those risks, together with any improvement actions required.
6.10 **Policy and Delegated Authority:**	The remit of the Audit Committee includes consideration of audit matters as well as overseeing and reviewing any action taken in relation to audit activity. The preparation and presentation of the Annual Accounts is a key element of the Council's overall governance and reporting arrangements. Receiving the audited accounts of the Council and related certificates is a matter reserved by the Council.
6.11	n/a

Previously considered by:	

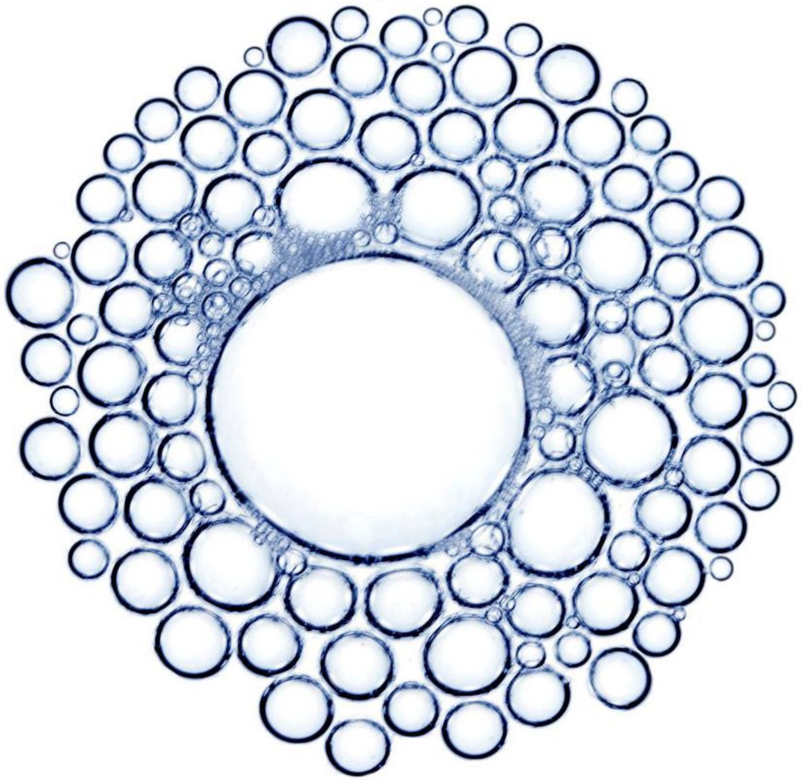
Contact Details:
Jamie Manson, Executive Manager - Finance
jamie.manson@shetland.gov.uk
26 June 2019

Appendices:
Appendix 1: Interim Report to the Audit Committee on the audit for the year ended 31 March 2019
Appendix 2: Sector Developments

Background Documents:
The Local Authority Accounts (Scotland) Regulations 2014

Deloitte.

Shetland Islands Council



Shetland Islands Council

Interim Report to the Audit Committee
on the audit for the year ended 31 March 2019

Issued 20 June 2019 for the meeting on 26 June 2019

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Introduction

The key messages in this report

I have pleasure in presenting our report to the Audit Committee (the Committee) of Shetland Islands Council (the Council) as part of our 2018/19 audit responsibilities. I would like to draw your attention to the key messages from this paper:

Background

As set out in our plan which was presented to the Committee in March 2019, the Code of Audit Practice sets out four audit dimensions which set a common framework for all public sector audits in Scotland.

Our audit work has considered how the Council is addressing these and our conclusions are set out within this report.

As part of this review we met with key members of the Corporate Management Team ('CMT'), a number of other staff and a sample of elected members. Our work is also informed by our attendance at Committee and Council meetings in November, December and March.

We then reviewed evidence to support our judgements and conclusions which are contained within this report.

Scope of audit

Our audit work covered the four audit dimensions as follows:

- Financial sustainability;
- Financial management;
- Governance and transparency; and
- Value for money.

The audit incorporated the specific risks highlighted by Audit Scotland, in particular, the impact of EU withdrawal, the changing landscape for public financial management, dependency on key suppliers, care income and increased focus on openness and transparency.

Our audit also considered the five Strategic Audit Priorities set by the Accounts Commission, as detailed within our Audit Plan.

Introduction (continued)

The key messages in this report (continued)

Overall conclusions

Financial sustainability – The Council is not in a financially sustainable position. While the Council is aware of it's funding gap in the short-to-medium term and is taking action to address this, it has planned an unsustainable draw on reserves of £3.4m to address the funding gap in 2019/20 and has not identified the savings required to close the £15.6m funding gap by 2023/24. We consider the medium-term funding gap identified by the Council to be optimistic and underestimates the significance of the funding gap by approximately 40%. The Council needs to prioritise and progress transformational change, considering alternative methods of service delivery or taking difficult decisions such as changes to the level of service provided in order to reach a financially sustainable position in the medium-to-longer term.

Financial management – The Council generally has effective financial management processes in place. However, there is room for improvement in the budget setting process and the reporting of progress against budget and changes to the budget in year. There are particular concerns with the ability of the Council to budget for and deliver capital projects on time and on budget, having not delivered over £54m (30%) of projects between 2012/13 – 2018/19. To improve financial management, the Council should review the structure of its finance function and consider adopting a business partnering model. Given recent changes in key financial posts, the Council needs to consider the training provided to its finance function.

Governance and transparency – The Council promotes a culture of openness and transparency, although there is room for improvement and the Council needs to adopt an approach of always 'striving for more'. While attendance at meetings is good, scrutiny could be improved through better sharing of Council business workload and the development of tailored training plans for Members.

The Council needs to significantly improve its approach to self assessment. It should develop a self assessment programme and assign a specific officer with responsibility for ensuring the Council has adequate self assessment arrangements in place.

The Council is not meeting all of its obligations under the Community Empowerment Act. It needs to develop and document its community empowerment arrangements, provide training to Members and officers on what empowerment means, and work to develop community capacity.

Value for money – While the Council's performance continues to fare well against the national average, this comes at substantial financial cost to the Council. Given the current financial position, the Council needs to consider the targets it sets and outline what it considers acceptable performance in lower-priority areas, ensuring such decisions are made through engagement with the wider community. When preparing its budget, the Council should make clear links to outcomes and outline how spend is improving outcomes or how spend will be reduced in areas that are not.

Substantial improvements are needed in relation to performance monitoring. The Council should report on an annual basis on the indicators it intends to monitor in the coming year, the targets for each quarter, and the target for the corresponding period in the previous year. This will enable Members to assure themselves that the Council is appropriately focused on continuous improvement.

The Council has numerous disparate improvement plans. Going forward, a clear and concise annual Improvement Plan should be reported to the Council to monitor performance Council-wide. This Improvement Plan should be informed by service self-assessments, stakeholder surveys and national reports.

The key messages in this report (continued)

Overall conclusions (continued)

Value for money (continued) – If appropriately managed, progressed and monitored, the Council should achieve value for money from the decision to purchase Shetland Leasing and Property Developments Ltd ('SLAP') and progress with the College Merger.

The Council needs to work with its partners in the NHS and Integration Joint Board ('IJB') to address the issues facing the IJB, which can be progressed through a review of the Integration Scheme required by mid 2020.

Our detailed findings and conclusions are included on pages 6 to 35 of this report.

Next steps

An agreed Action Plan is included at pages 40 – 50 of this report. We will consider progress with the agreed actions and provide an update on any significant changes in our annual audit report to the Committee in September 2019.

Added value

Our aim is to add value to the Council by providing insight into, and offering foresight on, financial sustainability, risk and performance by identifying areas for improvement and recommending and encouraging good practice. In so doing, we aim to help the Council promote improved standards of governance, better management and decision making, and more effective use of resources.

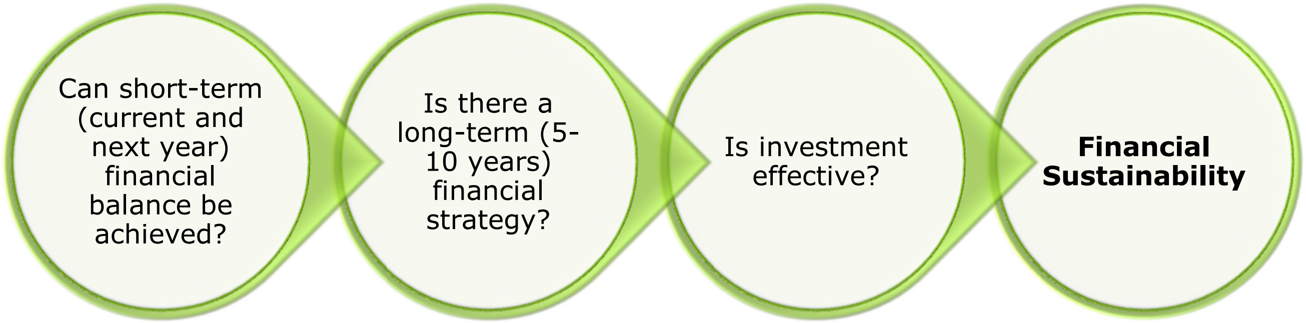
This is provided throughout the report, and in particular we have added value through our work with the Council on its Business Transformation Programme ('BTP') and Service Redesign Programme ('SRP'), sharing best practice in this area. We also believe that our input has encouraged a constructive discussion of the Council's approach to openness and transparency and how it works to improve outcomes for local residents.

Pat Kenny
Audit Director

Financial sustainability

Overview

Financial sustainability looks forward to the medium and longer term to consider whether the Council is planning effectively to continue to deliver its services or the way in which they should be delivered.



Audit risks

Within our audit plan we identified a number of risk as follows:

- the Council's medium-term financial planning was insufficiently robust and did not reflect current and reasonably foreseeable circumstances;
- the Council's Business Transformation and Service Redesign programmes are not appropriately progressed, resulting in benefits not being realised and financial targets being missed; and
- the Council's long-term financial planning is inconsistent with the Scottish Government's five-year plan.

Financial sustainability (continued)

Short-term financial position

Short-term financial balance

Shetland Islands Council achieved financial balance in 2018/19, with a sustainable draw on reserves of £15.31m (6.1% of carried forward usable reserves), being £4.83m less than budgeted (£20.14m) and in line with the Medium-Term Financial Plan ('MTFP'). The Council has budgeted to achieve financial balance in 2019/20, although only through a draw on reserves of £17.57m, £3.66m of which is unsustainable as set out in the MTFP.

Although the Council achieved financial balance in the year, it overspent by £4.4m on the general fund (of which £3.3m relates to one-off pension cessation costs provided relating to Shetland College and Train Shetland). This was offset by an additional surplus of £4.7m on the harbour account.

The Council needs to ensure it only budgets for a sustainable draw on reserves each year, particularly given the risk of overspends. Where the Council identifies an unsustainable draw on reserves, it needs to focus on the identification of savings rather than accepting the use of the unsustainable draw and thus removing the onus from Directorates to find efficiencies. The fact that Directorates can rely on additional money being 'found' from reserves allows work to identify and achieve savings to be a lower priority, resulting in a lower level of achieved savings and a delay in achieving them: as is evidenced by the underachievement of savings in 2018/19 and the lack of savings achieved through the BTP and SRP. The approach adopted by the Council in 2018/19 and 2019/20 risks fostering an unhealthy attitude to the use of reserves. While the Council does have a healthy level of reserves currently, it needs to ensure that this is maintained.

In order to underpin financial sustainability, the Council needs to identify and achieve savings targets on an ongoing basis. In the 2018/19 budget, the Council identified £1.94m of savings to be delivered through the SRP and BTP. Of this, just £0.65m has been achieved (34%).

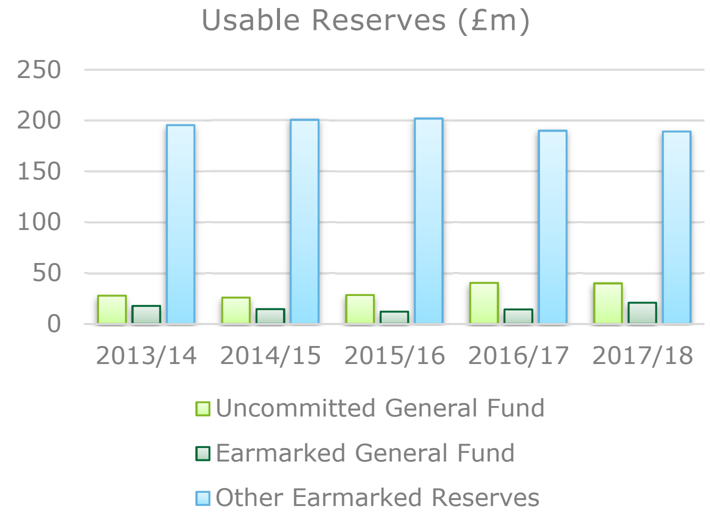
In 2019/20, although the Council made a positive step in moving away from a salami-slice approach to savings, it took a backwards step at the same time as the Council did not identify any specific savings targets. In the 2019/20 budget, the Council does not identify or quantify any savings which will be achieved in the year, which is an unfortunate step backwards. Progress against savings was reported to the relevant Committee each quarter in 2018/19 and this should continue in 2019/20 - it is difficult for this to be done when there are no savings plans presented to Committees for them to monitor.

Going forward, the Council needs to separately disclose in the budget the specific savings targets for each Directorate, enabling monitoring throughout the year. For each Directorate, it should be made clear in the budget how many of the required savings are identified/unidentified at the time, and their budget allocation should be reduced to reflect identified savings only.

Reserves

In 2017/18, the Council had £39.81m of non-earmarked usable reserves (32.3% of net expenditure). It had a further £209.99m of earmarked usable reserves (171% of net expenditure) which are used to 'top up' the Council's annual funding. The Council currently does not consider the nature, extent and timing of plans to use earmarked reserves to ensure that they remain valid, appropriate and reasonable on an annual basis.

The Council has an Investment Strategy which is aligned to its MTFP, which quantifies the sustainable draw on reserves over the medium term. The MTFP covers the level of reserves the Council currently has, what it aims to have, what it expects to use reserves for, and how the level and use of reserves will be monitored. The Council needs to also have a plan in place for remedial actions which will be taken if reserves fall below a certain level or are not used appropriately.



Financial sustainability (continued)

Medium to long-term financial sustainability

Medium-term financial sustainability

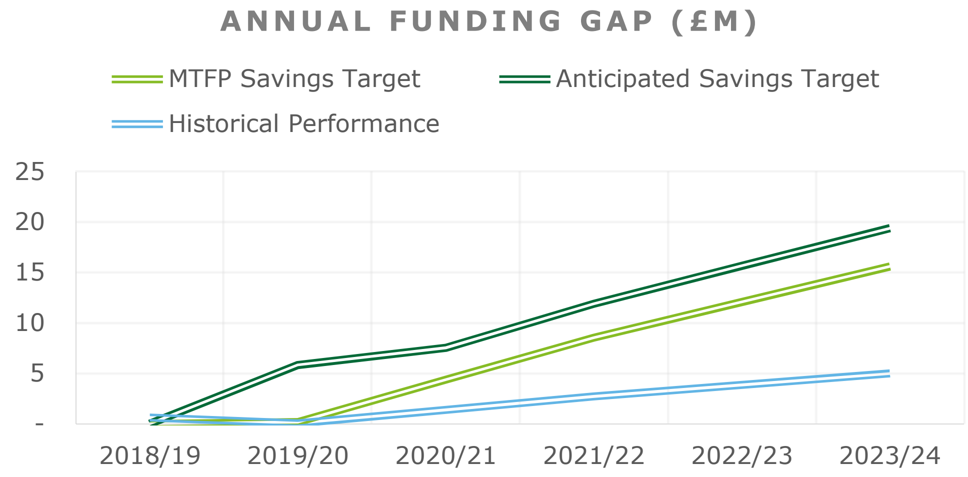
A council is considered to be financially sustainable if they (i) have adequate reserves, (ii) are spending within budget and (iii) have credible medium-term plans in place. While Shetland Islands Council has a healthy level of reserves, it overspent on the general fund and housing revenue account budget in 2018/19 (with an overall underspend due additional harbour account surplus), is forecasting an unsustainable draw on reserves in 2019/20 and has optimistic medium-term plans in place. Given these issues and the lack of savings from the BTP and SRP (page 9) it is not possible to conclude that the Council is in a financially sustainable position.

The Council's MTFP identifies the need for £15.6m of recurring savings to be achieved by 2023/24. It recognises that a strategic approach to savings should be taken, and that a plan should be produced that supports the delivery of the required savings, incorporating the SRP projects and take into account the BTP. Despite moving into the second year of the five year MTFP, this plan has yet to be produced, which undermines the achievability of the savings target.

The achievability of the savings target is further undermined by the fact that the Council assumed £7.94m would be received from the Scottish Government in 2019/20 for ferry funding (increasing to £8.81m in 2023/24). In both 2018/19 and 2019/20, £5m is to be received. If the funding received remains flat in cash terms over the course of the plan, the Council would be required to find cumulative additional savings of £16.88m, increasing the funding gap by 41.4% over that identified in the plan.

The financial sustainability of the Council is highly dependent on the performance of Council investments. The volatile nature of investment returns underlines the need to have detailed savings plans in place to achieve required savings, as the Council cannot rely on investment returns to provide the required income. For example, the Council forecasts 7.3% returns on investments in the MTFP (above the historical mean of 6.8%), but there are no plans in place for what happens if this is not achieved.

Coupled with the ferry funding, historical investment performance increases the funding gap in 2019/20 from the £0.19m to a much more challenging £5.83m. The Council's 2019/20 budget identifies a draw of £17.57m on reserves, substantially more than the £13.7m determined to be sustainable in the MTFP. The Council acknowledges that this is a financially unsustainable position.



The savings target identified by the Council in its MTFP appears to have been optimistic given historical investment performance and historical budget decisions by the Scottish Government in relation to ferry funding. While we are aware of the ongoing work in the SRP and BTP, there is no evidence that the Council has identified all the savings required to meet the target in the MTFP, or the further savings which would be required to address lower than forecast investment performance and ferry funding. Having not identified the required savings, the Council also does not have sufficient plans in place to deliver the savings.

The anticipated financial impact of BTP and SRP projects is not clearly disclosed in the budget, the MTFP or Long-Term Financial Plan ('LTFP') and it is difficult to understand what impact the BTP and SRP have had to date and the change in pace which is expected going forward. This also makes it difficult to monitor the effectiveness of these projects as a tool for ensuring financial sustainability. The Council should quantify the desired savings from key BTP and SRP projects within its budget and MTFP, accepting that until the strategic outline and full business case is prepared that these will be subject to a higher degree of uncertainty. These estimates should be updated as the projects progress and the Council better understands the financial impact which the projects are anticipated to have.

Financial sustainability (continued)

Medium to long-term financial sustainability (continued)

Effectiveness of investment

The Council considers affordability of investment through the development of business cases and the completion of options appraisals. The Full Business Cases produced for both the acquisition of SLAP and the proposed College Merger demonstrate clear financial savings which can be made (page 30), identify positive changes to service delivery and provide assurance that if appropriately managed, progressed and monitored, value for money will be achieved. The Council needs to carefully monitor progress against these actions to ensure that benefits are realised, and a post-implementation benefits realisation analysis should be performed by the Council to ensure any areas of good practice and lessons learned are appropriately used in future.

No post-completion self-evaluation of projects has been carried out in 2018/19 due to all Business Transformation Projects still being ongoing.

Business Transformation Programme

We are pleased to note that the Council's BTP builds on the Council's role as a place leader, enables improved partnership working, is outcome focused (particularly in business cases prepared which underpin decision making) and works to reframe the relationship between the citizen and the state.

This progress was driven through effective leadership from the CEO, who became actively involved in driving the Business Transformation projects forward in the year with success in completing what were previously stalled projects. The identification of capacity, resource or 'buy in' issues and actions taken to rectify these are welcome. However, this level of involvement from the CEO should not be required nor is it sustainable.

Given the lack of savings achieved to date and the fundamental part the BTP and SRP play in the Council's ability to close its medium-term funding gap, emphasis now needs to be placed on moving from the planning stage of projects to implementation in order to realise the required savings. The Council needs to expect, accept and plan for the additional resources the implementation phase will require. The Council also needs to ensure it has clear plans in place for monitoring progress throughout implementation, monitoring whether the project is delivering what it aimed to achieve - rather than only performing a post-implementation evaluation.

Business Transformation Programme 2016-20

While we acknowledge and welcome the progress made in relation to 'big ticket' items in the Council's Business Transformation Programme in 2018/19 (such as the college merger, acquisition of SLAP and the decision to increase capacity for looked-after children on-island), the Council needs to continue to improve its focus on transformational change and its engagement - both internally and externally - as it drives these forward as the basis for its longer term financial strategy. We welcome the level of engagement with service users and staff in the college merger project, and this should be an example followed for other projects. This will require investment in strategic leadership, planning and good governance.

Medium to long-term financial sustainability (continued)

Business Transformation Programme (continued)

We are pleased to note that the Council is engaging in more demand management exercises. In 2018/19, the Council earmarked £0.33m for 'spend to save' projects, all linked to capital items (actual spend to save costs incurred in 2018/19 were £1.1m). In 2019/20, the Council increased the budgeted amount to £1.01m, with £0.25m linked to revenue items and £0.76m linked to capital items. We are aware of investment in prevention and early intervention in Children's Services and Social Care, which it is anticipated will reduce the need for crisis and intensive services over the longer term. This is a positive example of the Council funding programmes of demand management and we encourage the Council to identify further areas where such action can be taken.

In order to drive forward the BTP and SRP as the basis for future financial sustainability, the Council needs to consider the following:

- Engagement between officers, Councillors, staff and the wider community from the outset is key: Councillors and the community should understand how the approach to transformation will improve services as well as save money. The repercussions for financial sustainability if savings are not achieved needs to be clearly communicated to all stakeholders involved.

- There needs to be improved monitoring of performance against the targets set for each project. It needs to be clear (i) what work has been undertaken to date, (ii) what work is still to be completed, (iii) why there are revised due dates years later than the original due date (and the financial impact this has had), and (iv) how a decision on whether the target is "likely to be met" or not is made.

- The Council needs to consider having a dedicated team to support change and transformation, especially given that the Council noted that it had underachieved savings identified in the SRP and BTP.

- The issue of resourcing will become increasingly pivotal as the Council moves from 'planning' for change to actually implementing that change, which will require a step-change in the level of time and resource required from the transformation team. The Council needs to consider whether it is realistic and fair to expect officers to assume responsibility for this on top of their day-to-day tasks.

Long-term financial planning

The Council revised its MTFP in August 2018, covering the period to 2023/24. Within this plan, the Scottish Government's Medium-Term Financial Strategy (‘MTFS’) is considered a 'key factor'. The assumptions used in the plan - in terms of funding uplifts and cost increases - are consistent with the Scottish Government MTFS. However, the Council's MTFP does not make reference to the key principles of public service reform - prevention, performance, partnership and people - and how these key principles contained within the MTFS are reflected in the Council's financial planning, and how the Council intends to align its resources to these key principles or monitor progress against them.

We recommended that the LTFP be refreshed in our annual audit report in September 2018, and note that the Council expects to meet the target date of August 2019. In addition to recommendations made last year - in relation to improving the detail in the plan to enable it to better guide decision making and ensuring community engagement is a key part of the development of longer-term financial planning - the Council needs to consider how the Scottish Government's financial strategy - which, although covering five years, makes reference to periods beyond that - will impact on how the Council plans for the longer term. In line with best practice, the Council should include scenario analysis and risk assessments of assumptions in the plan. The Council should ensure that both the MTFP and LTFP include reference to and are aligned with the Scottish Government’s National Performance Framework and its outcomes based approach, published in 2018.

In order to develop a culture where long-term financial sustainability is at the forefront of decision makers' minds, the Council should include the impact that decisions will have on the Council's position against the in-year draw on reserves, the funding gap identified in the MTFP and the approach adopted in the LTFP in the 'Finance implications' section of reports, so that it is clear to everyone who is making the decision what the longer-term financial impact that decisions are expected to have, rather than simply understanding the impact in the short term.

Financial sustainability (continued)

Medium to long-term financial sustainability (continued)

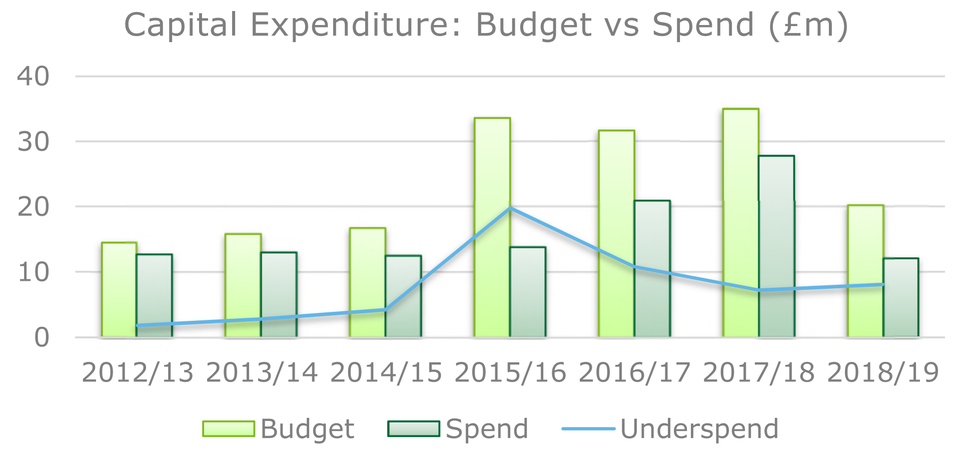
Capital planning

Despite recommendations in 2017/18, no changes have been made to Asset Investment Plan approach in 2018/19. The Council needs to substantially improve its approach to capital planning, ensuring that our recommendations from 2017/18 are addressed.

This is particularly important given that the Council itself identifies as one of its principal risks the ability to maintain its infrastructure as it is growing increasingly costly with time.

In line with best practice, the Council should clearly link its capital plan to the Corporate Plan, highlighting how the spend is aligned to the Council's priorities.

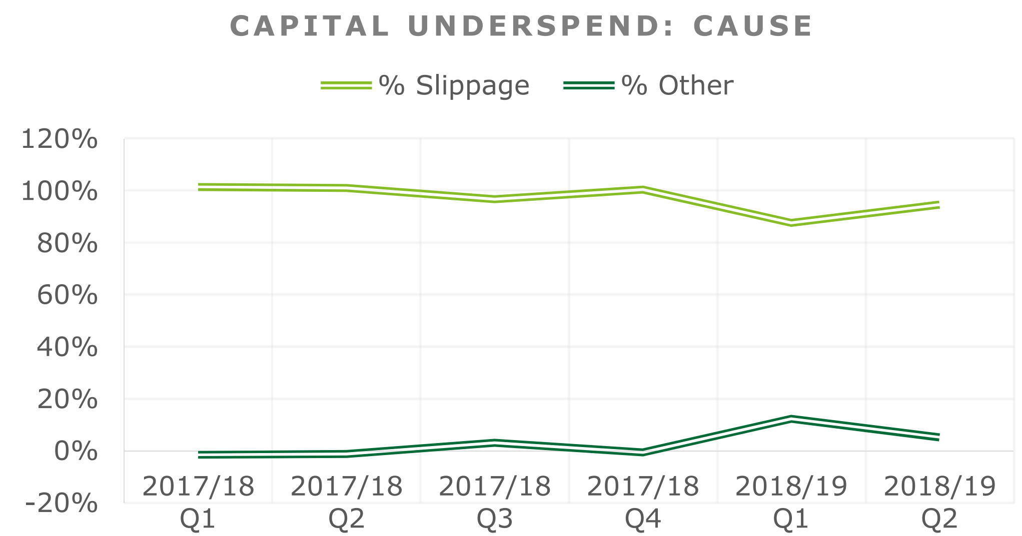
A review of capital budgeting and spend from 2012/13 - 2018/19 raises questions about the ability of the Council to effectively budget for, monitor and deliver capital projects on time and on budget. Between 2012/13 and 2018/19, the Council budgeted to spend £167.5m on capital projects. Over that period, it incurred actual spend of £112.8m, representing an average underspend of 30% per year. We note from review of the Financial Monitoring Reports ('FMR') in 2017/18 and 2018/19 that the forecast underspend increased in each quarter, from 2% at Q1 to 21% at Q4 in 2017/18, and from 10% at Q1 to 43% at Q4 in 2018/19. This raises concerns about the achievability of the Council's Asset Investment Plan and the robustness of its capital budgeting process.



There are significant revisions to the capital budget each year, but the reasons for this are not clear. For example, in 2017/18, the final revised budget for the year included £34.97m of capital expenditure, an increase of £8.77m (34%) on the original budget approved by the Council. In 2018/19, the revised budget at Q4 was £6.55m (23%) lower than the original budget.

The Council does not include in the Asset Investment Plan the due dates for projects to be completed, their actual date of completion, their original budgeted cost or their final incurred cost. Therefore, it is difficult to monitor whether the Council is delivering capital projects on time and on budget.

However, from the analysis of the underspend in each year, which the Council discloses in the Annual Accounts each year as being as a result of "slippage" over and above that budgeted, it is clear that projects are not being delivered on time: it is just not clear which projects these are. From review of the FMRs, we note that over 100% of the underspend in 2017/18 was due to slippage. This implies that those projects which were delivered were over budget.



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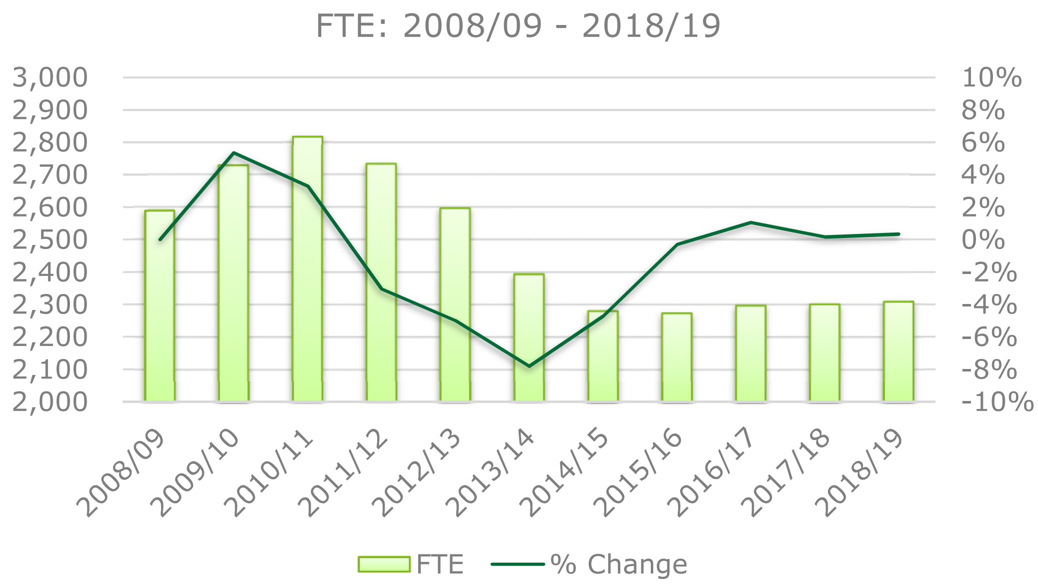
Financial sustainability (continued)

Medium to long-term financial sustainability (continued)

Workforce planning

Reducing workforce is one of the main ways councils can make savings. Since its peak in 2010, Shetland Islands Council has reduced its full-time equivalent (FTE) workforce by 20%, with workforce levels remaining steady since 2015/16. However, as there has been no Council-wide workforce plan in place during this period, it is not clear if this reduction is in the right areas. Despite this reduction, there is a belief by senior management in the Council that there is an underemployment and underutilisation of staff. The Council needs to ensure that its workforce is in line with the Council Plan, service plans, BTP and SRP and demonstrate that they have the right staff to deliver the Council's objectives.

It is difficult for Councillors to monitor workforce matters, with Members noting in discussion with us that they cannot recall having considered workforce or succession planning. While we are aware that the Employee Joint Consultative Committee considers general workforce matters, the Council needs to ensure that its Workforce Plan and the monitoring of it - expected to be published in August 2019 - is sufficiently robust to address the issues identified.



Succession planning needs to be incorporated within any workforce plan, with the workforce plan focusing on the current workforce, and the workforce needed now and in the future. The Council should identify what gaps exists and what training or other actions are needed to fill them.

The key factors against which the quality of the Council's workforce plan will be assessed - and which should be borne in mind during finalisation of the plan - are:

- whether it is comprehensive and coordinated, covering the entire organisation;
- whether the plan covers a number of years; whether it includes succession planning;
- whether it is clearly linked to the Council's corporate plan; whether it is supported by Directorate-level plans (using the same template and covering the same period); and
- whether appropriate actions are identified, monitored and reported on a regular basis.

We have obtained assurance that the Council will develop a high quality workforce plan through the approach it has taken: holding sessions with all Directors and their respective teams in 2018/19, providing guidance on developing individual Directorate workforce plans which will feed into the Council's plan, with there being a separate follow up session later in the year with the Directors to monitor progress on individual plans and provide further guidance as appropriate.

While the Council has a lot of work to do in terms of effectively planning for and managing its workforce, we do acknowledge the work which has been undertaken in the year, particularly its innovative approaches to recruitment: changing its approach to head hunting, utilising the Promote Shetland contract, improving the use of apprenticeships and establishing a new graduate placement scheme.

Financial sustainability (continued)

Deloitte view

Deloitte View – Financial sustainability

As discussed on page 7, the Council achieved an underspend against budget in 2018/19. This was primarily through slippage in the Asset Investment Plan and an additional surplus from the harbour account, with only 32% of the savings budgeted in the year being achieved. However, it has been unable to identify the required savings to achieve short-term financial balance in 2019/20 and has budgeted for an unsustainable draw on reserves. The Council's MTFP contains optimistic assumptions with the funding gap likely to be in excess of 40% more than that identified by the Council, increasing the cumulative funding gap to 2023/24 from £40.77m (6.5%) to £60.34m (9.6%). The assumptions in the Council's MTFP are consistent with the Scottish Government's MTFS. However, there is room for improvement in outlining how the anticipated spend over the medium term aligns with the key themes on public service reform (prevention, performance, partnership, people) and demonstrating a focus on improving outcomes.

Given the lack of savings achieved to date from the BTP and SRP, emphasis needs to be placed on moving from the planning stage of projects to implementation in order to realise the required savings. Implementation will require a step-change in the level of time and resource required from the transformation team. The Council needs to consider whether it is realistic and fair to expect officers to assume responsibility for this on top of their day-to-day tasks.

The Council needs to continue to improve its focus on engagement as it drives the BTP and SRP forward. We welcome the level of engagement with service users and staff in the Tertiary Review and Residential Care for Looked After Children projects, and this should be an example followed for other projects. The Council needs to ensure it has clear plans in place for monitoring progress and monitoring whether projects are delivering what they aimed to achieve. The Council cannot wait for projects to be fully implemented before assessing their effectiveness.

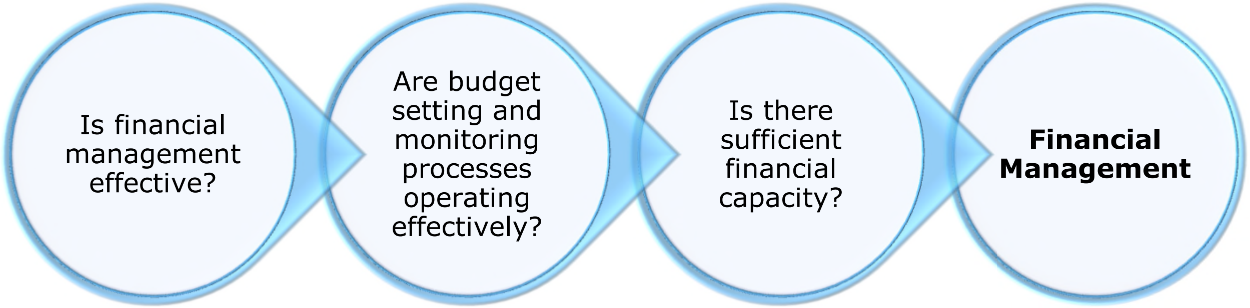
Our review of capital budgeting and spend raises questions about the achievability of the Council's Asset Investment Plan and the robustness of its capital budgeting process. For each capital project planned, the Council needs to clearly outline the due dates for projects and their original budgeted cost, with an annual report outlining any changes to the planned due date and budgeted cost, documenting which projects have been completed and at what cost. This will enable the Council to monitor whether it is delivering capital projects on time and on budget.

We welcome the progress made on the development of the Council's workforce plan and the process the Council has adopted to its development, being a corporate, holistic approach which will be linked to and supported by directorate level plans. On completion, we will review the Council's workforce plan in 2019/20.

Financial management

Overview

Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.



Audit risks

Within our audit plan we identified a number of risk as follows:

- the finance team capacity is insufficient to deal with the scale of the work required; and
- the underlying financial performance of the Council is not transparently reported.

Financial management (continued)

Financial performance

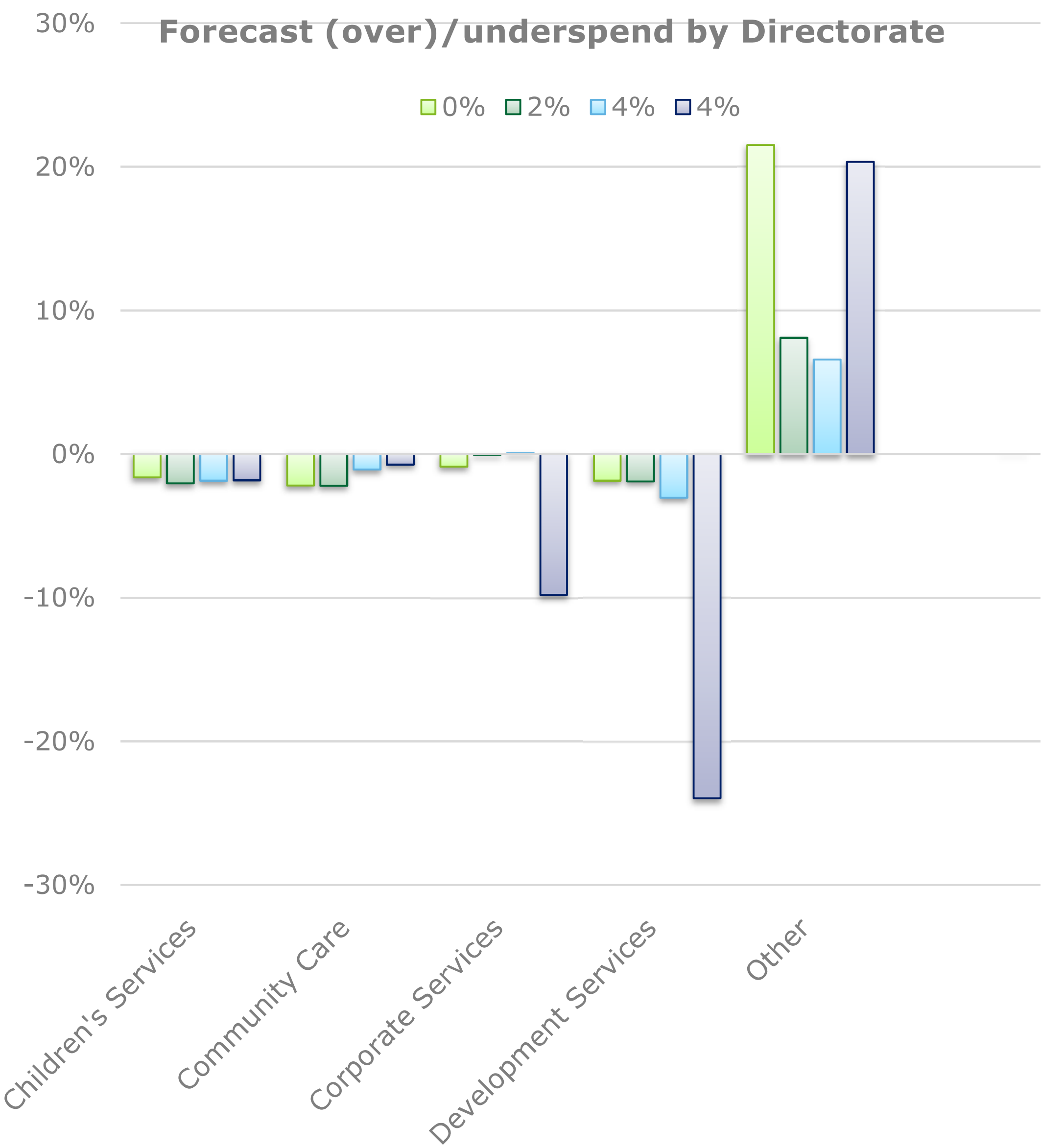
Assessing financial performance

The original 2018/19 budget approved by the Council budgeted general fund net expenditure of £107.71m in the year. This has been repeatedly revised in the year, to £109.94m in Q1, £110.15m in Q2, £110.18m in Q3 and £109.93m in Q4. The increase in spend is being funded by additional draws on reserves.

It is difficult for Members to assess the financial performance of the Council given that the FMRs and outturn reports presented to the Policy & Resources Committee ('PRC') and the full Council only refer to forecast spend to the year-end. There is no information provided on the actual spend incurred in any given period to provide assurance to the Council that financial performance is in line with budget at any given point in time in the year. Going forward, FMRs should present information on actual expenditure in each quarter, in addition to the forecast outturn for the full year as at the end of each quarter.

We note from discussion with management that although the FMRs were reporting a forecast overspend throughout the year, the Council had actually incurred an underspend to date. This has arisen as management note that budget holders have a tendency to be overly prudent in estimating spend. The finance function needs to become more involved in forecasting to understand and scrutinise how the forecast expenditure will be incurred and whether this is realistic. The Council should consider adopting a 'business partnering' structure for finance to enable this, as discussed on page 17.

From our discussions with both Councillors and officers, we noted that there are some issues with Councillors understanding and assessing financial information, including its limitations, and knowing how to properly scrutinise it and gain assurance over it. While there have been improvements in 2018/19 following our recommendation to include narrative for changes and variances in the budget, this needs to be significantly improved to provide explanations for why variances have occurred, not just what they consist of.



* Other includes cross-directorate charges, contingencies, financing costs, investment income and recharges.

Financial management (continued)

Budgetary control systems

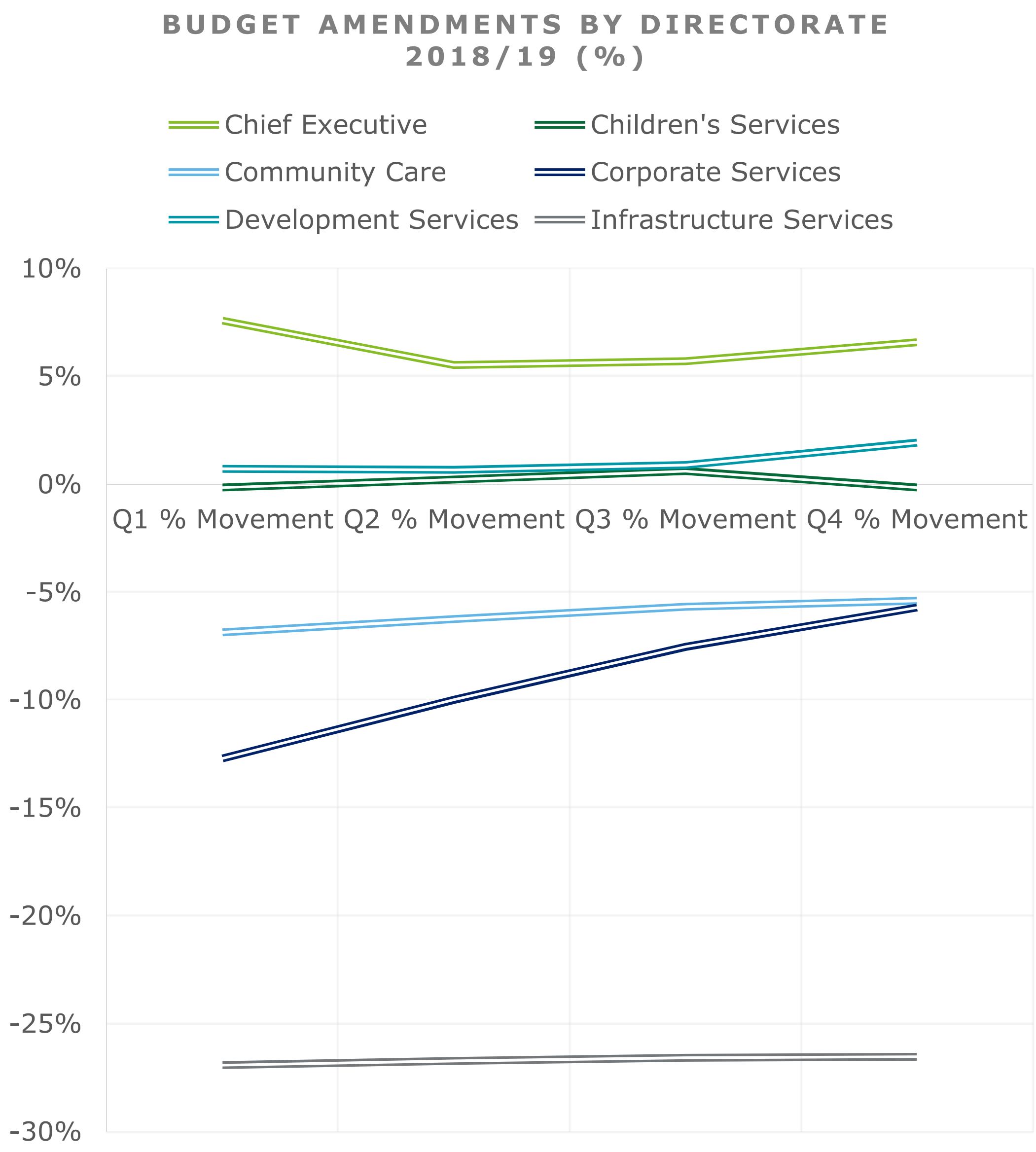
Financial reporting

The Council has effective financial monitoring and reporting arrangements in place. Senior management and Councillors regularly review progress. The CMT and the PRC review financial performance monthly and quarterly respectively.

Amendments to the budget are made throughout the year, to take account of changing circumstances and events which were not foreseen when the budget was agreed. Revisions to the budget are referred to in the FMRs, however, these are at a high level and do not provide any detail on why these revisions were required and why they weren't identified in the original budget. The reallocations within the budget are substantial - £16.39m - but insufficient information is provided to enable appropriate challenge of the reasons for this.

Although the change to the overall budget is immaterial - 2% movement, £2.22m - the movement within categories is more substantial, particularly within infrastructure (27%) due to ferry funding, corporate services (6%).

This is important given the context of 2017/18, when Infrastructure Services underspent its budget by £1.07m (5%). Despite this, the 2018/19 budget included a slight increase on the 2017/18 budget. Similarly, Corporate Services underspent by £0.53m (6%) in 2017/18. Again, despite this, the 2018/19 budget included a substantial increase on the previous year's budget. It is questionable how reasonable it was to assume in the budget that the budget allocation to these groupings would be fully utilised in 2018/19 given the underspends on lower budgets in 2017/18. This has consequences for the accuracy of budgeting across the Council.



Financial management (continued)

Budgetary control systems (continued)

Budget setting

The Council's budget makes clear links to the MTFP and the impact the budget has on the short-term MTFP calculations. The budget should quantify the impact of the current year decisions on the funding gaps identified in the MTFP, rather than just focusing on the impact in the coming year.

Although the Council makes reference to the Corporate Plan in its budget, this is limited to four sentences. There is no analysis of how the budget links in quantitative terms to the priorities set out in the Council's Corporate Plan.

Further, although 'outcomes' are mentioned several times throughout the budget, this is only in a high level sense: there is no information of the outcomes the Council expects to be progressed (and to what extent) by the budget, which makes it difficult for Members to assess to what extent budgetary decisions are impacting on outcomes achieved. The Council has noted that this is a work in progress, although no progress was made in the year with this being due to a lack of time and resources, and insufficient capacity and knowledge to determine the best way to progress it.

A week was spent between officers and Councillors in November 2018 to outline and agree how the Council can manage budget growth. This resulted in each Director being assigned 5-6 priorities to identify growth management areas and tie these into activities. From our discussion with Councillors, we noted that they felt there were no surprises in the budget, suggesting that engagement is effective.

In line with good practice, the Council should maintain a central record of all queries received from Members on the budget and answers provided, with this being publicly available, thereby ensuring that all Members are equally informed on the budget and that the public can be assured that appropriate scrutiny is applied to the budget.

Financial capacity

The Finance Team is led by the Executive Manager – Finance and Team Leader – Accountancy. There has been a change in the Executive Manager – Finance in the year, with Jamie Manson taking up the position in September 2018. There was also a change in the key Financial Accountant role at the Council in January 2019.

Based on our observations and interactions through the audit, we conclude that there are sufficient financial skills within the Council at junior and senior levels. Through our discussions, concerns have been raised about capacity at senior levels within the finance function.

Shetland Islands Council has not carried out a review of the finance structure, with the structure and model used being a legacy issue. Given the issues highlighted with financial management and monitoring, a review of the finance structure should be carried out to assess whether changes in the finance structure and model (moving to a business partnering approach) could result in improvements, as discussed in our sector developments paper.

Financial management (continued)

Systems of internal financial control (continued)

Internal audit

The Council's Internal Audit function has independent responsibility for examining, evaluating and reporting on the adequacy of internal controls. During the year, we have reviewed all internal audits presented to the Audit Committee and the conclusions have helped inform our audit work, although no specific reliance has been placed on the work of internal audit.

From our review of the internal audit reports issued during 2018/19, we have noted that no frauds have been identified, and management has either addressed or made plans to address the risks highlighted.

In 2018/19, the Council's Chief Internal Auditor retired. An opportunity was taken to outsource the internal audit service, with the strategic direction for the internal audit now being set by 'Audit Glasgow', the internal audit function within Glasgow City Council, who provide internal audit services to a number of other bodies. The Council is retaining several internal audit staff, thereby ensuring continuity of knowledge. The transition has been well managed and offers an opportunity for the Council to make use of a wider base of expertise.

Standards of conduct for prevention and detection of fraud and error

We have reviewed the Council's arrangements for the prevention and detection of fraud and irregularities. Overall we found the Council's arrangements to be well designed and appropriately implemented.

National Fraud Initiative (NFI)

In accordance with Audit Scotland planning guidance, we are required to monitor the Council's participation and progress in the NFI during 2018/19. An NFI audit questionnaire was completed and submitted to Audit Scotland by 30 June 2019. A number of issues have been highlighted, including:

- The Audit Committee did not review the self-appraisal checklist referred to in the 2018 NFI report to inform planning and progress of the 2018/19 NFI exercise.
- Internal audit does not monitor the approach to NFI or outcomes.
- The NFI key contact is the Team Leader – Revenues and Benefits, which is not the norm nationally and they do not consider themselves to be an appropriate officer for that role (this view was shared by the previous Executive Manager – Finance), nor is sufficient time available for the NFI exercise.

These issues are similar to those highlighted in 2016/17 and remain unaddressed despite audit recommendations at the time.

A summary of the matches reported in the NFI system is provided in the table below which notes that no frauds or errors have been identified from the matches processed to date.

	Total
Total matches flagged	2,161
Total processed	1,414
Frauds	-
Errors	-
Savings	-

Financial management (continued)

Deloitte view

Deloitte view – Financial management

Shetland Islands Council drew on £15.31m of reserves in 2018/19. Throughout the year, the Council was forecasting an overspend, despite having incurred underspends to the date of reporting. Going forward, FMRs should present information on actual expenditure in each quarter, in addition to the forecast outturn for the full year as at the end of each quarter. This will enable the Council to challenge where overspends are anticipated more effectively. To further improve scrutiny, narrative in the FMRs needs to be significantly improved to provide explanations for why variances have occurred, not just what they consist of.

Revisions to the budget are referred to in the FMRs, however, these do not provide any detail on why these revisions were required and why they weren't identified in the original budget. The revisions are substantial but insufficient information is provided to enable appropriate challenge of the reasons for this.

The Council's budget makes clear links to the MTFP and the impact the budget has on the short-term MTFP calculations. In future, the budget should quantify the impact of the current year decisions on the funding gaps identified throughout the MTFP, rather than just focusing on the impact in the coming year. The Council also needs to better align its budget with its Corporate Plan, making clear how the budget progresses the Council’s priorities.

There has been a change in the Executive Manager – Finance in the year as well as the key Financial Accountant role. We are satisfied that there are sufficient financial skills within the Council at junior and senior levels. However, concerns have been raised about capacity within the finance function. To help address this, the Council should consider reviewing the structure of its finance function (considering a business partnership role, as discussed on page 17) and the Council should ensure that training needs of key staff are assessed on an annual basis and training plans specific to the role and individual are developed.

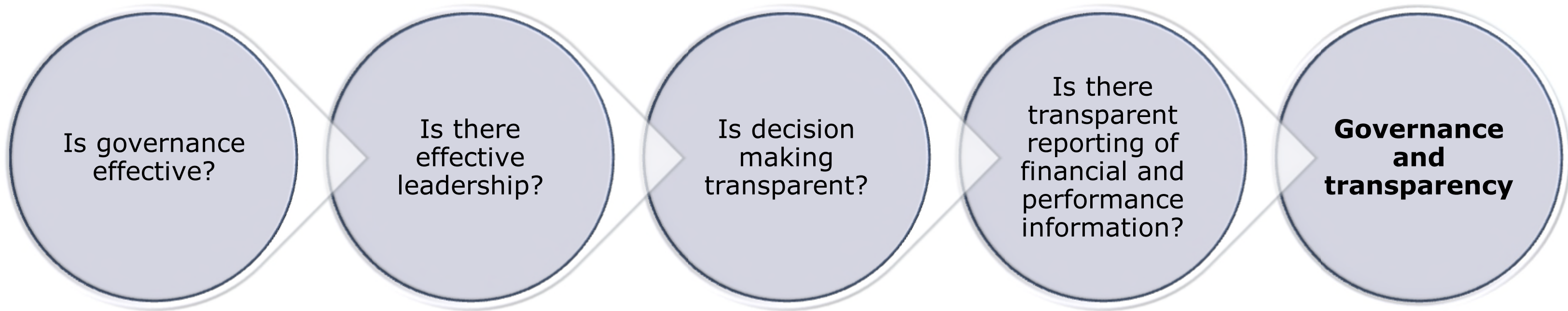
The Council has changed internal auditors in the year, given the retirement of its Chief Internal Audit. The internal audit function is now provided by ‘Audit Glasgow’, the internal audit service in Glasgow City Council. The transition has been well managed and offers an opportunity for the Council to make use of a wider base of expertise.

We note that issues raised in relation to the NFI exercise in 2016/17 have arisen again in the 2018/19 exercise, namely that the officer responsible for the exercise is not the appropriate officer, that internal audit do not monitor progress and that the Audit Committee did not review the self-appraisal checklist in the 2018 NFI report. The Council needs to put plans in place this year to ensure these issues do not recur for the 2020/21 exercise.

Governance and transparency

Overview

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information



Audit risks

Within our audit plan we identified a number of risk as follows:

- the Council's governance arrangement are not sufficient;
- there is insufficient governance and scrutiny of Council actions; and
- the Council's approach to openness and transparency is not keeping pace with public expectations and good practice**.**

Governance and transparency (continued)

Leadership, vision and governance arrangements

Council and Partnership plans

The Shetland Partnership Plan runs from 2018-2028. Now into its second year, we are pleased to note that the Council - as the largest member of the Partnership - is leading the development of delivery plans.

However, there are no clear 'due dates' for when these delivery plans will be available and it is difficult to monitor performance against the Partnership Plan as a result of that, or to assess whether the Partnership is on track to achieve its plan. The Council needs to set clear timeframes for when the delivery plans will be available and ensure that their development is properly prioritised and resourced. If delivery plans are not published in the near future, the Partnership risks losing trust amongst the community and the workforce who will be key to achieving the desired outcomes.

While the Council Plan does not contradict the Partnership Plan, they are not aligned. We noted this last year and recommended changes, and note that no changes have been made to the Council Plan or Partnership Plan in the year. As the Council Plan is due to be refreshed in 2020, the Council should ensure that it either aligns with the Partnership Plan or ensures clear links between the Council Plan and the Partnership Plan, demonstrating how the Council Plan is complementing the Partnership Plan.

Leadership

The Council and its partners have a clear vision for what it wants to achieve for the people of Shetland. Councillors and staff support the vision.

The Council has strong executive leadership, driven by the CEO (who was key to the progress and completion in many areas of the Business Transformation Programme in 2018/19, as discussed on page 30). The CEO and wider leadership team need to continue to drive progress together, ensuring that there is sufficient buy-in across the team, rather than being so heavily reliant on the CEO.

The Shetland Partnership Plan's **vision** is:

"Shetland is a place where everyone is able to thrive; live well in strong, resilient communities; and where people and communities are able to help plan and deliver solutions to future challenges."

The Shetland Partnership Plan has agreed four **strategic priorities** to help make this happen:

- **Participation**
- **People**
- **Place**
- **Money**

The Council Plan's **vision** is:

"We want to be known as an excellent organisation that works well with our partners to deliver sustainable services for the people of Shetland."

The Council has agreed five **strategic priorities** to help make this happen:

- **Young people**
- **Older people**
- **Economy & housing**
- **Community strength**
- **Connection & access**

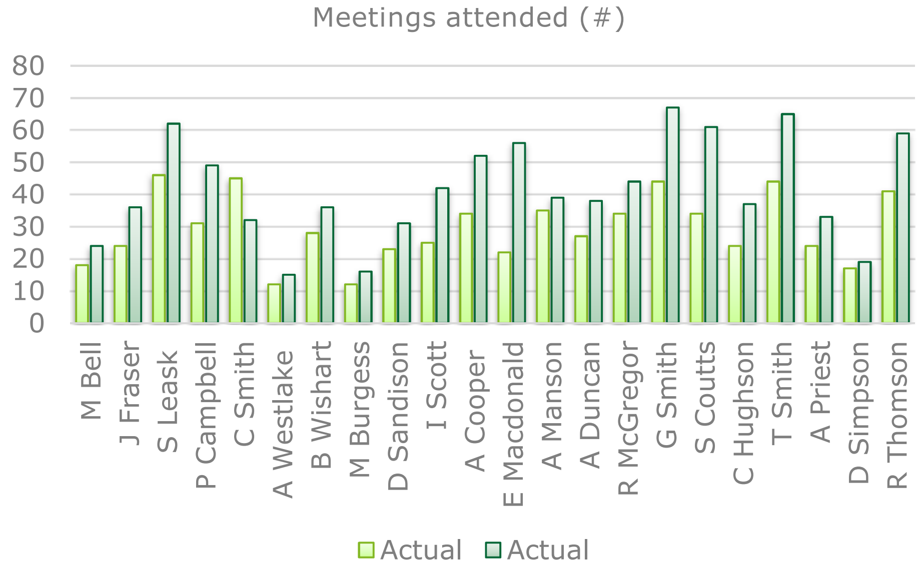
Governance and transparency (continued)

Leadership, vision and governance arrangements (continued)

Effectiveness of governance

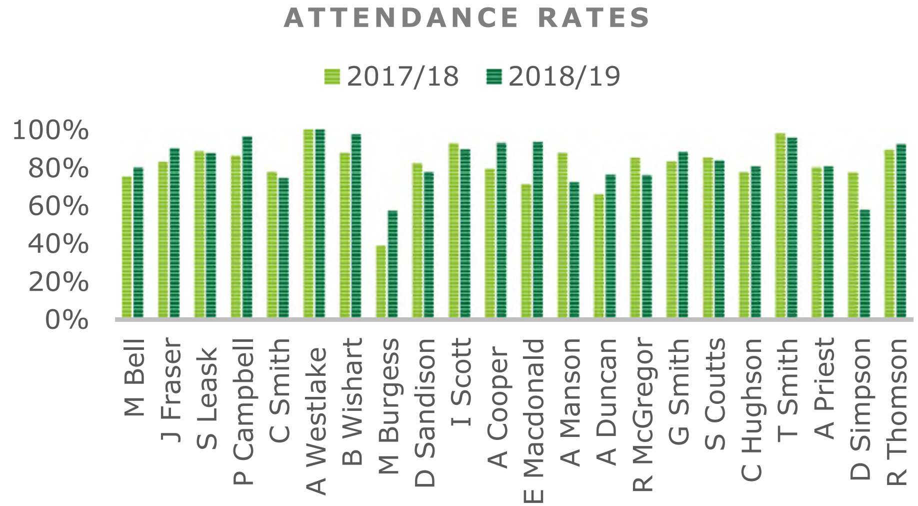
The Council does not have a structured approach to regular self-assessment. In 2018/19, only the Audit Committee was subject to self-assessment. The Council needs to have annual self-assessments of governance arrangements, Committee and Council performance, which can help inform and guide the more structured mid-term review which is already carried out on a less regular basis. We are aware of a number of councils which have a dedicated Improvement Unit to perform self assessments and lead on improvement activity, informed by a structured self assessment and review programme - the Council should develop a similar programme and assign a specific officer with responsibility for ensuring the Council has adequate self assessment arrangements in place.

In addition to a review of governance arrangements, self-evaluations should be carried out at a corporate and service level. These reviews should be structured and regular, taking account of ongoing developments (for example, national and Best Value ('BV') reports). The results of these reviews should be made publicly available through the publication of an Annual Self-Evaluation Report.



Attendance at Council meetings is commendably high, increasing from 81% in 2017/18 to 84% in 2018/19. However, the number of meetings has increased significantly (by 37%) in 2018/19 and the level of involvement from Members fluctuates significantly: some Members attend as few as 15 meetings, some as many as 67, with attendance rates ranging from 57% to 100%. While Members nominate themselves to Committees and thus are in charge of how many meetings they attend, the Council should work with Members to more evenly spread the workload of the Council and ensure appropriate scrutiny at all levels, as there is a risk that Members on a high number of Committees may not be able to provide the same level of attention to each.

The Council does not have a training plan at an individual Member, Committee, or Council level. No skills gap analysis has been carried out and appraisals are not conducted for Members to enable an informed training plan to be developed. The effectiveness of training that is provided is not regularly assessed - in 2018/19, no feedback was collated to assess the effectiveness of training. The Council needs to fundamentally overhaul its approach to training and adopt a formal, ongoing approach to development. The Council needs to carry out a skills gap analysis as part of the annual self assessment of Committees and the Council, work in conjunction with Members to develop training plans for them (specific to Committees/Members' needs), assess the effectiveness of all training provided and track and report attendance at training by Members.



Governance and transparency (continued)

Openness and transparency

Openness and transparency

Taking an ***open approach*** to business can support good governance.

It is about behaviours, centred on a preference for sharing information about how and why decisions are made. In the public sector, this is based on the recognition that public services are delivered for the public good using public money.

Transparency can be seen as a process. Access to information provides insight into decision-making and how the organisation work. Transparency in the public sector is supported by statutory requirements and regulations. These are minimum requirements and it is for individual organisations to decide whether the content and volume (in terms of quantity and amount of detail) of the information that they make available contributes to increased understanding. There are judgements to be made, and an approach designed to increase transparency rather than comply with minimum standards is more likely to satisfied the good governance test.

Openness and transparency are individually important, and working well together they help demonstrate that public organisations are acting in the public interest.

We have considered the Council's approach to openness and transparency, how good the Council's information is; and its commitment to improving openness and transparency and concluded that the Council has a generally positive attitude towards openness and transparency and is positively disposed to improving in this area. While we are pleased to note planned improvements - such as the development of a new website where all Council information will be publicly available, other than by exception - we note that the Council has not carried out a review of how open and transparent it is, or sought the views of the wider community on its approach to openness and transparency. The Council should carry out regular stakeholder or citizen surveys and seek views on how open and transparent it is through these. Consideration of openness and transparency should also be built into the Council's staff survey.

While it is welcome that the Council is planning to make more information publicly available, it needs to ensure that the information is accessible to the reader. For example, while the Council has published its constitution and governance framework, it would not be clear to the average member of the public how the Council makes decisions as the documents published are detailed, technical operational documents and not summarised or explained for non-Council employees.

Quality of information

The Council provides extensive and timely information to Members to enable them to take decisions. However, the Council should review whether the style of report is appropriate (it is important that Members are involved in any such review.) There is a high quantity of lengthy reports, with the covering reports often failing to identify the key matters being considered and the implications of decisions not being properly analysed and considered. While it is important for decisions to be made on a timely basis, it is important that the officers signing off the report are happy that it is clear but concise and would enable an independent person to make an informed decision, and not just signing off reports to meet deadlines.

As part of the review of reports, the Council should also consider how it minutes meetings: the Council should ensure that minutes are clear and have sufficient detail. We note that the Council has recently announced its intention to move towards webcasting of Council meetings. This, coupled with effective minute taking, should demonstrate how scrutiny has been effective and how decisions have been made.

In addition to making information available on its website and hosting public Council and Committee meetings, the Council needs to take steps to actively communicate with the community on an ongoing basis. Improvements could be made through the use of webcasting meetings or hosting meetings in alternative locations on occasion. Across Scotland, a number of councils have either quarterly or annual newsletters outlining key decisions which have been taken in the period, how the Council is performing and how the public can get involved. The Council should consider adopting this approach.

Commitment to improvement

The Council should ensure that any review of its governance framework specifically considers improvements which can be made to openness and transparency. It should be considering how it can become increasingly open and transparent on an ongoing basis, identifying improvements that will help stakeholders and the public to understand how decisions are made and how they can engage with the Council.

Community engagement

The Council needs to improve its community engagement and consultation in relation to financial planning (for the annual budget, the MTFP and the LTFP). Further to our comments on the lack of community engagement in longer-term planning in 2017/18, we note that there is no evidence of deliberate, structured community engagement in the budget setting process. The Council should consider utilising technology or traditional surveys to improve community involvement in the financial planning process: a number of councils across Scotland now allow the public to 'create your own' budget online, with the findings from this considered when developing the budget.

Shetland-wide stakeholder surveys were used to inform the Partnership Plan. The Council should carry out regular stakeholder or citizen surveys, which will enable the Council to monitor changing expectations and respond to perceived or actual weaknesses in Council performance.

Community engagement (continued)

As with a number of councils across Scotland, the Council is not meeting all of its obligations under the Community Empowerment Act. The Council is currently non compliant with the requirement to have locality plans for local areas at specific risk of inequalities. The Council is also at risk of being non compliant with participatory budgeting requirements from 2020 given its heavy reliance on the Transport Review enabling it to meet this requirement and no action yet taken to widen the Council's approach to participatory budgeting beyond public transport.

The Council needs to develop and document its community empowerment arrangements, provide training to Members and officers on what empowerment means, and work to develop community capacity.

While there is evidence of community consultation on large scale projects, no evidence of a structured approach to community engagement was provided, so it is unclear when the Council considers engagement should be carried out, what form it should take, how it is measured and monitored, and how its impact is reported both internally and externally. We note the consultations carried out for various large scale projects (such as on the Tertiary Review, Transport Review and Residential Care for Looked after Children) are inconsistent in approach and extent. This may be appropriate, but it is unclear how such decisions are reached given the lack of a structured approach.

The Council also needs to ensure it has plans in place to enable those not normally involved in Council decisions to become more involved. For example, we note a recent allocation of funding was subject to local voting, but only for those members of the public who were able to be in Lerwick between 11 - 3 on one date. The extent of engagement this enables is minimal, and the Council needs to do more to ensure it reaches a wider section of the community.

The Council needs to communicate to the public how consultation actually makes a difference, with disclosure on the website being a simple way of achieving this. The 'Consultation' page on the Council's website was last updated in January 2019 and contains no consultations, no information on past consultations or the outcome of them, or any other information which may be useful.

Following the public pound

The statutory requirements to comply with the Following the Public Pound Code (FtPP), in conjunction with the wider statutory duty to ensure BV, means that Councils should have appropriate arrangements to approve, monitor and hold third parties accountable for public funding provided to them. The Council adopted the Code of Guidance on Funding External Bodies and Following the Public Pound in 1996. It has clear procedures and policies in place for adherence to the Code, which are aligned with the requirements laid out in the Code. The policy was last reviewed by internal audit in 2017/18.

Approximately £5m worth of grants were awarded to individuals and organisations in 2018/19. In 2017/18, internal audit raised concerns over the lack of standards or procedures in place to ensure that the Code is adhered to. Further issues were highlighted as complex accounting information provided for grants monitoring was being reviewed by staff who are not trained accountants. Concerns were also raised in relation to the terms and conditions listed on grant offers, with issues also highlighted regarding inappropriate recording and payment of grants.

Given the significant quantum of grants awarded in any given year, and given the issues highlighted by internal audit in 2017/18, the Council should include compliance with FtPP as a standard item in the annual internal audit plan until sufficient assurance is received that the problems identified have been remedied.

The Council's policy requires that summary reports on the support provided to organisations and the outcomes achieved through the support provided be presented to the relevant service committee. There has been no reporting in either of the years considered (2017/18 and 2018/19) which meets the requirements set out in the policy. Although service committees are responsible for approving grants when initially awarded, the lack of monitoring means that it is not possible for Members to ensure that Council funding given to external organisations represents value for money.

Specifically in relation to its partner organisations, we are satisfied that through the use of Council systems and services and joint Committees, the Council has sufficient oversight of money provided to the Shetland Islands Integration Joint Board, Zetland Transport Partnership and Orkney & Shetland Valuation Joint Board.

Governance and transparency (continued)

Deloitte view

Deloitte view – Governance and transparency

We are pleased to note that the Council is in the process of developing delivery plans for the Shetland Partnership. The Council needs to set clear timeframes for when the delivery plans will be available and ensure that their development is properly prioritised and resourced. Looking to later in the year, when the Council is refreshing it's Corporate Plan, it needs to ensure that its vision and priorities are aligned with the Partnership Plan.

In general, Shetland Islands Council has a good attitude to openness and transparency. However, it has not taken specific actions in the year to improve its approach to openness and transparency in line with good practice. The Council should review its approach to openness and transparency in 2019/20, developing an action plan in conjunction with Members and wider stakeholders, monitoring improvements in openness and transparency on an ongoing basis thereafter.

The lack of review of the Council's approach to openness and transparency evidences the Council's weaknesses in self assessment. In the year, only the Audit Committee underwent a self assessment. The Council should have annual self-assessments of governance arrangements, Committee and Council performance, and the Council should consider adopting self assessments of performance at both a corporate and directorate level. The Council should develop a self assessment programme and assign a specific officer with responsibility for ensuring the Council has adequate self assessment arrangements in place.

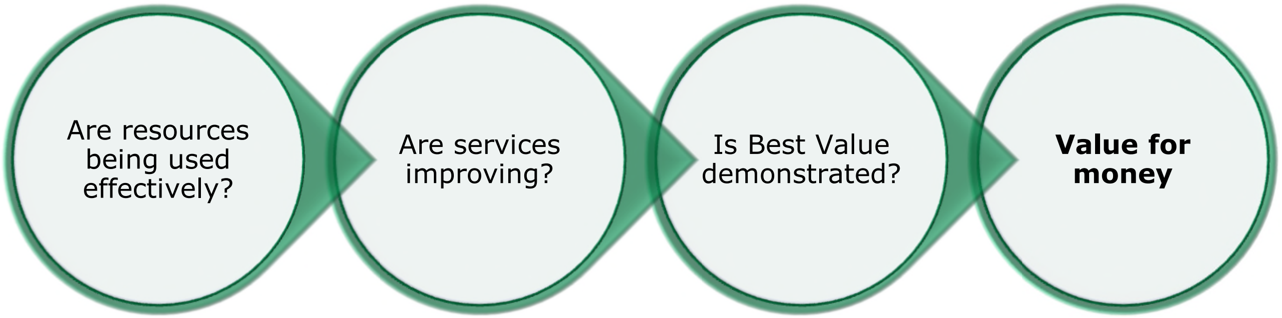
While attendance at Council and Committee meetings is high, the effectiveness of scrutiny is at risk of being weakened by the unequal workload on Councillors and the lack of any training plans for Members. The effectiveness of training that is provided is not regularly assessed, with no feedback received in 2018/19 on any of the training provided. The Council needs to adopt a formal, ongoing approach to development. The Council needs to carry out a skills gap analysis as part of the annual self assessment of Committees and the Council, work in conjunction with Members to develop training plans for them (specific to Committees/Members' needs), assess the effectiveness of all training provided and track and report attendance at training by Members.

As with a number of councils across Scotland, the Council is not meeting all of its obligations under the Community Empowerment Act. The Council needs to develop and document its community empowerment arrangements, provide training to Members and officers on what empowerment means, and work to develop community capacity.

The Council adopted the FtPP in 1996. It has clear procedures and policies in place for adherence to the Code, which are aligned with the requirements laid out in the Code. The policy was last reviewed by internal audit in 2017/18. A number of issues were highlighted in this review, and we have identified a further issue where the Council's policy is not adhered to, with insufficient reporting to committees on the support provided and outcomes achieved. The Council should request that compliance with the Code be assessed by internal audit as a standing item each year until the Council has sufficient assurance that the issues raised have been addressed.

Value for money
Overview

Value for money is concerned with using resources effectively and continually improving services.



Audit risks

Within our audit plan we identified a number of risk as follows:

- the Council does not appropriately prioritise areas of poor performance;
- the Council has not achieved value for money in progressing its Business Transformation programme; and
- the Council does not clearly report on its contribution towards the national outcomes.

Value for money

Performance management

Performance management

The Council gathers performance information to monitor, track and improve service delivery to the community. The Shetland Partnership Plan and the Council Annual Performance Report are the main strategic tools which are used to plan for and report on the Council's performance.

The Council reports on indicators gathered from:

- Directorate and Service plans;
- Local Government Benchmarking Framework;
- Statutory Performance Indicators; and
- Shetland Partnership Plan.

We are pleased to note that the Council is currently developing a new Performance Framework as part of the Business Transformation Programme. The new Framework is designed to allow it to be used by partner organisations, progressing the Shetland Partnership Plan. A key element of the Framework is public reporting, with benchmarking to be used and featured in business cases, options appraisals and performance reports.

Accuracy of reporting

From our review of information reported to service committees, we noted that the sickness absence information reported to the various service committees differs depending on the committee reported to, despite the sickness absence information being for the same period and covering all directorates within the Council. Sickness absence is not reported to committee for Development Services, despite Development Services having the second highest sickness absence level, above the Council average, and significantly above the historical annual average or absence levels at the same period in previous years. It is not clear why the information differs between reports and undermines the ability of Councillors to effectively monitor performance in this area. The Council needs to standardise what is reported to committees (i.e. if sickness absence is reported to one committee, it should be reported to all committees). Through Pentana, the Council should develop a suite of indicators that are locked down at month and quarter end and then used for all reporting to ensure consistency.

Statutory performance indicators

The Accounts Commission places great emphasis on Councils' responsibility for public performance reporting. The Commission does not prescribe how Councils should report this information but expects them to provide the public with fair, balanced and engaging performance information.

Overall, we concluded that the Council's arrangement for publication are satisfactory. A summary of the Council's performance results compared with 2017/18 is set out on page 31 and overall, shows an improving position.

Self assessment

We note that the Council does not carry out self-assessments for Directorates. However, the Council note that reflective practice is supported through meetings between staff and management, at team and directorate team meetings and at CMT. Consequently, there is no Council-wide 'Improvement Plan'. The Council note that improvement actions are identified in plans at a Council, Directorate, Service and individual officer level, with these monitored through ongoing interaction with staff, managers and elected members. However, the lack of a centralised Improvement Plan makes it difficult to monitor improvement across the Council as a whole and to identify areas where improvement is not progressing as planned.

In line with good practice, a clear and concise annual Improvement Plan should be prepared and reported to Council. This Improvement Plan should be informed by service self-assessments, stakeholder surveys and national reports.

BV reports regularly highlight that council's need to be aware of national and local perceptions of their performance. We reviewed the Council's 'Customer First' survey, carried out in November/December 2017. The usefulness of the stakeholder survey is undermined by the lack of any historical information or trend analysis, and the lack of targets, and the lack of linkage to Council priorities or performance measures. There has been no updated survey carried out in 2018/19 to identify if actions taken after the 2017/18 survey are yielding the desired results.

Self assessment (continued)

We are pleased to note from the 2018/19 Q3 update report that some managers within the Council are discussing ways in which Customer First indicators could be added to service plans. We would encourage this approach to be adopted across the Council.

Best Value

The BV framework follows a five year approach to auditing BV. 2018/19 represents year three of the BV audit plan. The Best Value Assurance Report (BVAR) report for Shetland Islands Council is planned for year five in the five-year programme (i.e. 2020/21).

The BV audit work in 2018/19 was integrated into our audit approach, including our work on the audit dimensions discussed throughout this report.

In line with a number of councils across Scotland, Shetland Islands Council should consider whether signing up to the Quality Scotland Excellence Framework could provide a basis and impetus for continuous and quicker improvement.

Procurement

We have reviewed the most recent Procurement and Commercial Improvement Programme (PCIP) assessment for the Council, being from 2016/17. The Council have confirmed that the next assessment is scheduled for 2019/20. Procurement performance in 2016/17 was assessed as being 48%, in the 6th performance banding (of 12). However, the Council was commended for its upward trend in performance at that time. The Council should engage with Councils across Scotland to learn lessons from those who have consistently achieved the top banding.

Major transformation projects

As discussed on page 9, the Council is progressing with its BTP. As part of this, the Council purchased SLAP in October 2018 and a decision to approve and progress the merger of Shetland College, Train Shetland and NAFC Marine Centre was made in December 2018. We have reviewed the business cases for each of these projects as part of our audit work and concluded as follows:

- ***Purchase of SLAP*** - The Full Business Case for the acquisition of SLAP identifies a rate of return for the acquisition of 7.14%, with the net present value of the acquisition being in excess of £7m. The acquisition of SLAP will reduce annual lease expenditure of the Council by over £1.2m. Appropriate due diligence was performed which did not identify any issues with the approach or methodology used in the Full Business Case. While the acquisition of SLAP itself is not transformative, it enables the Council to explore transformative actions and to identify alternative models of service delivery given that it has much more control over its property base.

- ***College merger*** – From our review of the Full Business Case for the College Merger, we concluded that the methodology and modelling used were appropriate, the assumptions were supportable and reasonable and the financial model was robust. The proposed merger identified savings of £2.44m per annum over the medium term (£12.2m over 5 years), offset by one-off costs of £0.87m and a financial guarantee for £4.4m. The Full Business Case includes detailed analysis of the impact the proposed merger would have on service delivery, outlining proposed changes to delivery models to improve the outcomes achieved for service users. The Full Business Case included consultation with key groups such as service providers and service users and was cognisant of the wider impact on the Shetland community.

The Full Business Cases produced for both the acquisition of SLAP and the proposed College Merger demonstrate clear financial savings which can be made, identify positive changes to service delivery and provide assurance that if appropriately managed, progressed and monitored, value for money will be achieved. The Council needs to carefully monitor progress against these actions to ensure that benefits are realised, and a post-implementation benefits realisation analysis should be performed by the Council to ensure any areas of good practice and lessons learned are appropriately used in future.

Value for money (continued)

Overview of Performance

Local Government Benchmarking Framework

We have drawn on the Local Government Benchmarking Framework (LGBF) to make a high level assessment of the Council's performance, relative to all Scottish councils, in 2017/18 (the latest data available). The LGBF includes a number of indicators organised under common service areas.

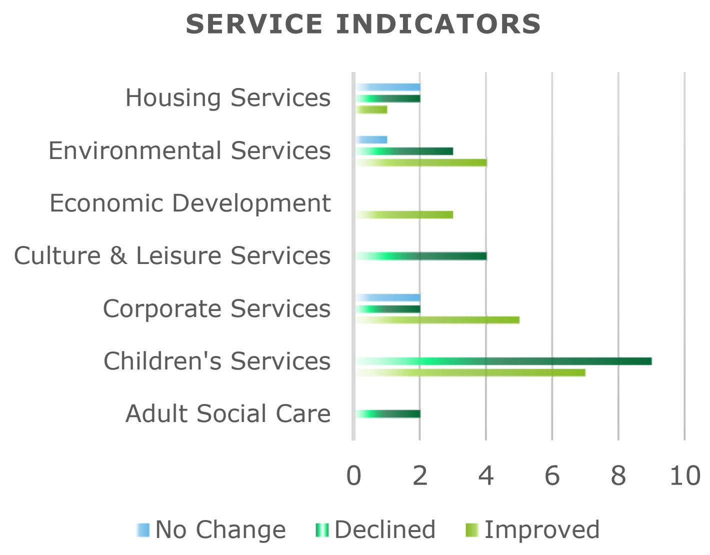
The LGBF data was presented to the Council for consideration in 2018/19. Although the information is provided in full to the Council, the accompanying report lacked detail of which areas the Council considers to be 'priority' areas and narrative on which indicators are considered to be the most important and relevant for consideration by the Council. The report also did not outline the general performance of the Council - with each indicator presented separately and no high-level analysis or narrative, it is difficult to identify trends across the Council.

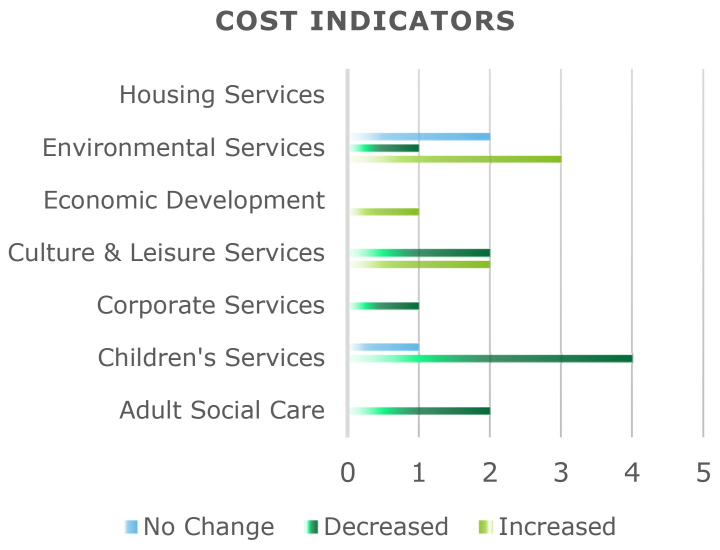
Further, in the appendices to the report, the information on 'future improvements' was incredibly high level and aspirational, and it is difficult to see how assurance could be gained from the narrative provided that performance will be improved in the coming year.

In 2017/18, Council service performance improved in 20 areas, declined in 22 areas, with no change identified in 5 areas. The cost of services was reduced in 10 areas, increased in 6 areas, and maintained in 3 areas.

The main areas where spend was reduced are Children's Services, Adult Social Care and Culture & Leisure Services, with this having knock on impacts on service performance: all Adult Social Care and Culture & Leisure Services indicators declined, while 56% of Children's Service indicators declined. This drop in spend is per service user, and is due to increased demand for services in the year (particularly for residential care for looked after children and social care), not matched by a proportionate increase in resources, which has resulted in a decline in service performance indicators.

Although performance has declined locally, it is important to note that Shetland Islands Council performance is better than the Scottish average in 31 areas (worse in 16). Against similar councils, Shetland Islands Council performs better in 27 areas (worse in 20). However, this higher level of performance needs to be considered in the context of the higher spend in Shetland - Shetland Islands Council spends more than comparable councils in 14 areas (less in 5), and more than the national average in 13 areas (less in 6). In other words, the Council spends more than comparable councils in 74% of areas but performs better in 66%, and it spends more than the national average in 68% of areas but performs better in 57%.



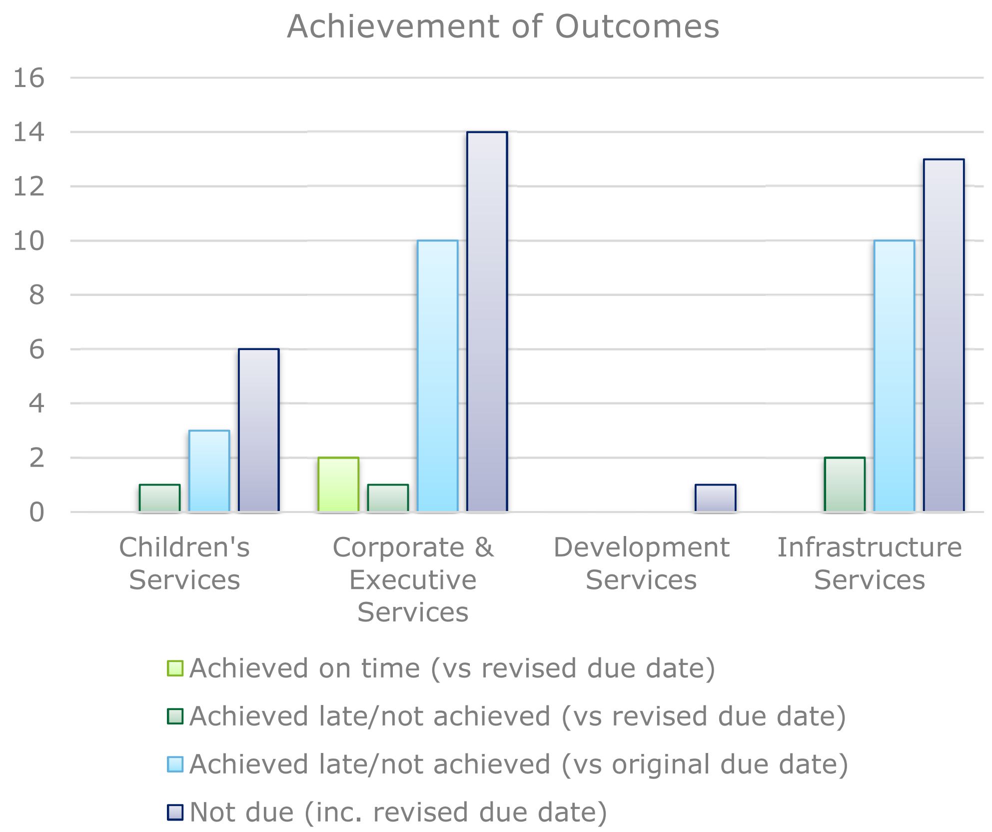


Value for money (continued)

Overview of Performance (continued)

Shetland Partnership Plan

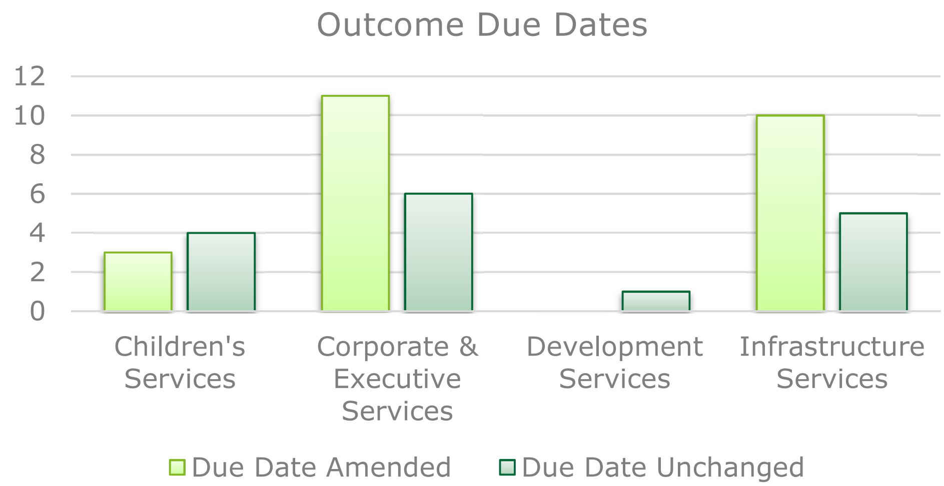
Performance against the outcomes in the Shetland Partnership Plan are reported to service committees on a quarterly basis. In Quarter 3 2018/19, 40 outcomes were reported against. The 'due dates' for the outcomes had been amended for 24 of these outcomes, with no narrative to explain why this was the case and why the original due date was not achieved.



Compared to original due dates, 23 outcomes were not achieved. None were achieved on time against the original due date. Against revised due dates, 2 were achieved on time, 4 were achieved late and 34 are not yet due.

Progress is measured in terms of percentage. However, there is no measurable target specified for any of the 40 outcomes reported against, so it is difficult to understand why progress is reported as, for example, 50% (rather than 30%, or 70%, etc.) given that it is not clear what is being actually measured and how this progress measure was calculated.

The narrative provided against the outcomes is severely lacking in any measurable data of performance against the outcome and specific actions to address underperformance. The information reported to the service committees is insufficient to enable councillors to properly monitor and scrutinise performance.

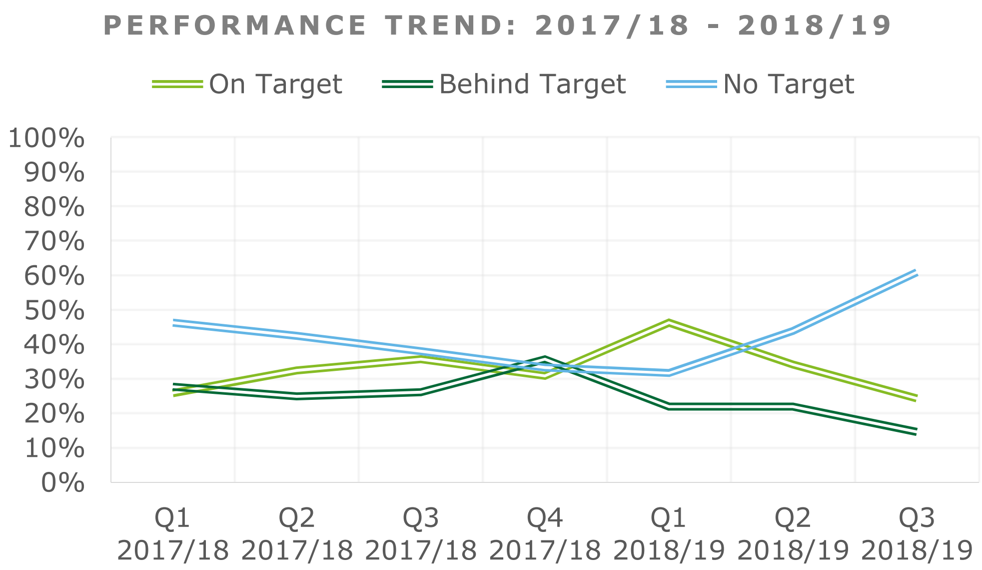


Value for money (continued)

Overview of Performance (continued)

Service performance

Performance has improved, on average, from 2017/18 to 2018/19: from 33% of reported measures being on target to 35%. However, after steadily improving throughout 2017/18 and into Q1 of 2018/19, performance has dropped substantially in Q2 and Q3 of 2018/19, with the amount of targets achieved in Q3 2018/19 at 24%.



In general, the usefulness of the performance information is limited by the large number of indicators where there is no target or where no information is provided: this has increased from 40% in 2017/18 to 46% in 2018/19. In Q3 2018/19, this rose sharply to 61%. This substantially undermines the ability of councillors to understand and scrutinise performance. Where there are no targets or where information is not provided, it is not explained in the narrative why this is the case and why this is appropriate.

It is difficult to monitor if performance is actually improving, or if targets are simply being met due to targets not being changed. The Council should report on an annual basis on the indicators it intends to monitor in the coming year (ensuring they cover the areas required by the Statutory Performance Indicators direction), the targets for each quarter (if available), and the performance for the corresponding period in the previous year. This will enable members to assure themselves that the Council is appropriately focused on continuous improvement.

There is no link between the indicators reported, the Council's priorities and outcomes for communities. The narrative provided alongside the performance indicators is high-level and does not enable an observer to understand specifically why performance has - or has not - met a target, whether that was within or outwith Council control, and what specifically will be done to address areas of underperformance.

Homelessness

The Local Government Challenges & Performance Report 2019 noted that homelessness applications rose by 1% between 2016/17 and 2017/18 nationally. In Shetland, the increase was 11%. The length of time spent in temporary accommodation (455 days) is significantly above the national average (171 days). The level assessed by Shetland Islands Council as being intentionally homeless is above the national average, the amount assessed within 28 days is below the national average. This has knock on effects on outcomes: the percentage of homeless people for whom the Council did not know the outcome due to lost contact was above the national average.

The Council is in the bottom quartile of all social landlords in relation to key indicators such as tenant satisfaction, communication with tenants, tenant participation in decision-making, value for money of rent, days to complete repairs, and repairs completed right first time.

Shetland Islands Council needs to prepare a specific Improvement Plan to address the issues identified in relation to housing and homelessness and monitor improvement over 2019/20. The Scottish Housing Regular will continue to monitor progress in this area and we will maintain oversight through the Local Area Network.

Value for money (continued)

Integration of health and social care

Health and social care integration

Financial planning in the IJB is not integrated, long term or outcome focused. This severely limits the ability of the IJB to change the way the system operates. The Council can work with its partners to improve this by following up on recommendations made in 2017/18 to treat the budget allocation as 'IJB money' rather than 'Council' and 'NHS' money. The development of an MTFP and LTFP are also necessary to help drive this change. While we note that a high-level MTFP has been prepared in 2018/19, this needs to be significantly improved in terms of robustness of the plan and the Council needs to work closely with the IJB in this. Currently, the MTFP simply quantifies the problem.

The Council should work with the NHS to ensure that the IJB has the resources and capacity needed to develop strategic thinking and deliver transformational change. The Council needs to make sure that it involves the IJB in the development of the Council workforce plan to ensure the IJB's needs are met.

The IJB needs to seriously consider if leadership are appropriately resourced and supported by enough personnel and other services (e.g. HR, Legal, Accountancy) to deliver the strategic change necessary. The Council needs to work with the IJB on this point, particularly given the potential issues of financial capacity highlighted on page 17. While staff may be 'assigned' to the IJB to provide these services, this is on top of their current roles and the IJB, NHS and Council need to critically evaluate whether this is appropriate and actually working in practice – if it is not, the IJB needs to be clear what is missing that would enable improved outcomes.

Cultural differences are identified as being a single, key issue undermining progress, as there are issues of trust and understanding which impede progress. It is incumbent upon Councillors who sit on the IJB to see themselves as 'the IJB' rather than the Council and for officers to make clear where they are blurring these roles. Only by having these issues pointed out will members and officers begin to instinctively understand over time and change behaviours.

The NHS, IJB and Council need to work together to clearly set out roles and responsibilities of each of the parties - in greater detail than currently set out in the Integration Scheme - ensuring consistency across the partner organisations and ensuring that delegation of responsibilities is carried out effectively.

There is a legal requirement for the effectiveness of the Integration Scheme to be reviewed by the fifth anniversary of its approval, which means the Council, NHS and IJB need to conduct such a review in 2019/20. We note that an "Options Appraisal" for the future of the IJB has been carried out in 2018/19, and this needs to be taken forward and used to inform any changes needed to the Integration Scheme.

Value for money (continued)

Deloitte view

Deloitte view – Value for money

We are pleased to note that the Council is currently developing a new Performance Framework as part of the BTP, with a key element of the new framework being public reporting, with benchmarking to be used and featured in business cases, options appraisals and performance reports. Also of note is the Council’s attitude to ‘spend to save’ activities on demand management projects. The investment in prevention and early intervention in Children's Services and Social Care is a positive example of the Council funding programmes of demand management and we encourage the Council to identify further areas where such action can be taken.

In line with good practice identified by Audit Scotland, we recommend that the Council prepare a clear and concise annual Improvement Plan to be reported to the Council. This Improvement Plan should informed by service self-assessments, stakeholder surveys and national reports.

We have specifically reviewed the business cases for two key transformation projects in the year: the purchase of SLAP and the College Merger. The Full Business Cases demonstrate clear financial savings which can be made, identify positive changes to service delivery and provide assurance that if appropriately managed, progressed and monitored, value for money will be achieved. The Council needs to carefully monitor progress against these actions to ensure that benefits are realised.

From review of the LGBF, Council service performance improved in 20 areas, declined in 22 areas, with no change identified in 5 areas. The cost of services was reduced in 10 areas, increased in 6 areas, and maintained in 3 areas. The Council spends more than comparable councils in 74% of areas but performs better in 66%, and it spends more than the national average in 68% of areas but performs better in 57%. Shetland performs particularly poorly in homelessness. A specific Improvement Plan to address the issues identified in relation to housing and homelessness needs to be prepared,

From the Council’s performance monitoring reports, it is difficult to fully assess performance, including performance against outcomes, given that a number have no targets, and others have targets that are changed with insufficient narrative provided to understand progress made to date and planned actions and timeframes. The Council should report on an annual basis on the indicators it intends to monitor in the coming year, the targets for each quarter, and the target for the corresponding period in the previous year. This will enable Members to assure themselves that the Council is appropriately focused on continuous improvement.

There are a number of challenges facing health and social care integration, including financial planning, resourcing and capacity, blurring of roles and perceived difficulties with the Integration Scheme. The Council needs to work with its partners in the NHS and IJB to address these issues, which can be progressed through a review of the Integration Scheme required by mid 2020.

Other specific risks

As set out in our Audit Plan, Audit Scotland identified a number of areas as significant risks faced by the public sector. We have considered these as part of our audit work on the four audit dimensions and summarised our conclusions below.

Risk	Areas considered	Conclusion
EU Withdrawal	We have assessed what work the Council has done to prepare for the impact of EU withdrawal, specifically considering people and skills; finance; and rules and regulations.	The Council appropriately assessed and planned for the potential impact of EU withdrawal. We have concluded that the Council is well prepared for EU Withdrawal. ***People and Skills -*** The Council is communicating regularly with staff on the potential implications of EU Withdrawal. The Council is aware of the level of exposure its workforce has to EU Withdrawal and is taking clear steps to support staff who may be affected. The Council has clearly identified EU Withdrawal as a risk in its Corporate Risk Register. The Council is working closely with third and private sector organisations to assess workforce risks across Shetland. ***Finance -*** The Council is aware of the extent of funding it receives from the EU, and the risk faced by third and private sector organisations from the potential loss of EU funding. These risks are reflected in the Council's Corporate Risk Register. ***Rules and Regulations -*** The Council has identified products and services from the EU that are vital for the operation of the organisation and service delivery. Scenario planning has been carried out and detailed contingency plans are in place. The Council is working closely with its partners to ensure these risks are mitigated and contingency planning is ongoing and developing.

Other specific risks (continued)

Risk	Areas considered	Conclusion
Changing landscape for public financial management	As part of our audit work on financial sustainability (see pages 7 – 13) we have considered how the Council have reviewed the potential implications of the Scottish Government's Medium-Term Financial Strategy for its own finances, including long-term planning.	The Council revised its MTFP in August 2018, with the Scottish Government's Medium-Term Financial Strategy being considered as a 'key factor' within that plan. The assumptions used in the plan - in terms of funding uplifts and cost increases - are consistent with the Scottish Government MTFS. The Council is in the process of amending its performance reporting framework to better align with national indicators and to demonstrate contribution to outcomes, particularly in relation to the Shetland Partnership Plan.
Care income, financial assessments and financial guardianship	We have reviewed the arrangement for financial assessment of those requiring care and assessed whether they were subject to a significant backlog.	No areas of risk identified from our audit work. The Council has confirmed that there is no backlog in the financial assessment of those requiring care and no Council officers act as financial guardians.
Dependency on key suppliers	We obtained a detailed breakdown of expenditure by supplier and performed and performed an analysis to identify if there were any risks of dependency on key suppliers.	No specific risks of key supplier dependency have been identified. While Shetland Islands Council has a number of key suppliers, these are public bodies providing services to the Council and their functions would be assumed by another public body if they ceased to exist. We are satisfied that the relationship with ferry and air operators does not present a risk, with sufficient contingency planning in place and alternative options available to deliver services in the event of supplier failure.
Openness and transparency	We have considered the Council's approach to openness and transparency as part of our audit work on governance and transparency (see pages 23 – 25).	The Council has a good attitude to openness and transparency. However, there is room for improvement and the Council needs to ensure its approach to openness and transparency keeps pace with public and regulatory expectations. The Council should review its approach to openness and transparency, considering wider expectations, developing an action plan in conjunction with wider stakeholders to ensure that the Council is always striving for more.

Appendices

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Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Council discharge their governance duties.

Our report includes the results of our work on the following:

- Financial sustainability;
- Financial management;
- Governance and transparency; and
- Value for money.

What we don't report

As you will be aware, our audit is not designed to identify all matters that may be relevant to the Council.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

This report has been prepared for the Council, as a body, and we therefore accept responsibility to you alone for its contents.

We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

We welcome the opportunity to discuss our report with you and receive your feedback.

for and on behalf of Deloitte LLP
Glasgow

20 June 2019

Action plan

Recommendations for improvement

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
Financial Sustainability	The Council needs to review its MTFP given the significant of the anticipated underestimation of the funding gap to 2023/24. The funding gap identified in the MTFP should be linked to planned savings from the BTP and SRP, demonstrating how the BTP and SRP will enable the Council to close the funding gap in the medium term. (See page 8 for details.)	The Council recognises the challenges it faces. We will update its medium- and longer-term financial planning assumptions over the summer of 2019 and will present the refreshed MTFP and LTFP in the autumn. Where possible, likely savings determined through the initial scoping of service redesign and business transformation activities will be built into the Council's planning assumptions.	Executive Manager - Finance	31 March 2020	High
Financial Sustainability	The Council needs to consider the resourcing of transformational change (including the officers responsible for transformation) as it moves from planning for change to implementing change. (See page 9 for details.)	The Council has recently allocated a budget to establish a Programme Management Office function within the Corporate Services directorate to facilitate progress of SRP and BTP projects. The PMO will use a mixture of secondments from existing Council teams and new appointments and graduate project officers on fixed term contracts to help address the capacity constraints the Council is facing in this area.	Director - Corporate Services	31 March 2020	High
Financial Sustainability	The Council needs to improve its approach to capital planning, through: identification of the current asset base; quantifying what the Council considers to be an affordable asset base; anticipated additional assets to be acquired in the medium to longer term to meet demographic and other changes; assets which the Council anticipates disposing; plans required to bridge this asset funding gap. (See page 11 for details.)	The Council presented its Property and Asset Management Strategy (PAMS) in June 2019 which set out future plans for the Council's property estate. Following feedback from elected members, an updated PAMS will be presented in September, and will align with the MTFP and LTFP and planned changes arising from service redesign and business transformation activities.	Executive Manager – Assets, Procurement & Commissioning Executive Manager – Finance	31 March 2021	High
Financial Management	Financial monitoring reports should include information outlining amendments to the budget, why the amendments were necessary and why they were not foreseen when the budget was agreed. (See page 15 for details.)	The Council is keen to present financial information in an accessible and open way, not just to elected Members but the wider community. We welcome the opportunity to help improve the format and content of financial monitoring reports in order to enhance transparency and accountability.	Executive Manager - Finance	31 December 2019	High

Action plan (continued)

Recommendations for improvement (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
Financial Management	For each capital project planned, the Council needs to clearly outline the due dates for projects and their original budgeted cost, with an annual report outlining any changes to the planned due date and budgeted cost, documenting which projects have been completed and at what cost. This will enable the Council to monitor whether it is delivering capital projects on time and on budget. (See page 17 for details.)	The Council welcomes the opportunity to improve transparency and accountability. An annual update report will be prepared by the end of the 2019/20 financial year.	Executive Manager – Assets, Procurement & Commissioning Executive Manager - Finance	31 March 2020	High
Governance & Transparency	The Council needs to carry out a skills gap analysis as part of the annual self assessment of Committees and the Council, work in conjunction with Members to develop training plans for them, assess the effectiveness of all training provided and track and report attendance at training by Members. (See page 22 for details.)	Attendance at all development events is logged. Feedback will now be requested from formal and informal Member development events. Members are currently participating in the Improvement Service CPD Framework. PDPs and a refreshed Member Development Programme will be prepared once completed. Training need for Members formed part of the Committee and Governance review reported to Members on 11 June 2019. A more in depth analysis leading to a training plan is underway.	Executive Manager – Executive Services	31 March 2020	High
Governance & Transparency	The Council needs to have annual self-assessments of governance arrangements, Committee and Council performance. The Council should develop a self assessment programme and assign a specific officer with responsibility for ensuring the Council has adequate self assessment arrangements in place. The results of these reviews should be made publicly available through the publication of an Annual Self-Evaluation Report. (See page 22 for details.)	The Council considered an initial Governance review report as part of the review of its Code of Corporate Governance in June 2019. An updated report is promised for September 2019, and annually thereafter.	Executive Manager – Governance & Law	31 December 2019	High

Action plan (continued)

Recommendations for improvement (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
Governance & Transparency	As with a number of councils across Scotland, the Council is not meeting its obligations under the Community Empowerment Act. The Council needs to develop and document its community empowerment arrangements, provide training to Members and officers on what empowerment means, and work to develop community capacity. (See page 25 for details.)	This work will be co-ordinated in tandem with work to identify skills gaps (as recommended on page 41) and be incorporated into a training programme in partnership with Workforce Development. The delivery of learning sets in key policy areas, including the Community Empowerment Act, is an action contained with the Shetland Community Learning and Development Plan. Work to develop locality plans, as required under the Act, is in hand.	Executive Manager – Executive Services Executive Manager – Community Planning & Development	31 March 2020	High
Value for Money	Performance information across the Council (including the Partnership Plan) needs to be improved with all indicators having targets or narrative to explain performance. The Council should report on an annual basis on the indicators it intends to monitor in the coming year, the targets for each quarter, and the performance for the corresponding period in the previous year. Changes to target dates should be clearly explained and challenged by Councillors. If progress is reported on a % basis, measurable targets should be included and reported against. The indicators reported should be linked to the Council's priorities and outcomes for communities. The narrative provided alongside performance indicators needs to be more detailed to enable an observer to understand specifically why performance has or has not met target, whether that was within or outwith Council control, and what specifically will be done to address areas of underperformance. (See page 32 for details.)	A performance Framework for Shetland has been developed and is being presented to the Council, the NHS and IJB for approval; in June/July 2019. The Framework incorporates the commissioning cycle and is designed to be used for joint commissioning, performance management and reporting for the Shetland Partnership. The Framework will be fully implemented by 31 March 2020 with 2019/20 a transition year during which time the Framework will continue to evolve informed by practice.	Director – Corporate Services	31 March 2020	High

Action plan (continued)
Recommendations for improvement (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
Financial Sustainability	In its budget, the Council should identify savings which will need be achieved in the year, allocated appropriately across Directorates. These savings should reduce the overall Directorate budget (as opposed to being separate 'savings lines' in the budget) and be separately disclosed in the narrative to enable monitoring of progress against savings in the year. (See page 7 for details.)	The Council opted against using 'savings lines' to enable balanced budgets to be set in 2019/20. The Council will include all efficiencies or savings targets expected to be realised through service redesign or business transformation activities in the next budget-setting cycle.	Executive Manager - Finance	31 March 2020	Medium
Financial Sustainability	The Council's MTFP should make reference to the key principles of public service reform - prevention, performance, partnership and people - and how these key principles are reflected in the Council's financial planning. (See page 37 for details.)	The Council will update its medium- and longer-term financial planning assumptions over the summer of 2019 and will present the refreshed MTFP and LTFP to Council in the autumn. The refreshed MTFP will reflect the principles and assumptions contained in the the National Performance Framework and the Scottish Government's own Medium-Term Financial Strategy.	Executive Manager - Finance	30 September 2019	Medium
Financial Sustainability	The Council should include the impact that decisions will have on the Council's position against the in-year draw on reserves, the funding gap identified in the MTFP and the approach adopted in the LTFP in the 'Finance implications' section of reports, so that it is clear to everyone who is making the decision the longer-term financial impact that decisions are expected to have, rather than simply understanding the impact in the short term. (See page 10 for details.)	The Council is keen to present financial information in an accessible and open way. The Council acknowledges that reports requiring decisions could be clearer in this area, and will seek to set out the likely financial implications on a short, medium and longer-term basis in the relevant section.	Executive Manager - Finance	31 December 2019	Medium
Financial Management	Financial monitoring reports should present information on actual expenditure in each quarter, in addition to the forecast outturn as at the end of each quarter. Narrative in the reports should provide explanations for why variances have occurred, not just what they consist of. The finance function needs to become more involved in forecasting to understand and scrutinise how the forecast expenditure will be incurred and whether this is realistic. (See page 15 for details.)	The Council is keen to present financial information in an accessible and open way. During committee, elected members have the opportunity to ask questions about performance in the quarter, however the Council acknowledges that further insight in the narrative of reports could be useful.	Executive Manager - Finance	31 December 2019	Medium

Action plan (continued)

Recommendations for improvement (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
Financial Management	The Council's budget should include analysis of how the budget links in quantitative terms to the priorities set out in the Council's Corporate Plan. The budget should also include information of the outcomes the Council expects to be progressed (and to what extent) by the budget. (See page 17 for details.)	The Council is keen to present financial information in an accessible and open way, not just to elected members but the wider community. The Council will aim to address this recommendation during the next budget cycle as it sets the 2020/21 budget.	Executive Manager – Finance	31 March 2020	Medium
Financial Management	The Council should carry out a review of the finance structure, to assess whether changes in the finance structure and model could result in improvements in financial management. (See page 17 for details.)	The Council will consider the feasibility and advantages and disadvantages of moving to a different structure for the finance team.	Executive Manager - Finance	31 March 2020	Medium
Governance & Transparency	The Council should set clear 'due dates' for when delivery plans for the Shetland Partnership Plan will be available and outline how progress will be monitored once these are available. (See page 32 for details.)	The Delivery Plans have been drafted and will be presented for approval by the Council on 2 July 2019. The new Performance Framework for Shetland will be used to monitor and report on progress.	Chief Executive	31 March 2020	Medium
Governance & Transparency	The Council should carry out a review of how open and transparent it is, seeking the views of the wider community. The Council should carry out regular stakeholder or citizen surveys and seek views on how open and transparent it is through these and through its own staff survey. (See page 23 for details.)	One of the four priorities in Shetland's Partnership Plan is Participation. This priority is led by the Director of Corporate Services supported by Community Planning and Development. HR are leading on the continuing development of action plans to take forward issues from previous Viewpoint Surveys and will repeat the survey to ensure comparisons over time.	Director – Corporate Services	31 March 2021	Medium

Action plan (continued)

Recommendations for improvement (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
Governance & Transparency	The Council should review whether the style of reports used and is appropriate. Covering reports should identify the key matters being considered and the implications of decisions. Officers signing off the report should challenge the content before submitting it for reporting. (See page 24 for details.)	A review of report writing has been completed resulting in training being delivered in June 2019 which will inform further work developing Council Guidance for Report Writing and Presenting.	Executive Manager – Human Resources Executive Manager – Governance & Law	31 December 2019	Medium
Governance & Transparency	The Council needs to take steps to actively communicate with the community on an ongoing basis. Improvements could be made through the use of webcasting meetings or hosting meetings in alternative locations on occasion. The Council should consider publishing a quarterly or annual newsletter, sent to all households, outlining key decisions, Council performance and how the public can engage with the Council. The Council should also consider utilising technology or traditional surveys to improve community involvement in the financial planning process: a number of councils across Scotland now allow the public to 'create your own' budget online, with the findings from this considered when developing the budget. The Council should carry out regular stakeholder or citizen surveys, which will enable the Council to monitor changing expectations and respond to perceived or actual weaknesses. When reporting on stakeholder surveys, the Council should include historical information or trend analysis, targets and clear linkage to Council priorities or performance measures. (See page 25 for details.)	The Council is committed to enabling public scrutiny through virtual attendance by audio or webcasting meetings. This is an ambition which is linked to the recent decision in June 2019 to move the Council debating chamber to a new location at St Ringan's Church. One of the four priorities in Shetland's Partnership Plan is Participation. This priority is led by the Director of Corporate Services supported by Community Planning and Development.	Director – Corporate Services	31 March 2021	Medium

Action plan (continued)

Recommendations for improvement (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
Governance & Transparency	The Council's should provide summary reports on the external support provided to organisations and the outcomes achieved through that support to the relevant service committee on an annual basis. The Council should include compliance with FtPP as a standard item in the annual internal audit plan until sufficient assurance is received that the Council is complying with the Code. (See page 26 for details.)	Reports will be presented to Development Committee and Policy and Resources Committee. Issues of procurement and Best Value form part of the 2019/20 Internal Audit Plan and the Council will discuss with Internal Audit whether the provision of support to external organisations can form part of these audits.	Director – Development Director – Corporate Services	31 March 2020	Medium
Value for Money	The Council should review LGBF information against what it considers to be 'priority' areas and include narrative on which indicators are considered to be the most important and relevant by the Council. The report should outline the general performance of the Council and include trend analysis, including specific narrative on how the Council plans to address areas of poor performance or whether it accepts poor performance in specific areas. (See page 31 for details.)	LGBF information is considered and reports are prepared for discussion at committee. LGBF will also be discussed by CMT going forward to ensure key issues identified are prioritised and built into work programmes.	Director – Corporate Services	31 March 2020	Medium
Financial Sustainability	The Council's Annual Investment Plan should cover what level of reserves the Council currently has, what it aims to have, what it expects to use reserves for, how the level and use of reserves will be monitored and remedial actions which will be taken if reserves fall below a certain level or are not used appropriately. On an annual basis, the Council needs to consider the nature, extent and timing of plans to use earmarked reserves to ensure that they remain valid, appropriate and reasonable. (See page 7 for details.)	The Council presented its 2019/20 Annual Investment and Treasury Strategy to committee in March 2019. The Council has been transitioning to a revised investment strategy since January 2019. Once complete, the Annual Investment and Treasury Strategy will be reviewed to ensure it addresses the points raised in this recommendation and to reflect best practice.	Executive Manager - Finance	31 March 2020	Low

Action plan (continued)

Follow-up 2017/18 action plan

We have followed up the recommendations made in our 2017/18 annual report in relation to the wider scope areas and are pleased to note that 6 of the total 16 recommendations made have been fully implemented (2 recommendations are not yet due). The following recommendations are due and have either not been implemented or are only partially implemented. We will continue to monitor these as part of our audit work and provide an update in our Annual Report to the Committee in September 2019.

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2017/18 Update
Financial Sustainability	Additional work needs to be done to determine the feasibility of the Council savings target of 3.4% across the board and how these savings will be delivered. Business Transformation and Service Redesign projects need to include clear targets and milestones against which to measure performance. In addition, progress on these projects and against savings targets in general should be clearly reported to Members as part of the quarterly monitoring reports.	Management has confirmed the Business Transformation and Service Redesign programmes will continue to be reported regularly to monitor and measure performance. Members had been asked where focus and priorities should be in the medium term and management will continue to work with members to deliver these projects.	Executive Manager – Finance	31/3/19	High	*Partially implemented:* This will be followed up as part of our updated recommendation on page 40. **Updated management response:** The Council has not applied an 'across the board' savings target in 2019/20, instead identifying Directorate-specific targets and applying budget changes accordingly. The Council intends to track progress against milestones set in the Business Transformation Programme and Service Redesign projects under a refreshed Performance and Management Reporting Framework.
Value for Money	The Council should consider its priority areas compared with its areas of poor performance in the LGBF and compare what is being carried out locally with what is being done at other Councils which sit at the higher end of the scale. The Council has far greater resources available to it than other Councils nationally, and should have the ability to carry out the necessary changes to improve performance in the areas which are historically poor performing.	LGBF data is reported to the Council and functional Committees. One of the priority areas in the Service Redesign Programme is the consideration of "outliers" where the Council's LGBF data is at odds with similar Council's data this includes fully understanding the data and whether the service outcomes being delivered explain the difference in Shetland's data.	Director – Corporate Services	31/3/19	High	*Partially implemented:* This will be followed up as part of our updated recommendation on page 46. **Updated management response:** The latest LGBF performance information (considering 2017/18 performance) was reported to the relevant service committees in March 2019. The Council intends to use this data to inform service development and redesign projects.

Action plan (continued)

Follow-up 2017/18 action plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2017/18 Update
Governance & Transparency	There is a need to improve integration of the IJB budget, rather than viewing it as two separate budgets from the Council and NHS. Steps also need to be taken to close the funding gap at the IJB. Given the lessons learned in the previous number of years, the Council (in conjunction with the NHS) should consider reviewing the Integration Scheme to ensure it is fit for purpose. Separately, the Council also needs to consider whether its internal mechanisms for identifying disputes at an early stage and implementing appropriate remedies are sufficient. We have also found that there is scope for the governance arrangements between the Council and IJB to be improved to ensure that the respective roles and responsibilities are clear.	Work has commenced on a self-evaluation of the IJB's governance framework and production of a Code of Corporate Governance. This evaluation will consider the recommendations made, including the need for a review of the Integration Scheme and its supporting governance and reporting arrangements.	Executive Manager – Governance and Law	31/3/19	High	*Partially implemented:* An initial review of governance and the Code of Corporate Governance was presented to the Council in June 2019. **Updated management response:** The Council will be involved in the self-evaluation of the IJB's governance framework, which is expected to be completed by mid 2019/20. During this process, the Council will work with the IJB and NHS to consider the appropriateness of the Integration Scheme, practical steps which can be taken to develop an integrated approach to the IJB budget and the mechanisms in place in the Integration Scheme for dispute resolution. **Updated target date:** 27/11/2019
Financial Management	The Council should adopt a priority-based approach to budget setting, whereby resources are focused on the Council's priority areas. Applying a 4.5% savings target across the board (a 'salami slice' approach) is difficult to put into practice and not achievable in the long term, is vague in how savings will actually be achieved and does not protect priority areas. The Council should carry out self-evaluation on completion of projects, to confirm whether the project achieved its stated aims, delivered value for money, and how it performed against budget (in terms of cost and time). As highlighted in 'Best Value' audits conducted at other councils, the Council needs to demonstrate how its actions actually make a difference to the lives of residents - the Council should ensure such a section is included on any post-completion evaluation of projects.	Management recognise the difficulty with the 'salami slice' approach and promotes that a more selective approach in line with Council priorities is the way forward. Evaluation on completion of projects is an integral part of the Building Better Business Cases methodology being applied to the Service Redesign programme.	Director – Corporate Services	31/3/19	High	*Partially implemented:* This will be followed up as part of our updated recommendation on page 43. **Updated management response:** Specific savings targets were included in the 2018/19 budget but none were identified in 2019/20. The Council accepts for 2020/21 that the savings targets on a Directorate level should be disclosed in the budget. The Council accepts the need to better align the budgeted expenditure to anticipated outcomes and will work towards this in 2019/20. The Council will carry out self-evaluation on completion of Business Transformation and Service Redesign projects. None were fully completed in 2018/19 and therefore no self-evaluations were carried out.

Action plan (continued)

Follow-up 2017/18 action plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2017/18 Update
Financial Management	The Council should reconsider its reporting calendar for reporting to Committee and Council, narrowing the gap between the time the monitoring reports are prepared and when they are presented to Members. We also recommend that the Council consider reporting on a more risk-based approach, with higher risk areas being reported more regularly and lower risk areas less frequently.	Work is due to commence on the reporting calendar for 2019/20. This will take account of the recommendations made in relation to performance and financial reporting timescales, alongside the needs of other business and reporting requirements and timescales.	Director – Corporate Services	31/3/19	Medium	*Partially implemented:* This will be followed up as part of our updated recommendation on governance arrangements on page 41. **Updated management response:** The Council reviewed its reporting calendar for 2019/20, reducing the number of meetings. Further improvements to performance reporting will be addressed through the Performance and Management Reporting Framework. **Updated target date:** 31/3/2020
Governance & Transparency	As the Council is currently refreshing the Council Plan, we recommend that it is made clear within the Council Plan how the strategic priorities and plans of the Council align with and help achieve the priorities in the Partnership Plan. Further, it is important that comprehensive delivery plans are developed in the near future to ensure that the aims of the Partnership Plan are achieved. These delivery plans need to include measurable milestones to allow monitoring of performance.	The Shetland Partnership is commencing the development of delivery plans. The Partnership is also developing the governance structure to ensure the plans are monitored against the milestones for changing individual and community outcomes. The Council's Corporate Plan halfway review is being reported to the Council in September. Directorate Performance reports now refer to both the Corporate Plan performance and the Directorate's links to the partnership plan. This will be made clearer in the revised Directorate plans developed as part of the budget preparation process between September 2018-February 2019.	Director – Corporate Services	31/3/19	Medium	*Not implemented:* This will be followed up as part of our updated recommendation on page 44. **Updated management response:** The Council is working with the Shetland Partnership to develop comprehensive delivery plans, using the same format as the Shetland Partnership Plan. It is intended that progress reports will be publicly available and made readily accessible to the community.

Action plan (continued)

Follow-up 2017/18 action plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2017/18 Update
Governance & Transparency	The Council should consider rationalising its Committee structure to ensure that there are enough Committees to provide effective governance and scrutiny, but no more than that as additional Committees require additional Member and management time and detract from time which can be spent elsewhere. As part of this rationalisation, the Council should consider if the responsibilities of any Committees can be merged to reduce the number of Committees whilst maintaining the overall responsibilities, given that this will reduce the administrative time in preparing papers for and attending differing Committees without the loss of any scrutiny.	Work has commenced on a self-evaluation of the Council's governance framework. This evaluation will consider the recommendations made, recognising the need to reduce Member and management time at meetings, but will balance this with the overall need to ensure the decision-making framework supports sound and effective corporate governance.	Executive Manager – Governance and Law	31/3/19	Medium	*Not implemented.* **Updated management response:** It was agreed with Members that this would form part of its annual Governance and Mid-Term Review. This did not accept the need to decrease the number of Committees but recognised that a reduction in number is anticipated as a result of the externalisation of responsibility for the provision of a College and Tertiary Education Services committee. The Council begun a self-evaluation of its governance framework in March 2019. This specifically considered the recommendations made in the external audit action plan. The Council is committed to: 1) a review of the role and remit of the Policy and Resources committee, *and* 2) undertake a further review of its constitution to deal with changes which emerge from the current review of ward boundaries. **Updated target dates:** 1) 27/11/2019 2) 31/3/2022
Governance & Transparency	Performance monitoring reports should give more qualitative descriptions, which highlight and draw out what the challenges are. Further, although performance reports are generally sufficiently detailed, they should include comparative information by benchmarking to other Councils.	Benchmarking data is already reported as part of Performance reports- APSE reports, LGBF, audit reports. Performance Management is a key strand in the Business Transformation Programme and this issues will be picked up by targeted work during the next 6 months.	Director – Corporate Services	31/3/19	Medium	*Partially implemented:* This will be followed up as part of our updated recommendation on performance information on page 42. **Updated management response:** The Council has addressed this recommendation through a revised performance management framework, being developed through the Performance Management and Reporting workstream of the Business Transformation Programme. A new Draft Performance Framework has been developed. Performance monitoring reports in 2019/20 will be based on the revised framework.

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Shetland Islands Council

Sector developments

June 2019

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Introduction

Sharing our research, informed perspective and best practice

As part of our "added value" to the audit process, we are sharing our research, informed perspectives and best practice from our work across the wider public sector. In particular, we have included the following within this report:

1. **Keeping pace? Government's technology transformation – Research** (pages 4-7)

   Technology is a key driver for public sector transformation, making government departments more effective and public services accessible for those who rely on them.

   Snapshot research with 815 civil servants has identified their views on the role and adoption of technologies, skills and training, as well as confidence levels in dealing with cyber-attacks. Whilst the results tell us that there is an appreciation of the impact and risks of technology developments, and progress is underway, the public sector appears to be struggling to keep pace.

2. **Best practice case studies** (page 8-12)

   We have provided some case study data where Deloitte have been involved in transformational work with Councils in England.

3. **Deloitte Perspective** (page 13)

   We have shared our perspectives and insights which are informed through our daily engagement with companies large and small, across all industries and in the private and public section.

4. **Effective finance business partnership** (pages 14-16)

   In an increasingly complex business environment the Finance function is now tasked with delivering decision support and strategy advice, moving away from low value transactional activities. By taking advantage of improved data availability, smarter tools and skilled resource, Finance now has the opportunity to transform to meet business needs.

Keeping Pace?

Government’s technology transformation

Technology is a key driver for public sector transformation, making government departments more effective and public services accessible for those who rely on them.

Snapshot research with 815 civil servants has identified their views on the role and adoption of technologies, skills and training, as well as confidence levels in dealing with cyber-attacks. Whilst the results tell us that there is an appreciation of the impact and risks of technology developments, and progress is underway, the public sector appears to be struggling to keep pace.

Area	Survey results	Action
Role of technology in government	Respondents were asked which technologies have the most potential to impact on their department and on service delivery. Transformation of existing IT (88 per cent), cyber security (81 per cent) and data analytics (73 per cent) were the top three for greatest effect on the department. For service delivery, online interaction with citizens and cyber security were joint first (72 per cent), followed by transformation of existing IT (63 per cent) and mobile technology (60 per cent). On the other hand, digital currencies, blockchain, Internet of things and augmented reality are viewed as the least likely to impact either department operations or service delivery. These new technologies may have the power to revolutionise how we do things, however our survey suggests that while IT professionals in the public sector are aware of them, they perceive them to be well down the list of priorities. But is there a need for the public sector to be at the ‘leading edge’ or at least be ‘faster followers’? Transforming existing IT, the clear priority for survey respondents, and a focus of existing investment is arguably more likely to generate service improvements for citizens and drive savings internally. Equally the use of advanced data analytics to drive better insights for example, is now well established and delivering real benefits for many public sector organisations.	It will be important of course for public sector CIOs to keep a “watching brief” on new technology. Technology that was new one year can become mainstream the next as functionality matures and the price point reduces.

Keeping Pace? (continued)

Government's technology transformation (continued)

Area	Survey results	Action
Adoption of technology	When asked which technologies they had explored for adoption, respondents highlighted those which might be considered more 'mainstream': transformation of IT (78 per cent), cyber security (64 per cent), cloud computing (59 per cent), mobile technology (56 per cent) and data analytics (54 per cent). Interestingly, while 72 per cent felt that online interaction with citizens had potential for the greatest impact on service delivery, only 46 per cent have explored the area for adoption. It's a well-worn stereotype that people working within the public sector believe they are behind the private sector in many areas. Our survey backs up this perception in relation to the adoption of new technologies; whilst 35 per cent felt they were behind others in the public sector, 64 per cent felt they were behind private sector organisations. Barriers highlighted include lack of budget (82 per cent), perceived cost (74 per cent) and 'fear of failure' culture (42 per cent).	The key lessons from our experience that help accelerate technology adoption: • Develop a coherent business case that clearly describes the benefits from the investment. This can help achieve buy-in and ensure the project is appropriately prioritised. • Have a clear Digital Strategy that supports the delivery of the business strategy: leadership and direction are at the core of driving successful technology adoption. • Involve citizens and service users in the design and delivery of new technology. This is critical for realising benefits and delivering 'fit for purpose' solutions. • Work closely with procurement teams to encourage technology innovation and accelerate the procurement process.
Cyber	The survey was conducted approximately one month after one of the biggest cyber-attacks ever within the UK public sector with the WannaCry attack on the NHS. The survey presents a conflicting message in the response to questions of cyber security. When asked which technology developments have the greatest potential to impact on the department and service delivery, cyber security was flagged by 81 per cent and 71 per cent respectively. This shows a significant realisation of the real and present threat and potential for impact. However almost half (44 per cent) are not sure or do not have confidence in their organisation's ability to withstand a cyber-attack. Interestingly the more senior civil servants are, the more likely they are to express confidence. This could be due to the senior group having more visibility of what the department is doing organisation-wide to reduce the risk of cyber-attack, or it could be down to this group having less awareness of the risks and exposure that exists. The survey showed that 56 per cent were confident which could be attributed to an increased awareness amongst users, strengthening of cyber security policy across government and more stringent compliance requirements e.g. GDPR and NIS Directive.	It is clear that the public sector understands the importance of strong and robust cyber security technology. We would encourage organisations to adopt a holistic approach to cyber security including people, processes and technology, and use the clear interest in cyber to promote awareness amongst staff.

Keeping Pace? (continued)

Government's technology transformation (continued)

Area	Survey results	Action
Skills and training	Skills Digital skills gaps provide a barrier to adoption according to 68 per cent of respondents. For many CIOs, figuring out the answer as to where to invest in skills can be challenging. The IT industry is constantly morphing with skills that were readily available a month ago being in short supply today. There is a clear move within the public sector towards user-centred design, Agile and data analytics, and it is perhaps not surprising that these figure large in terms of skills gaps in the survey. In our experience an added complication is the disparity in salaries between IT staff in the public and private sector. There is a fear factor of training people up only for them to get a better paid job elsewhere. Beyond the IT team, digital skills for the entire workforce need to be considered and addressed. One respondent suggested that there is a need for a standardised set of digital skills for all staff while another pointed to the need for more structured programmes to support upskilling. Investment in skills, for both the IT team and wider workforce, needs to be linked to the organisation's IT Strategy. Once an organisation has established what it wants to achieve, it can then establish a plan, including the volume and type of skills required. This will typically be a mix of in-house and outsourced resource dependent upon the nature of the project. Many public sector clients we work with are training staff up as scrum masters and in Agile more generally due to the volume of projects using this approach. Training 'On the job' training continues to be the most important means through which civil servants acquire the digital skills they need to perform their job effectively (64 per cent). Given the pervasiveness of technology in the workplace and at home, a potential working assumption is that all staff have, or will acquire on the job, the digital skills they need. This a potentially dangerous assumption. There are still many people within the workplace who are uncomfortable with technology. If they have not been given the right support and training, the risk is that they will become less effective in the workplace and the benefits of the organisation's investment in technology will not be fully realised.	• Involve HR professionals in skills analysis, including the digital skills required for the entire workforce as well as the more specific skills for the IT team. The principles behind training needs analysis are still as relevant as they ever were: identifying people's current skill levels and any gaps is crucial to IT benefits delivery. • Embed a structured training programme based on the skills analysis. • Consider partnerships with universities, local employers and trusted suppliers. Some of the skills needed in the public sector can be accessed in small bites. For example, skills necessary with particular new technologies do not require long-term continuity of resource. External resources can deliver pace, capability and, with larger suppliers, an element of risk transfer that justifies the higher cost in the short and medium term. • In-house academies and training programmes can be used to upskill the existing workforce. Well-designed programmes can have a big impact on culture and levels of buy-in. Delivering programmes or partial programmes via e-learning will be time efficient and help to keep skills up-to-date

Best practice case studies

Our team have worked with an English Council to support it through its transformation programme. The following page gives a high level view of the full transformation programme and the activities undertaken as well as the key learning on its success.

The subsequent pages then give further detail on specific examples of how they have applied demand management to transform services, including:

- **New Adult Services front door** – this increased contact centre capabilities and resolution at the first point of contact.

- **Digital services** – this enhanced online self service and automated reporting capabilities and improved digital infrastructure and digital capacity and capability.

We have also been involved in work with another English Council , in helping them achieve significant savings targets. We have set out on pages 8 and 12 two specific case studies that formed part of this work and the outcomes achieved:

- **Re-defining the care offer within its Social Care service** - this included planning and delivering targeted reviews of care packages, re-defining the care offer and rolling out strength based approaches as well as a new contact model.

- **Procurement and contract management** – here we created a whole view of 3rd party spend, adopted a category approach to prioritise focus and addressing spend errors, policy compliance contract control and re-negotiation of contracts. We then developed a procurement service operating model to improve capabilities and model to provide enhanced procurement support council wide.

Best practice case studies (continued)

Council wide transformation programme

Developing digital services

Technology infrastructure upgrade

Identification of the technology solutions required for a modern Council, creation of business cases to secure funding and implementation of large scale technology solutions

Contact centre

A new contact centre model was developed to improve the triaging of customer enquiries. This included new processes, increased delegated authority, new organisation structure with new capabilities and enhanced management information and governance

Online services

Developing a new public website with enhanced self serve capabilities and connectivity with the back office functions, supported by new technology infrastructure

Leadership and culture

Leadership programme

The Council recognised the importance of investing in its management teams to support delivery of the change. A tailored leadership programme was delivered, starting with the senior managers through to middle managers

Communications

To support the transformation programme The Council delivered a programme of council wide communications.

Right people, right skills

Transitioning to a new Adult Services organisation design, focused on ensuring the right roles and skills are in place to deliver the services required

Change management

In areas where behavioural change was required e.g. social work practice around undertaking strengths based approaches, a change management programme was put in place to support staff and managers through the change

New delivery models

Shared back office services

In partnership with the fire and police service, The Council developed a back office service to deliver finance and HR services. They have subsequently on-boarded a number of other public sector organisations into the model

Grip and control

Spend controls

Through a review of the Councils non contractual spend, new measures were put in place to control non contractual spend

Procurement operating model

A new procurement operating model was developed to improve procurement practices across the Council to reduce variation, improve procurement outcomes and contract management

Intelligent PMO

To oversee the transformation programme an intelligent PMO was put in place. This include tracking progress, management of risks and putting in place a robust benefits realisation mechanism

Approval of care packages

To support the implementation of strengths based approaches, controls were put in place to monitor spend in each social work teams in order to identify variation in practice

Empowering communities

Volunteering

Through the new Council website, The Council has made it easier for the public to identify and take up volunteering opportunities

Enhancing the community offer

To support strengths based approaches, the Council improved how it works with the voluntary and community sector, providing targeted funding, undertaking community development activity and revising its commissioning approach

Strengths based approaches

A new tiered based care offer has been defined which encourages staff and service users to explore natural and community support solutions before putting in place paid care. This included new conversation based assessment tools, a new services strategy and training to staff

Best practice case studies (continued)

Council– New Adult Services front door

Overview

In 2015, an English Council embarked on a £100m efficiency programme. Adult Social Care directorate was expected to contribute £43.1m to this target, approximately 15% of their operating budget. This is in the context of an ageing population with increasing social care needs, workforce pressures and a complex provider marketplace.

The challenge

To improve demand management at the 'front door' in order to reduce pressures on front line operational teams through an enhanced contact centre function and a new digital service.

What we did

We set up a project team that combined experienced operating model practitioners from Deloitte with Adult Services staff to bring deep operational expertise:

- As part of a department wide operating model the team defined a channel strategy that described how Adult Services would interact with customers and professionals.
- We worked with the leadership team to agree an agile approach to developing a new contact and assessment team to shift operational activity to the phone channel.
- Starting with a high level design of the contact centre, the team worked through three test cycles to design and implement: new processes; changes to internal policy around information management and financial delegation; an organisation structure with new capabilities; enhanced management information; and a transparent governance structure.
- The team collaborated with digital developers to design a new digital service to improve customers' access to information and advice and transform the processes that describe how they interact with Adult Services.

Outcomes

The bespoke digital service and contact centre:

- Increased the contact centre resolution rate from 30% to 70%; and
- Reduced the cost to serve customers by 25%.

Adult Services have been able to make a compelling business case for investing in the contact centre to deliver longer term savings across their front line teams.

Best practice case studies (continued)

Council– Digital services

Overview

An English Council had set out their vision to continue delivering great services to its citizens, while responding to the challenge of reducing costs, through the use of digital capabilities.

The challenge

Three main objectives were set as part of the Council's digital vision:

- To be digital by default
- To be cost effective in delivery of services
- To increase the productivity of the Council

What we did

Deloitte supported the Council in the development of a digital strategy and seconded an individual as Digital Director for an agreed period. We identified the technology solutions required to deliver the large scale change required and supported the procurement of multiple technology components for the platform.

We provided the core design to support the implementation phase which included:

- Creating a new Customer Service Model.
- Designing a new transactional website with personalisation and 25 new online services for use by the public, ranging from map-based pothole reporting to secure access to care information for the elderly.
- Designing a new multi-channel customer platform to handle queries from phone, email and social media.
- Designing a tiered security model that allows members of the public to register for secure online services that handle sensitive information.

Outcomes

The online services for customers have made services simpler and more accessible and shifting transactions to cheaper channels.

The scope contributed towards directly realising and enabling approximately £45m of recurring savings, and built the capability to identify further reductions.

Best practice case studies (continued)

Council – Re-defining the care offer

Overview

The Council was facing a significant funding gap, which was challenging the future sustainability of the Council. This was in the context of an aging population and increased demand for adult social care services.

The challenge

The Council was facing a significant funding gap, which was challenging the future sustainability of the Council. This was in the context of an aging population and increased demand for adult social care services.

What we did

Re-defined the care offer: jointly with staff we developed a strengths based, tiered model was developed to promote a consistent approach among social care practitioners. The approach promotes reablement and considers alternative creative approaches to meeting need which draws on a person's natural support.

A framework was developed to guide staff in their practice and we then delivered training and communications to upskill staff and promote the new approach. This was supported by a benefits tracking system to monitor progress across the service and to address variance between teams.

Targeted reviews: through a diagnostic of the social care data, we prioritised a number of service user reviews (adults and children with disabilities). We worked with the Council to put in place a dedicated team and support them to undertake strengths based reviews which included preparing and delivering an induction programme; putting in place a benefits tracking system; and undertaking regular reporting and team meetings to discuss progress and unblock issues.

New front door: We supported the Council to put in place a new approach for managing demand at the front door, redesigning the customer journey including the promotion of digital channels. We redesigned processes and increased the skills and delegated authorities of call handlers in the contact centre to improve resolution at the first point of contact.

Outcomes

The Council had a savings target for the whole council that they asked us to help them jointly achieved of £10.5m over 2 years. We helped them deliver £15.5m over 3 years. £9m of this was from adult and children with disabilities services and the remaining on procurement initiatives (see other case study).

Best practice case studies (continued)

Council – Procurement transformation

Overview

An English Council was facing significant financial pressures which if they continued it was projected that the Council would run out of money in three years time. The Council spends a large proportion of its budget with third party suppliers so visibility and grip of this spend was critical to addressing the financial pressures.

The challenge

The Council did not have visibility of its third party spend in one single place. Council staff were often not using agreed frameworks and were spot purchasing. The small central procurement team had limited influence over spending across the Council, with many procurement activities taking place in a devolved manner.

What we did

Category savings identification and delivery: we aggregated all the data from across the whole Council on third party spend providing the Council with visibility of spend for the first time. This enabled us to identify invoicing errors to clawback over payments and develop categories of spend to prioritise areas of focus. The categories identified included spend on temporary staff and transport. Working in partnership with procurement staff, we put in place better controls around spend in these areas and supported the Council to undertake work to rationalise its spending and utilise contractual levers to deliver savings.

Procurement operating model: to facilitate longer term change, we worked hand in hand with the Council to develop and implement a new procurement operating model and to carry out stakeholder engagement with business owners across the Council to gain their buy in. We assisted the procurement team in navigating the necessary governance processes, creating new job descriptions and delivering training to upskill staff and increase their confidence to support the different business areas.

Outcomes

Our support helped the Council to unlock savings of over £6.5m on third party spend with a year. We also enabled the procurement team to boost their influence across the organisation, gain better rigour over their external spend and increase value-for-money from their contracts.

Deloitte perspectives

Talking Public Sector: Our podcast series on government and public services

Our podcast explores the big challenges facing the public sector, how citizens want the public services to be run and what the future holds by drawing on expert opinion and exclusive research. Aimed at anyone who works in or with the public sector, this podcast brings together leaders from government and the public services, industry experts and commentators to provide an insights on the big issues facing public bodies in the UK and around the world.

Listen and subscribe to Talking Public Sector:

https://www2.deloitte.com/uk/en/pages/public-sector/articles/talking-public-sector.html

Tech Trend 2019: A Government and Public Services Perspective

Our recently published 10th edition of the Tech Trends report reflects on a decade of disruptive change and demystifies the future of digital transformation. The story of technology trends is inseparable from the story of the public sector.

Technology can help make government more effective by protecting and maintaining infrastructure, creating more personalised and secure citizen interactions, or automating tasks so workers can focus on more value-added jobs.

As leaders work to reshape their organisations and realise these possibilities, they rely on fresh, relevant insights. We are delighted to share our perspective which provides a UK Government and Public Services lens on Deloitte's *Technology Trends 2019: Beyond the digital frontier.*

https://www2.deloitte.com/uk/en/pages/public-sector/articles/public-sector-tech-trends.html

Digital government: It's all about the people *a view from Government and Public Sector Lead Partner, Rebecca George*

Deloitte has published our third Digital Disruption Index. Based on a survey of the UK's most senior digital leaders from both private and public sectors, the index explores levels of digital maturity in their organisations. The results reinforce my belief that the defining factor in getting digital right is not the technology – which of course needs to deliver – but is people: the people who lead digital transformation and the people with the skills to make it happen.

Read Rebecca's full view at:
https://www2.deloitte.com/uk/en/pages/public-sector/articles/digital-government-all-about-people.html

The Digital Disruption Index is available online:
https://www2.deloitte.com/content/campaigns/uk/digital-disruption/digital-disruption/digital-disruption-index.html

One of the key insights is around Artificial Intelligence (AI) which is increasingly a strategic priority. After Cloud, Cyber-security and Data analytics – three foundational digital pillars – respondents to our survey rated AI as the most important technology to their digital strategy.

The use of advanced data science, whether explicitly AI or a combination of AI, Robotic & cognitive automation (RCA) and Data analytics, is at the centre of much current debate about ethics and the societal impact of digital technology. A significant number of senior leaders seem unaware of these ethical considerations. We believe that what is unethical in the real world is unethical in the digital world, and we explore how organisations are able to make AI decision-making as transparent as human decision-making.

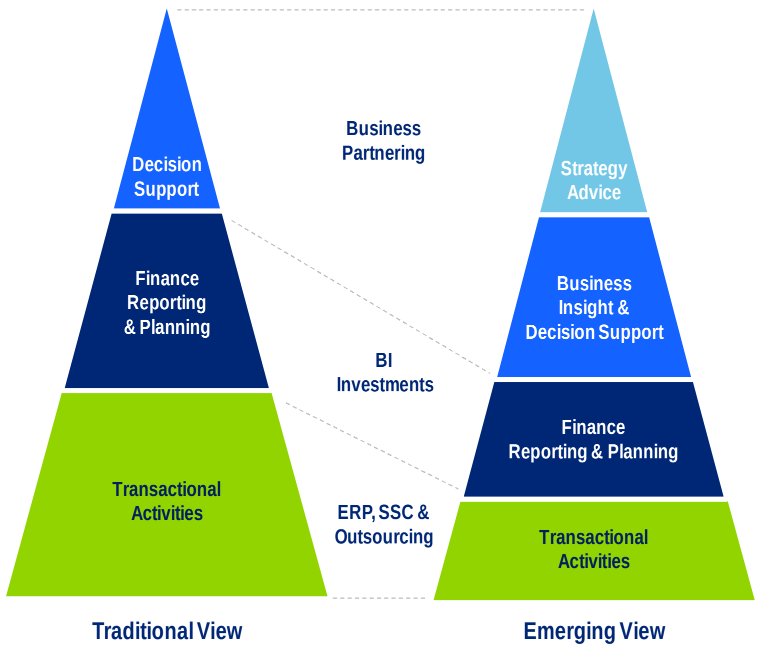
We have recently been engaged with NHS Lothian where we have gone live, as part of a data gathering and piloting phase, with two unattended and six attended robots. These are helping clinicians to triage referrals quicker and are also automating the invoice raising process in the finance department.

Effective Finance Business Partnering

The modern finance function is an increasingly important strategic partner to organisations and businesses facing a range of complex challenges

Overview

In an increasingly complex business environment the Finance function is now tasked with delivering decision support and strategy advice, moving away from low value transactional activities. Contributing to outcomes in the strategy rather than focussing on tactical or incremental changes. By taking advantage of improved data availability, smarter tools and skilled resource, Finance now has the opportunity to transform to meet business needs.



The changing role of Finance

Strategic Relationship	Business partnering Is the development of a successful, strategic relationship between Finance and the rest of the organisation/business, for example working in partnership with procurement and the supply chain.
Deep Insights	Business partnering involves the provision of deep insights into the business, its performance, the market and the competition, to support decision making and deliver strategy and outcomes.
Decision support	Business Partnering leads to the business actively relying on Finance for input on all major decisions with a tangible financial impact.
Challenge	Business Partnering includes the ability for Finance to challenge assumptions in decisions and drive cost consciousness.
Value add	Business Partnering is key to unlocking value otherwise untapped by the business.

Effective Finance Business Partnering (continued)

Finance Partners need to have both the technical ability and emotional intelligence with sufficient capacity to improve the financial acumen of the organisation.

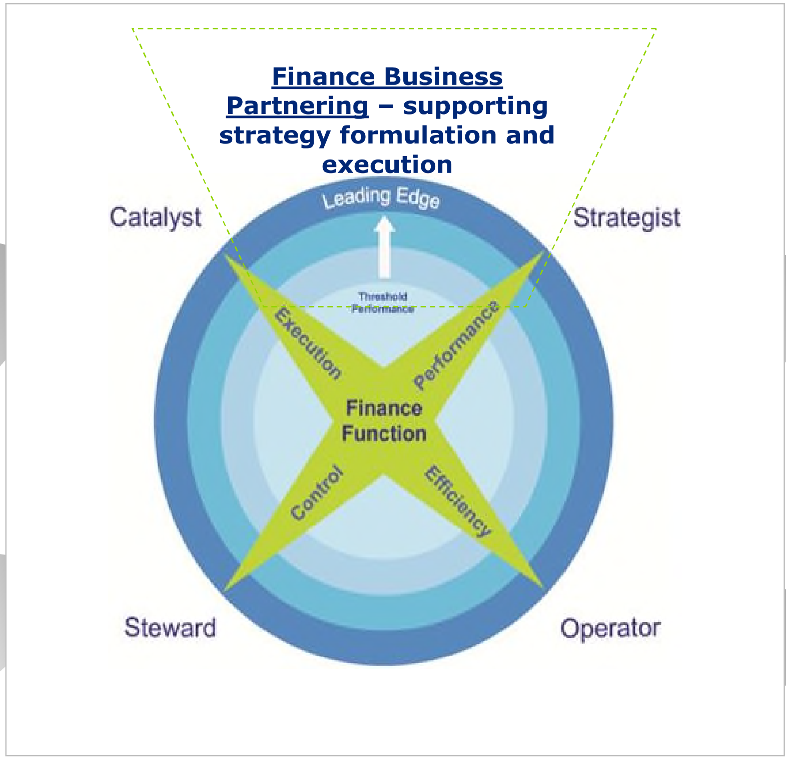
'Business Partnering' can be defined as the role that Finance undertakes to support and challenge the business, creating value by improving the quality of decisions (e.g. budgets, resource allocations & outcomes) and ensuring that a chosen business strategy delivers the highest value at an acceptable level of risk.

CATALYST

- Stimulate behaviours across the organisation to achieve strategic and financial objectives
- Gain business alignment to successfully identify and understand the business strategy
- Act as a catalyst in driving forward initiatives critical to delivering the strategy

STEWARD

- Support the Finance Function in protecting the assets of the company and in ensuring compliance with financial regulations



Deloitte's Four Faces of the CFO model

STRATEGIST

- Provide financial leadership in determining strategic business direction and align financial strategies
- Understand the business strategy and provide highly relevant insight
- Act as a key stakeholder in the decision making process through the provision of risk-adjusted financial information and analysis

OPERATOR

- Supporting effective financial planning and analysis
- Provide business expertise into accounting processes (e.g. valuation of accruals)

Effective Finance Business Partnering

What makes Finance Business Partnering work?

Senior Executive Commitment and Sponsorship	•Ensure senior management commitment and understanding of the need and benefits of having Finance Business Partnering •Involve senior management in defining what Finance Business Partnering should involve •Regularly update senior management on successes and ensure they communicate throughout the organisation
Understanding the Business expectations of Finance	•Identify and understand what the customer requirements are from the Finance function, and the level of importance of each customer of Finance •Gain buy-in from the organisation by effectively communicating the benefits of Finance Business Partnering – get some "quick win" examples
Defining the organisation structure, roles and skills required	•Clearly define the role of the business partner with alignment to the organisation structure •Identify and establish the right skills and business acumen, capabilities and environment within Finance (and/or recruit in) in continuing to develop Finance Business Partnering •Invest in training and the development; align performance metrics with clear career progression that enhance business partnering behaviours
Effective change management	•Ensure visible senior sponsorship by leaders across the organisation for Finance Business Partnering •Communicate and consult all areas of the organisation on the introduction of Finance Business Partnering •Make sure the role is clear and consistently understood

Set expectations with a clear service offering

Be able to explain Finance in simple terms to non-Finance individuals

Regularly and appropriately challenge the budgets, results and ideas of the partnered department

Physically sit in the department you are partnering with for a proportion of your time

Demonstrate industry knowledge and awareness of the business

Be proactive; this is key to gaining respect and trust

Gain a reputation for speed and competence for a few key activities before expanding services

Get to know everyone in the department and understand the work they do, not just the leadership

Shetland Islands Council

Agenda Item

4

Meeting(s):	Special Shetland Islands Council	26 June 2019
Report Title:	**Ferries Outline Business Cases and Fair Funding – Emerging Findings and Priorities**	
Reference Number:	**DV-16-19-F**	
Author / Job Title:	**Michael Craigie – Executive Manager Transport Planning**	

1.0 Decisions / Action Required:

1.1 That the Council **RESOLVES** to:

1.1.1 **NOTE** the emerging preferred option for the future of the Fair Isle Ferry Service arising out of the socio-economic component of the Capital Outline Business Case (OBC) covered in sections 4.1 to 4.3 and Appendix 1 to this report.

1.1.2 **NOTE** the additional work being undertaken on the Whalsay Capital OBC described in sections 4.4 to 4.9 of this report.

1.1.3 **NOTE** the emerging preferred service enhancements for inter-island ferry services arising out of the socio-economic component of the revenue OBC detailed in Appendix 2 to this report.

1.1.4 **NOTE** that the emerging findings and issues referred in 1.1.1 to 1.1.3 are subject to completion of the Financial, Management and Commercial components of the OBCs which will be presented to Council for approval subsequent to further engagement with Transport Scotland and Scottish Ministers.

1.1.5 **AGREE** the prioritisation of the Council's funding requirements of Scottish Government as described in sections 4.36 and 4.37 of this report, namely:

i. Securing a position on capital funding to deliver a replacement ferry and supporting infrastructure for Fair Isle and capital funding to deliver replacement ferries and supporting infrastructure for Whalsay;

ii. Securing 'Fair Funding' from Scottish Government that covers the full deficit the Council faces in operating the current levels of service; and

iii. Once these first two priorities are successfully concluded, that the Council then engages Scottish Government on the matter of funding support for the Potential Service Enhancements detailed in sections 4.10 to 4.25 of this report as its third priority.

2.0 High Level Summary:

2.1 Shetland Islands Council has been engaged with Scottish Government on the matter of funding inter-island transport services and infrastructure since the early days of the 'Our Islands Our Future' campaign began in mid-2014.

2.2 Scottish Government have acknowledged in principle that the provision of inter-island ferry services "should not place a disproportionate financial burden" on Councils that provide ferry services and that a position of 'Fair funding' should be reached to address this.

2.3 Scottish Government backed up this position by establishing a Working Group to look at these matters and furthermore Scottish Government contributed to the costs of studies and business cases to objectively establish service levels and infrastructure requirements to ensure sustainable long term inter-island connectivity in Shetland.

2.4 In November 2016 the Council received the 'Shetland Inter Island Transport Study', which set out the ongoing and future needs of inter-island transport and the means by which this could be provided. The study can be found here http://www.shetland.gov.uk/transport/siits.asp

2.5 The study provided the Strategic Business Case (SBC) for inter-island transport which leads on to the OBCs which are currently approaching their conclusions and provide the basis for the emerging findings in this report.

2.6 The SBC also provided the evidence base to support the successful acquisition of £5.0 million in 2018/19 and £5.2 million in 2019/20 in funding from Scottish Government to support the revenue costs of operating inter-island ferry services.

2.7 The SBC identified 4 priorities for inter-island transport in Shetland.

- Fair Isle Ferry and Terminals Replacement
- Whalsay Ferries and Terminals Replacement
- Service enhancements to ferry services throughout Shetland
- Changes to inter-island air services

2.8 In September 2018 ZetTrans commissioned Peter Brett Associates (the consultants who undertook the SBC) to work on the socio-economic cases for the next stage of the Business Case process (the OBC) to support the ongoing case for funding of the priority capital projects and the service levels needed throughout Shetland.

2.9 This report sets out the emerging findings of the socio-economic OBCs detailing the preferred capital options for Fair Isle and Whalsay; the potential service enhancements (PSEs) throughout the ferry network and recommended priorities; and summarises the principles of Fair Funding for Ferries that the Council continues to pursue with Scottish Government.

3.0 Corporate Priorities and Joint Working:

3.1 The Council's overarching Transport Policy is to seek to have in place transport arrangements that are affordable and meet people's needs. To achieve this, the Council works closely with ZetTrans. The Council's "Our Plan 2016 to 2020" states: 'There will be transport arrangements in place that meet people's needs and that we can afford to maintain in the medium term'.

Key Issues:

Fair Isle Capital Socio Economic Case – Emerging Preferred Option

4.1 Appendix 1 to this report contains the consultation material that has been used to seek the views of the Fair Isle Community on the process of reaching a preferred option for replacing the current ferry and marine infrastructure with a modern solution designed to meet the Fair Isle's needs for the foreseeable future.

4.2 Appendix 1 sets out in detail how the preferred option has been reached and is self-explanatory. A larger format printout of Appendix 1 has been placed in the Members' room.

4.3 At this stage work on the detail of cost estimates is ongoing and at the time of writing this report the overall cost was estimated at £18.5 million to £25.3 million (inclusive of Optimism Bias).

Whalsay Capital Socio Economic Case – Current Position

4.4 The Whalsay Capital Socio-Economic Case is not yet developed to the same level of detail as the Fair Isle case.

4.5 The reason for this is that during the latest consultation phase an option that had previously been rejected is being reconsidered in response to feedback from the Whalsay Community and time is required carry out marine surveys and wave modelling to evaluate the option further.

4.6 The option being reconsidered is to construct a new ferry terminal at Bonydale on the Shetland mainland and mothball/ decommission the existing terminals at Laxo and Vidlin.

4.7 Sketches of the option are too large to include in this report and copies have been printed and placed in the Members' Room where they can be viewed.

4.8 The main attractions of this option are: -

- It significantly shortens the ferry journey and therefore capacity can be increased substantially with smaller (and therefore cheaper) vessels operating at a higher frequency.
- Using smaller vessels, i.e. similar size to Linga, means Symbister harbour can remain the location for the ferry service in Whalsay.
- The mainland terminals can be reduced from two to one which simplifies the operation of the service.
- The overall costs of the option could be cheaper over the life of the vessels and infrastructure relative to other options.

4.9 It is anticipated that the detail of the preferred option for the Whalsay Route will be available in August and will be covered in subsequent reporting to the Council.

Ferry Services (Revenue) Socio Economic Case – Emerging Potential Service Enhancements

4.10 Appendix 2 to this report contains the draft Executive Summary of the socio-economic case covering future service levels throughout the ferry network.

4.11 Members should note that the costs currently included in the summary tables are work in progress and are based on financial year 2018/19. Work is currently underway to update the costs with estimates for 2020/21 based on the current year's budgets. This means the costs will rise slightly in the final analysis. However, at this stage the figures give a reasonable indication of the order of costs for service enhancements.

4.12 The potential service enhancements outlined in Appendix 2 were generated out of consultation with the various island communities and other stakeholders during the Strategic Business Case Stage and the priorities reflect the relative importance expressed by the communities/ stakeholders.

4.13 The network has been considered in two categories, the "short/ high volume routes" (Bluemull Sound, Yell Sound, Whalsay and Bressay) and the "outer isles" (Fair Isle, Foula, Papa Stour and Skerries).

4.14 For the short/ high volume routes the work has established that the current service levels are generally consistent with Transport Scotland's Routes and Services Methodology on weekdays but could be considered to fall short at the weekends. This confirms there is no over provision of services.

4.15 This is also reflected in the views of communities/ stakeholders that arose through the consultation stating this as a priority to be addressed.

4.16 Connections to Sumburgh Airport to catch early flights were stated as a second priority reflecting the need to reduce travel costs arising out of having to undertake and overnight stay due to having to depart a day earlier than would otherwise be necessary.

4.17 The third priority for the communities/ stakeholders is to have later services to enable communities to engage in social/ leisure opportunities on mainland Shetland with the cost of overnight accommodation and issues attached with not being able to return home until the following day (e.g. childcare).

4.18 At this stage work on the detail of cost estimates is ongoing and at the time of writing this report the overall cost was estimated at £18.5 million to £25.3 million (inclusive of Optimism Bias).

4.19 For the Outer Isles it was concluded that the services fall significantly short of Transport Scotland's Routes and Services Methodology which describes a model service level where services are provided 7 days per week with 3 to 5 sailings per day.

4.20 However, each of the Outer Isles communities felt that services to that level would be significantly in excess of their needs.

4.21 For Fair Isle the biggest issue is reliability of their current service which is influenced by the current vessel and infrastructure. These issues are addressed through the case to replace the ferry and improve the infrastructure.

4.22 In Foula the community is generally content with their service and issues will be revisited when the current vessel is considered for replacement.

4.23 In Papa Stour the community priority is a modest enhancement to the service in the form of an additional day return on a Monday or Tuesday to “plug the gap” in the week where it is not possible to get off or on the island between Sunday and Wednesday. When weather disruptions occur on as Wednesday the community can be cut off for several days between Sunday and Friday.

4.24 In Skerries the main priority for the community is to increase the number of days in the week when there is a connection to the island. This amounts to additional sailings on a Tuesday and Thursday such that people can have a meaningful amount of time on the mainland and those providing services to the community can have sufficient time on the island.

4.25 The summary of issues above is not intended to be exhaustive and the detailed reporting of the OBC (anticipated after the summer recess) will provide Members with the full evidence and rationale for the priorities summarised here.

Fair Funding of Ferries

4.26 The Council is been engaging Scottish Government in the case for full funding for the operational costs of current ferry services for several years.

4.27 In 2018/19 the Council faced a net deficit in funding of services of £7.9 million (i.e. the difference the cost of providing services relative to the contribution received through the Block Grant.

4.28 Scottish Government provided the Council with a specific grant of £5.0 million as a contribution to this deficit in 2018/19. They also provided Orkney Islands Council with a specific grant of £5.5 million that covered their entire deficit at that time.

4.29 The Council continued to press Scottish Government for full and fair funding to match the deficit the Council incurs. In the current financial year this was stated as £7.9 million. However, once more Scottish Government failed to meet this figure and provided the Council with a specific grant of £5.2 million.

4.30 The Leader and Chief Executive have met the Minister for Energy, Connectivity and the Islands recently and continue to make the case for the gap in funding to be met by Scottish Government.

4.31 At the time of writing this report the Leader and Chief Executive have a meeting scheduled with the Minister on 20 June 2019 where they will continue to press Scottish Government on full funding for current services as well as capital funding for the Fair Isle and Whalsay projects. Officers are working on the most up to date details of the funding deficit to be addressed through those discussions.

Priorities for Funding from Scottish Government

4.32 Within this report there are three separate, but related, elements for which the Council is seeking substantial funding support from Scottish Government.

4.33 In recent meetings of the Working Group mentioned in section 2.3, officers of Transport Scotland have stated that Scottish Government continue to face challenging funding pressures and have asked that the Council gives thought to and describes its priorities for funding.

4.34 Referring back to the SBC that was considered by the Council in November 2016, the highest priorities for further development were Fair Isle Ferry Replacement and Whalsay Transport Link with equal priority. The work on the OBCs confirms that these projects remain a high priority.

4.35 In relation to ferry service enhancements across the network it is difficult to pursue these until the Council has resolved the matter of securing ‘Fair Funding’ (i.e. full funding) of current services which remains a principal feature of dialogue between the Council and Scottish Government.

4.36 Therefore, at this point it is recommended that the Council prioritises its funding ‘Ask’ of Scottish Government on: -

1. Securing a position on capital funding to deliver a replacement ferry and supporting infrastructure for Fair Isle and capital funding to deliver replacement ferries and supporting infrastructure for Whalsay.

2. Securing ‘Fair Funding’ from Scottish Government that covers the full deficit the Council faces in operating the current levels of service.

4.37 It is further recommended that once the two priorities in section 4.36 are successfully concluded that the Council then engages Scottish Government on the matter of funding support for the Potential Service Enhancements detailed in sections 4.10 to 4.25 of this report as its third priority.

Inter-Island Air Services

4.38 The Socio-Economic Case for inter-island air services is presented in a separate report to this meeting of the Council.

4.39 In brief terms the study recommends that air services to Papa Stour and Skerries formally cease at the end of the current contract on 31 March 2020 and that services to Fair Isle and Foula are enhanced to address capacity and connectivity requirements using the additional spaces in the timetable arising out of the cessation of flights to Papa Stour and Skerries.

4.40 Furthermore the study recommends that Tingwall Airport remains the base for inter-island air services and that a Business Case covering the continued operation is undertaken to establish the detail of the investment choices that could be made.

Fixed Links

4.41 The issue of fixed links as alternatives to ferries for inter-island transport has been explored by the Council since the late 90’s.

4.42 The SBC reported in November 2016 that a fixed link to Whalsay (in the form of a tunnel) did not represent a value for money, deliverable solution for the Council but that it should be considered at a national policy level.

4.43 Officers raised the issue with the Minister for Transport and the Islands in September 2016 and the Minister undertook to include the matter in the National Transport Strategy Review (NTS2) and Strategic Transport Projects Review (STPR2) processes.

4.44 Consultation on each of these reviews is taking place over the course of the summer 2019 and include a specific component covering 'islands connectivity'.

4.45 On 31 May 2019 Transport Scotland's consultants, Jacobs, issued an invitation to around 100 stakeholders in Shetland to attend an initial workshop to explore views on the transport problems and opportunities both within Shetland and to/ from Shetland.

4.46 Invitations have been sent to all Community Councils in Shetland and Community Councils which represent islands where fixed links are known to be an important issue have been specifically contacted and invited to contribute on the matter of fixed links which in turn will influence Scottish Government's policy position on this matter.

5.0 Exempt and/or Confidential Information:

5.1 The report does not contain any exempt information.

6.0 Implications :

6.1 Service Users, Patients and Communities:	The recommendations of this report will support the progress of improved transport links to Fair Isle and Whalsay to address the constraints each of the islands faces through the limitations of the current infrastructure. This in turn will have positive impacts on the outlook for these communities leading to improved social and economic outcomes and overall well-being. Pursuing 'Fair Funding' from Scottish Government to meet the costs of current ferry service delivery will provide a firm position for the islands economies as well as the overall Shetland economy through the capacity to reliably maintain services into the future which should support community and business confidence. Once these two critical priorities are secured then delivery of the third priority to enhance ferry services will contribute to wider economic and social opportunities arising out of improved connectivity which should lead an overall improvement in economic and social conditions.
6.2 Human Resources and Organisational Development:	Some of the interventions in the studies, if implemented, will require additional human resources and training in new assets. The detail of these requirements will be developed in the Final Business Cases.
6.3 Equality, Diversity and Human Rights:	All of the options/ interventions outlined in this report have the potential to positively impact on the breadth of society equally. Therefore it is not considered that an Equalities Impact Assessment is required at this stage. However, this will be kept under review as the Business Case develops.
6.4 Legal:	No implications arising directly from this report.
6.5 Finance:	At the time of writing this report the aim of the Council is to secure all necessary funding for inter-island transport services and infrastructure from Scottish Government. The detail of costs

	and funding will be presented in detail in the Financial components of the individual Business Cases for approval by the Council.	
6.6 Assets and Property:	When delivered the interventions relating to replacement of ferries and ferry infrastructure will require the acquisition of new assets and land. The detail of this will be developed and reported as the Business Cases are progressed.	
6.7 ICT and New Technologies:	None arising out of this report.	
6.8 Environmental:	Replacement of aging ferries will improve the environmental performance of the services. The detail will be reported as the individual Business Cases continue to develop.	
6.9 Risk Management:	The main recommendation in this report is that the Council approves the recommend priorities for funding support from Scottish Government. It the Council makes all the funding requirements arising out the Ferries Business Cases of equal priority then there is a risk that Scottish Government will respond negatively bearing in mind the request to describe funding priorities. By agreeing the priorities described in sections 4.38 and 4.39 of this report this risk is lessened.	
6.10 Policy and Delegated Authority:	Policy and Resources Committee has referred authority for advising the Council in the development of its strategic objectives, policies and priorities. However, the timescale for submitting the Council's funding requirements to the Scottish Government, by 30 June, has necessitated reporting directly to Council. Final determination of the Council's strategic objectives, policies and priorities is reserved to the Council.	
6.11 Previously Considered by:	Shetland Islands Council	14 December 2016

Contact Details:
Michael Craigie, Executive Manager Transport Planning;
Michael.Craigie@shetland.gov.uk
Report Cleared : 20 June 2019

Appendices:
Appendix 1 – Consultation Material for the Fair Isle Capital OBC
Appendix 2 – Draft Executive Summary of Ferry Services (Revenue) Socio-Economic OBC

Background Documents: Shetland Inter Island Transport Study
http://www.shetland.gov.uk/transport/siits.asp

Shetland Inter Island Transport Study: Fair Isle Capital Outline Business Case

Fair Isle Public Exhibition

29th May 2019

The story so far….

- Securing investment in transport infrastructure in Scotland requires a 'Business Case' to be made in three stages:
  - Strategic Business Case (**SBC**) – develops and considers a range of options to meet an identified set of transport needs
  - Outline Business Case (**OBC**) – determines a preferred option
  - Final Business Case (**FBC**) – undertaken at the point of procurement
- The Shetland Inter-Island Transport Study (SIITS) – *Strategic Business Case* ran from September 2015 to October 2016. The study:
  - Developed the 'case for change' for investment in inter-island transport infrastructure and services across Shetland
  - Developed and appraised a range of options to meet the identified transport needs of each island and shortlisted a number of these options for further consideration at the Outline Business Case stage
- The Shetland Inter-Island Transport Study – Fair Isle *Outline Business Case* commenced in September 2018 and the emerging findings of this are being presented today
- The SIITS Air OBC and SIITS Ferry Revenue OBC Reports have been developed in parallel and are being reviewed by SIC
  - *Note that the emerging Draft Air OBC is recommending additional air connections for Fair Isle*

What are we presenting today?

The following slides set out:

- The ferry capital options which emerged from the SBC process, and were previously presented in Fair Isle in 2016
- The process by which a preferred option was developed
- Details of the preferred option
- Costs of the preferred option

We are seeking feedback from the community that the preferred option developed here is acceptable and addresses the ferry-related transport problems faced by Fair Isle

Please browse the information and:

- Take the time to give your thoughts to a member of the team if you wish
- Fill out and hand back the comments form before leaving

Options Emerging from the SBC

Options taken forward or rejected from the SBC

Option	Take Forward (✓) or Reject (×)	Rationale for Selection / Rejection
Option CO1a: Replace the MV *Good Shepherd IV* with a like-for-like vessel	×	Does not deliver objectives – would perpetuate problems with current service.
Option CO1b: Replace the MV *Good Shepherd IV* with a like-for-like but materially faster vessel	×	A faster like-for-like vessel is not technically feasible.
Option CO2: Replace the MV *Good Shepherd IV* with a small Ro-Ro vessel (likely a car carrying catamaran)	✓	Could provide step-change in access to Fair Isle so further consideration merited.
Option CO3: Replace the MV *Good Shepherd IV* with a Lo-Lo freight vessel shared with Foula	×	Would reduce flexibility of service and ability to take advantage of weather windows
Option CO4: Replace the MV *Good Shepherd IV* with a passenger vessel and a freight vessel shared with Foula	✓	Passenger vessel would broadly replicate current service with additional flexible freight capacity provided. May still have issues with weather windows
Option CO5: Operate the service from Grutness using the equivalent of an MV *Filla*	✓	Allows for an MV *Filla* size vessel, but implications for current island crew. Smaller vessel may be required to fit into Grutness.

- The SBC shortlisted three ferry capital options for further consideration at the OBC stage
- The following slides show how these options were progressed to a preferred option for Fair Isle in the context of the further development of the ‘case for change’

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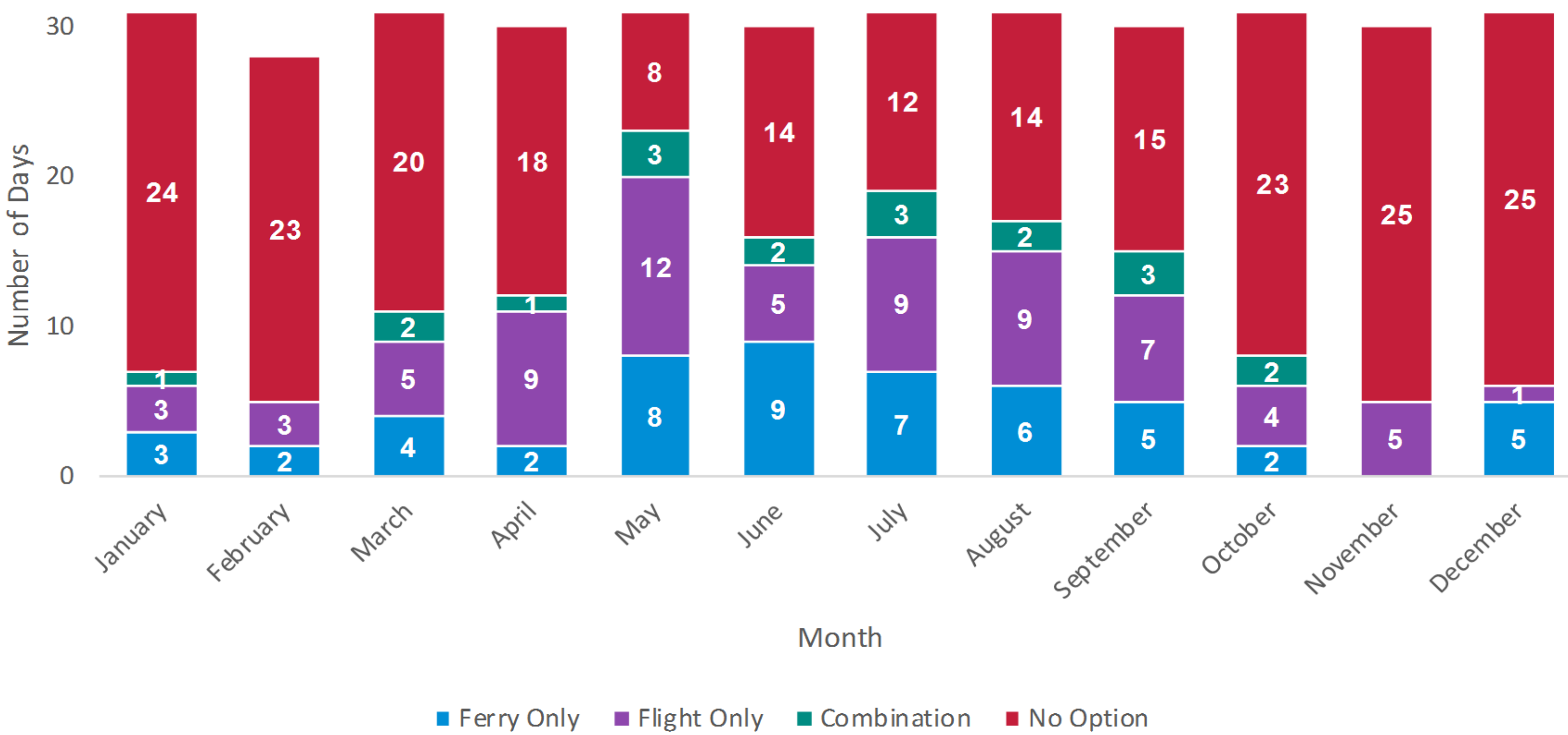
The Case for Change

Fair Isle 'Case for Change' - Summary

- The current vessel is ageing and does not meet current accessibility standards
- The service is unreliable and there are consequences of this in terms of:
    - Supply-chain – e.g. import of fresh produce, export of goods etc.
    - Personal travel – e.g. missed appointments and limited opportunities on the mainland for Fair Isle residents
    - Visitors and tourists to Fair Isle, both in terms of the choice to visit the island and travel disruption *en-route* or on the return journey
- In the 2019 Fair Isle household survey, 2/3 of respondents indicated that aspects of the ferry service prevent travel to the mainland more often – more than half of respondents cited:
    - Comfort, crossing time and absence of Ro-Ro as key barriers to travelling more by ferry
    - Passenger capacity was cited by 70% as a 'Minor' or 'Major' factor to travelling more by ferry
- The current crane-based operation:
    - Poses a medium term regulatory risk to the continuation of the service
    - Places limits on the weight / type of goods carried
    - Affects vessel turnaround times
- There is a local desire for improvements as evidenced in the household survey
    - 85% did not think the current air and ferry connections to the mainland are sufficient for their family's day-to-day needs, now and in future
    - 2/3 thought that connections were not sufficient for tourism – 3/4 wanted to see tourism develop further
    - 1/4 felt current connections were not sufficient to ensure long-term sustainability of Fair Isle
    - 80% felt that better connections would make Fair Isle more attractive for in-migrants
- The Fair Isle Bird Observatory fire has also had a major impact on the Fair Isle community

Fair Isle - Connectivity Summary 2018



- The above graph summarises the connectivity between Fair Isle and the mainland in 2018
- It illustrates that there are many days across the year when there are no air or ferry connections to Shetland mainland (up to 25 days per month in the winter)
- The chart on the next board illustrates the ferry connections in more detail – showing scheduled and actual sailings

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January 2018

Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday
1	2	3	4	5	6	7
8	9 Cancelled Cancelled	10	11 Extra Extra	12	13	14
15	16 Cancelled Cancelled	17	18 Extra Extra	19	20	21
22	23 Cancelled Cancelled	24	25 Extra Extra	26	27	28
29	30 Cancelled Cancelled	31				

February 2018

Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday
			1	2	3 Extra Extra	4
5	6 Cancelled Cancelled	7 Extra Extra	8	9	10	11
12	13 Cancelled Cancelled	14	15	16	17	18
19	20 Late Late	21	22	23	24	25
26 Extra Extra	27 Late Late	28				

March 2018

Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday
			1	2	3	4
5	6 Cancelled Cancelled	7	8 Extra Extra	9	10	11
12	13 Cancelled Cancelled	14 Extra Extra	15	16	17	18
19	20 On Time Late	21	22	23	24	25
26	27 Cancelled Cancelled	28	29	30	31 Extra Extra	

April 2018

Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday
						1
2	3	4 Extra Extra	5	6	7	8
9	10 Early Late	11	12	13	14	15
16	17	18 Extra Extra	19	20	21	22
23	24 On Time Late	25	26	27	28	29
30						

May 2018

Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday
	1 On Time Late	2	3 On Time Late	4	5 On Time On Time	6
7	8 Early Late	9	10 On Time On Time	11	12 Cancelled Cancelled	13
14 Extra Extra	15 On Time Late	16	17 On Time Late	18	19 On Time Early	20
21	22 Cancelled Cancelled	23 Extra Extra	24 Early Late	25	26 Early Early	27
28	29 On Time Late	30	31 Late Early			

June 2018

Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday
				1	2 On Time On Time	3
4	5 Cancelled Cancelled	6 Extra Extra	7 Early On Time	8	9 On Time On Time	10
11	12 Early Late	13	14 Cancelled Cancelled	15	16 On Time On Time	17
18	19 Cancelled Cancelled	20 Extra Extra	21 Cancelled	22	23 Late On Time	24
25	26 Late Late	27	28 Early Late	29	30 On Time On Time	

July 2018

Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday
						1
2	3 Late On Time	4	5 Late On Time	6	7 On Time On Time	8
9	10 Late On Time	11	12 On Time Late	13	14 On Time Early	15
16	17 On Time	18	19 Late On Time	20	21 On Time On Time	22
23	24 Late On Time	25	26 Late Late	27	28 Cancelled Cancelled	29
30	31 Late					

August 2018

Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday
		1 Extra	2 On Time On Time	3	4 Late Early	5
6	7 Late On Time	8	9 Late Late	10	11 Early Early	12
13	14 Late Late	15	16 Late Early	17	18	19 Extra Extra
20	21 Late Late	22	23 Late Early	24	25 Late On Time	26
27	28 Late On Time	29	30 Late Early	31		

September 2018

Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday
					1 Late Late	2
3	4 Late On Time	5 Extra Extra	6 Early Early	7	8 On Time On Time	9
10	11 Cancelled Cancelled	12	13 Cancelled Cancelled	14	15 Late Late	16
17	18 Late Late	19	20 Cancelled Cancelled	21	22 Cancelled Cancelled	23 Extra Extra
24	25 Cancelled Cancelled	26	27 Cancelled Cancelled	28	29 Cancelled Cancelled	30

October 2018

Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday
1	2 Cancelled Cancelled	3 Extra Extra	4	5	6 Extra	7
8	9 Late Late	10	11	12	13	14
15	16 Cancelled Cancelled	17	18 Extra Extra	19	20	21
22	23 Cancelled Cancelled	24	25	26	27	28 Extra Extra
29	30	31				

November 2018

Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday
			1 Extra Extra	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19 Cancelled	20 Extra	21	22	23	24	25
26 Extra Extra	27	28	29	30		

December 2018

Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday
					1	2
3	4 Late Late	5	6	7	8	9
10	11 Early Early	12	13	14	15	16
17	18	19	20	21	22 Extra Extra	23
24	25	26	27	28	29	30 Extra Extra
31						

OBC Option Development & Preferred Option

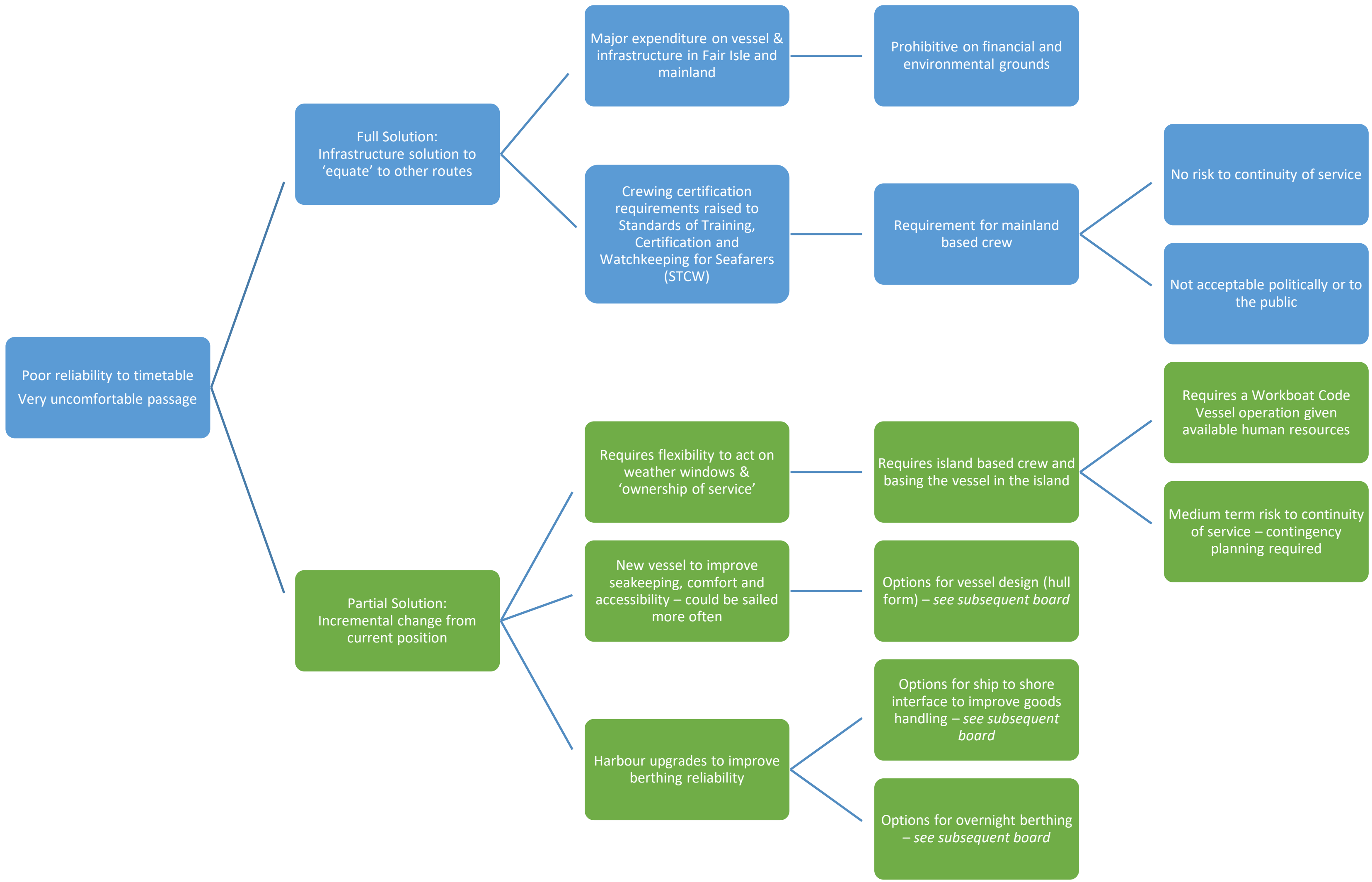
Option Development Logic

The following boards set out the logic which has been used to determine the preferred option – covering:

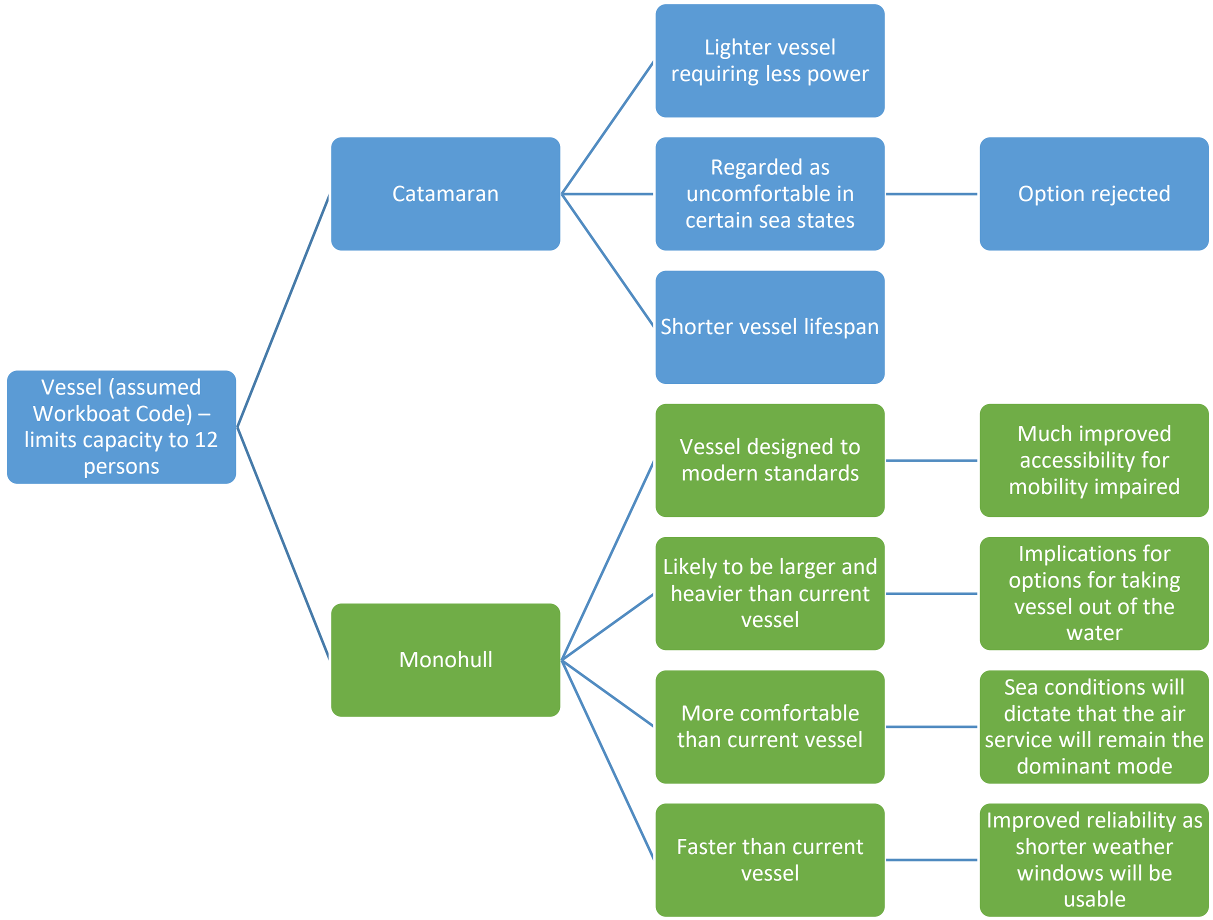
- The ‘strategic’ approach to be taken in Fair Isle
  - i.e. the scale of operation and where the vessel / crew is based
- Vessel options
- Ship to shore interface options
- Overnight berthing options

In each case, a ‘decision tree’ which sets out the main options is shown with the preferred option path highlighted in green

Fair Isle – 'Strategic' Options



Fair Isle – Vessel Options

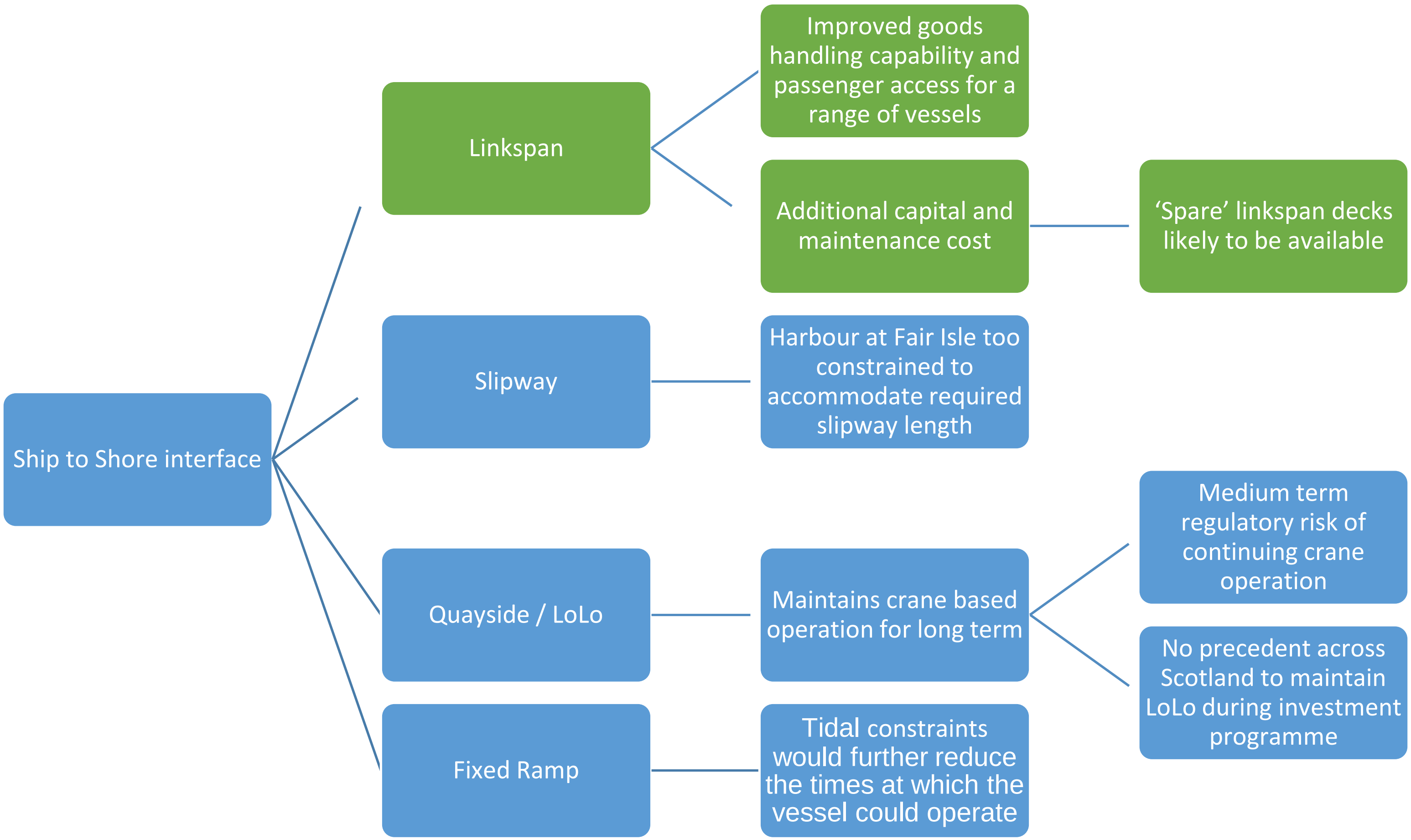


Vessels and Crewing

- **Vessel Forms Considered**
  - **Catamaran (as noted in SBC)**
    - Pros: Stable platform, faster (although sea condition dependent), relatively lightweight hull
    - Cons: reduced reliability and comfort on rough crossings, some limitation on Cargo handling, impact on slipway cradle, twin engines increased complexity
    - This was the emerging preferred option in SBC but is now ruled out following more detailed consultation and engagement with SIC Ferry Service and the crew of MV *Good Shepherd IV*
  - **Monohull**
    - Pros: Reliability in rough sea conditions, size cargo hold, fit with existing slipway and cradle footprint.
    - Cons: generally slower, providing less opportunity to take advantage of weather windows
- **Vessel Size**
  - To maintain workboat classification and retain the vessel on island, it must be **less than 24 metres length overall**

- **Preferred Specification for Vessel**
  - New monohull vessel (maximum length of 24m) classified as a workboat.
  - Precise vessel specification would be identified through a tendering process with shipyards, but a ‘design vessel’ – the MD240 – has been used in preparing the infrastructure specification (and is overlaid on the subsequent infrastructure drawings)
    - It is anticipated that a vessel of this nature would be faster, fully accessible, more comfortable and have a larger cargo carrying capacity than the MV *Good Shepherd IV*

Fair Isle – Ship/Shore Interface Options



Ship-Shore Interface Options (1)

- **Improved LoLo**
  - Infrastructure Requirements
    - Grutness: Extension of solid pier and breakwater to provide additional protection for vessel. Remote CCTV or wave monitoring to assess conditions at Grutness ahead of leaving Fair Isle
    - Fair Isle: Construct solid quay to south of breakwater, increase height of breakwater, extension of noust, new winch house, new larger cradle, new slipway and rails, new pier, and relocation of pontoon
    - Vessel: Preferred vessel specified with two cranes

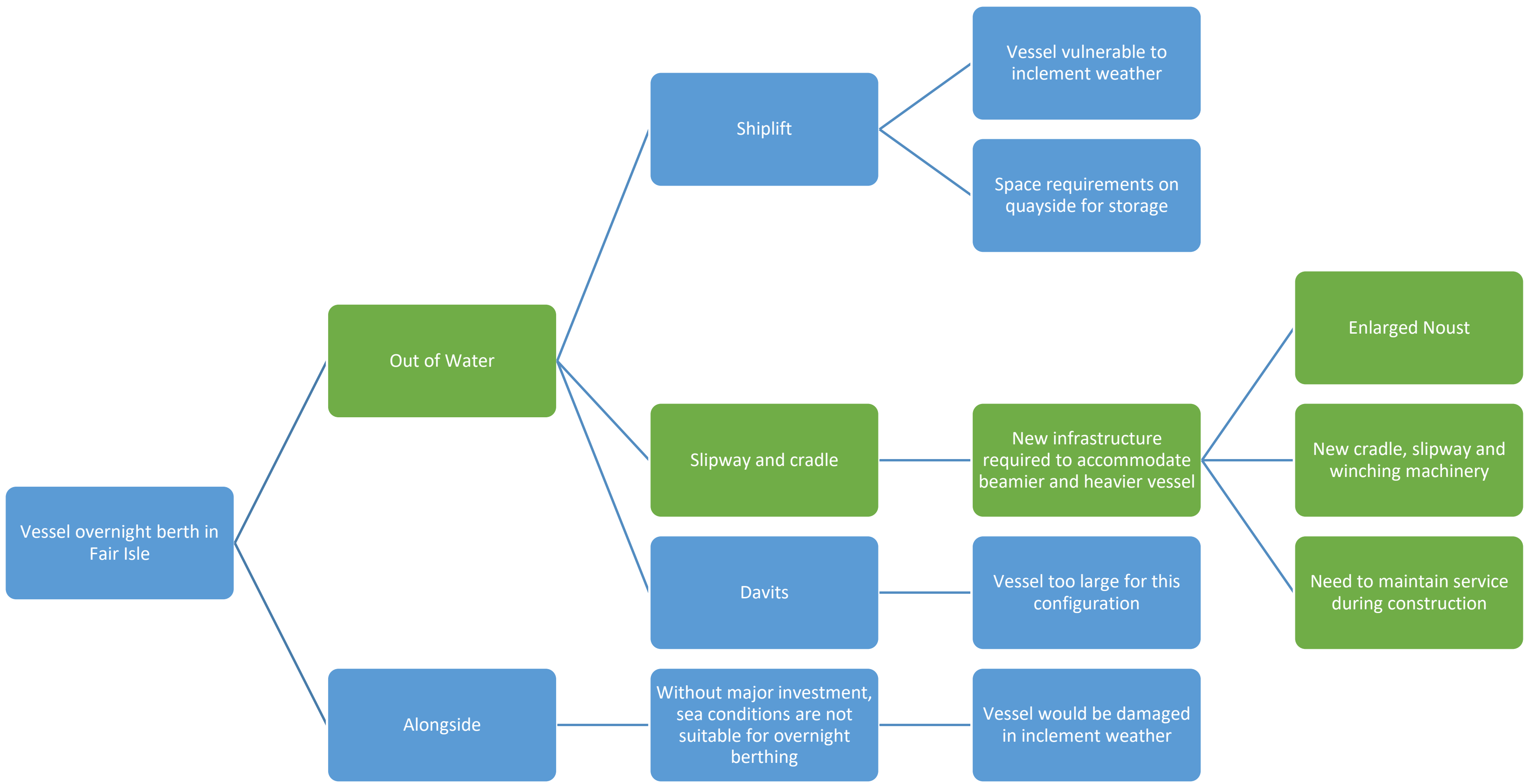
- **Ro-Ro Slipway**
  - Infrastructure Requirements
    - Grutness: As ‘Improved Lo-Lo’ requirements plus slipway for vessel
    - Fair Isle: As ‘Improved Lo-Lo’ requirements plus slipway for vessel
    - Vessel: Preferred Vessel specified with long stern ramp modification

Ship-Shore Interface Options (2)

- **Ro-Ro Fixed Ramp**
  - Infrastructure Requirements
    - Grutness: As ‘Improved Lo-Lo’ requirements plus fixed ramp
    - Fair Isle: As ‘Improved Lo-Lo’ requirements plus fixed ramp
    - Vessel: Preferred Vessel specified with short ramp

- **Ro-Ro Linkspan**
  - Infrastructure Requirements
    - Grutness: As ‘Improved Lo-Lo’ requirements plus linkspan deck, supporting structure and machinery
    - Fair Isle: As ‘Improved Lo-Lo’ requirements plus linkspan deck, supporting structure and machinery
    - Vessel: Preferred vessel specified to accommodate stern only linkspan arrangement
- This option has been progressed as the preferred option for the Fair Isle Service.

Fair Isle – Overnight Berthing Options



So what does the preferred option look like?

- Island-based vessel and crew
  - Maintains island ‘ownership’ of service
  - Risks
    - Transition planning to new vessel to ensure crew are fully trained
    - Medium-term succession planning for current crew
  - Contingency planning
    - Alternative overnight berth on the mainland
    - Mainland based crew operating service from Fair Isle
- New workboat:
  - Larger monohull complying with modern standards
  - Faster vessel (depending on sea-state)
  - Improved passenger comfort and seakeeping and therefore reliability
  - Improved response to weather windows
    - All of the above could create the potential for increased sea-based connectivity if the passenger experience is improved
    - More connections would also benefit the island supply chain
  - Ro-Ro capability with ‘Shetland-style’ linkspans
  - Service limited to 12 passengers
- Upgraded cradle / slipway / noust
- Improved shelter and new linkspans at Fair Isle and Grutness
  - Improved goods handling
  - Shorter vessel turn around times
  - Should improve berthing reliability

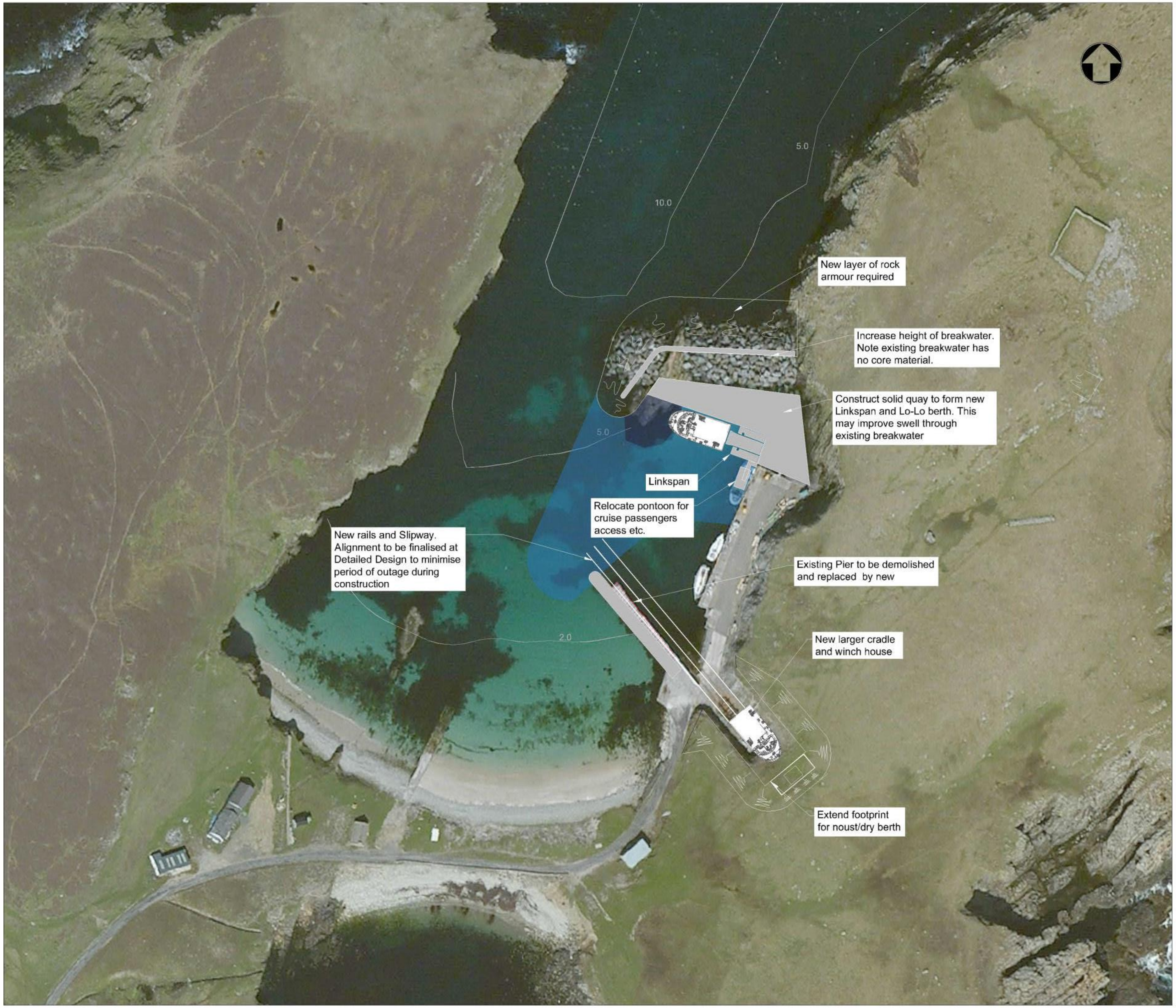
Crewing Certification & Training Requirements

- **Current Crew**
  - The preferred vessel specification would require minimal training for the current crew to achieve required certification;
    - Master – Workboat Master <500 gross tonnes (GT) Course (10days +exam)
    - Future Relief Master – Workboat <200GT training, followed by training to Workboat Master <500GT
    - Engineer and Relief Engineer – Maritime & Coastguard Agency (MCA) Approved Engineering Course (30hrs)
  - Training to be managed by SIC Ferries to ensure that as far as possible crew certification is achieved before delivery of new vessel
    - Where this is not achievable SIC Ferries to discuss short term exemptions with MCA
- **Future Crews**
  - Outline of Crewing and Training Arrangements understood until circa 2030
  - SIC Ferries and the Fair Isle Community will work together to develop a crew succession and training plan to ensure that the Fair Isle service will continue to be operated by an island-based crew
  - SIC Ferries to consider contingency for crewing cover; illness, leave, etc.

Details of Preferred Option

Infrastructure Requirements & Costing

- Infrastructure Requirements
  - The next boards provides a drawings for the required infrastructure at Fair Isle and Grutness
  - The illustrative design vessel – the MD240 – is shown on the berth in both cases
- Costs
  - Costs are presented exclusive and inclusive of ‘optimism bias’
    - Optimism bias is a percentage uplift in costs which should be applied in business cases and the early stages of project design to reflect the fact that cost estimates are historically too optimistic
    - As a scheme progresses through the detailed design stage, optimism bias is reduced
    - Optimism bias is not generally applied to new vessels as these can be fixed price purchases where a yard takes the cost risk



Shetland OBC
Options Development
Fair Isle
Ro-Ro Linkspan

- All levels are to Chart Datum
- Bathymetric information sourced from Beckett Rankine drawing no. 1537-01-201
- Tide Levels:
  - MHWS = 2.2m
  - MLWS = 0.6m
- LAT has been taken as Chart Datum
- Assumed vessel MD240 or similar with:
  - LOA = 23.98m
  - Beam = 11.20m
  - Service Draught = 2.8m
- Dredge level allows for 1m UKC

Rock dredging to -4.0mCD

Maintenance dredging to -4.0mCD

Location Plan

Shetland Islands Council

MOTT MACDONALD

peterbrett

now part of Stantec

Shetland OBC
Options Development
Grutness
Ro-Ro Linkspan

- All levels are to Chart Datum
- Bathymetric information sourced from Shetland Islands Council drawing no. SM-6-1-100
- Tide Levels:
  - MHWS = 1.8m
  - MLWS = 0.4m
- LAT has been taken as Chart Datum
- Assumed vessel MD240 or similar with:
  - LOA = 23.98m
  - Beam = 11.20m
  - Service Draught = 2.8m
- Dredge level allows for 1m UKC, bed understood to be soft material therefore bed overdredged to minimise need for maintenance dredging

Dredging to -4.0mCD

Location Plan

Shetland Islands Council

MOTT MACDONALD

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Cost to Government – Fair Isle Route

Element	Estimated Capital Cost (£m) (Base cost including ground investigation and engineering but not contingency)	Estimated Capital Cost (£m), including Optimism Bias (+44%)
Fair Isle Harbour Improvements: development of a Ro-Ro berth; replacement of the existing slipway, winch & cradle; and widening of the 'noust' in which the vessel is protected from the weather	**£11.1m**	**£16.0m**
Grutness Harbour Improvements: development of a Ro-Ro berth and a short pier extension to provide shelter.	**£4.4m**	**£6.3m**
Vessel: Mono Hull Vessel (Max. 24m) classified as a Workboat. Suitable for Linkspan operation.	**£3.0m**	**£3.0**
Total	**£18.5m**	**£25.3m**

Completing the Study

- The feedback from this event will be used to inform the ‘public acceptability’ section of the OBC Report
- The OBC Report will be finalised and published in Summer 2019
- SIC will use this report in its ongoing discussions with Scottish Government regarding the future funding of inter-island transport in Shetland
- If funding is secured through whichever route, a Final Business Case will be produced to support the procurement of the new vessel and harbour infrastructure

- Please take this opportunity to provide your thoughts on the options presented to the team and ask any questions you may have
- The boards you have just read provide some areas you may wish to discuss but we would be happy to hear any views that you have
- Please also take the time to fill out the comments form before you leave

Thank you for coming

MOTT MACDONALD peterbrett now part of Stantec

Executive Summary

Shetland Islands Council (SIC) funds lifeline[1] transport connections to 9 islands across the archipelago. These connections are delivered through a combination of air and ferry services. The inter-island transport network has been supported in both capital and revenue terms by the Council over many years. However, the ferry service runs at a deficit of around £2.5m per annum after receipt of some £7.1m per annum of Grant Aided Expenditure and £5.2m in specific revenue grant from Scottish Government (and with only limited provision for capital replacement), whilst the air service operates at a deficit of around £660k per annum in revenue costs and £2m in capital.

In 2014 Shetland Islands Council, through the 'Our Islands Our Future' initiative, began a dialogue with Scottish Government on establishing principles of 'Fair Funding' of Shetland's inter-island transport services and infrastructure on the basis the financial burden upon the Council in providing inter-island transport was disproportionate relative to other areas in Scotland.

Scottish Government accepted in principle that a Fair Funding position needed to be established and to inform that Shetland Islands Council and ZetTrans agreed to undertake studies, now in the form of Business Case Methodology, to establish and appraise the service and infrastructure requirements for inter-island transport over a 30 year planning horizon.

In November 2016, the Council published a Strategic Business Case (SBC), which identified a set of capital and revenue options which, if delivered, would in-part or in-full address the identified transport problems. One of the priorities emerging from the SBC was consideration of requirements for additional ferry revenue funding to address evidenced service shortfalls. To this end, ZetTrans commissioned Peter Brett Associates (PBA), now part of Stantec, Mott MacDonald (MML) and ProVersa to develop a *Revenue Options Socio Economic Outline Business Case*

Case for Change

The 'case for change' in the context of the Shetland inter-island ferry services is predicated on the following rationale:

- On the **short & high volume routes (Bressay, Fetlar, Unst, Whalsay and Yell)**, substantial investment was made in the network from the 1980s until the mid-2000s. This took the form of both capital investment on some of the routes (modern tonnage, terminals and automation) and a level of service broadly similar to Transport Scotland's Routes and Services Methodology 'model' services. Shetland's island communities developed their economy, work and social activities around the network of frequent connections and long operating days. In particular, commuting to Lerwick and Sullom Voe, and into the islands, is common place, whilst services and supply-chains became in many cases Lerwick-based. In many respects, the high service levels perpetuated the demand for further improvements. When the services were scaled back in 2013 (particularly at weekends) because of local authority funding constraints, communities experienced several disbenefits, ranging from longer journey times to shift and weekend employment to being unable to participate in mainland or island social and recreational activities. This has come through strongly in resident survey work and consultation. **The focus of ZetTrans and the Council through this Revenue OBC is therefore on maintaining and developing the benefits generated through the long period of investment prior to 2010.**
- On **Outer Isles routes (Fair Isle, Foula, Papa Stour and Skerries)**, service levels fall significantly below the Routes and Service Methodology (RSM) 'model' service in terms of the number of days on which sailings operate, the frequency of connections across the

[1] As defined on page 53, paragraph of the Scottish Ferries Plan 2013-22.

day and the length of the operating day. The limitations of the current services to & from these islands poses significant challenges in terms of resident & visitor (leisure & business) travel, supply-chain costs & management and, ultimately, island sustainability. **The focus of ZetTrans and the Council through this Revenue OBC is therefore on incrementally increasing services where it is practical, beneficial and cost effective to do so.**

Preferred Option Package

The OBC process requires the identification of a preferred option which reflects the 'case for change' and addresses the problems & opportunities identified through the SBC process. Individual priorities for each element of the network are set out below. The priorities have been determined through the analysis in the SBC and this OBC, as well as a value for money judgement, comparing the costs of a potential service enhancement against the benefits.

Short & High Volume Routes

The table below sets out the priorities and costs for the short and high volume routes:

Short & High Volume Routes – Priorities & Costing

Priority Grouping	Option	Estimated Net Additional Cost
1=	Option YE3: weekday timetable seven days per week	£273,272
1=	Option WH3: weekday timetable seven days per week	£259,350
1=	Option BMS3: weekday timetable seven days per week	£138,272
	Total Cost of Priority 1 Enhancements	**£670,894**
2=	Option BR1: Early sailings to connect with first flights	£29,782
2=	Option WH1: Early sailings to connect with first flights	£30,107
2=	Option YE1: Early sailings to connect with first flights	£39,673
	Total Cost of Priority 2 Enhancements	**£99,562**
3=	Option YE2: Additional sailings on Friday & Saturday evenings	£27,237
3=	Option WH2: Additional sailings on Friday & Saturday evenings	£44,563
3=	Option BMS2: Additional sailings on Friday & Saturday evenings	£36,958
	Total Cost of Priority 3 Enhancements	**£108,758**
	Grand Total of All Priority Enhancements	**£879,214**

The **equalisation of the weekday and weekend timetable** is considered the top priority enhancement. These options would reverse most of the 2013 service reductions and would address the concerns of island residents and businesses identified through the business case process. Yell and Whalsay are considered the priorities given their greater populations and the higher volumes on those routes.

The provision of **early sailings** to connect with the first flights from Sumburgh are considered the second priority, as they are a relatively low cost means of achieving one of the study objectives (TPO5), allowing island residents to make a day return trip to the Scottish mainland, removing the cost burden of overnight stays on Shetland mainland prior to or after a trip south.

The provision of **late evening sailings** is considered the third, but lesser priority. These sailings would deliver the wishes of communities for later weekend sailings, allowing island residents to engage in social activities in Lerwick or Shetland mainland and for mainland residents to attend events on the islands more widely. This is considered important by island residents in promoting their communities as a place to live, both in terms of population retention and in-migration.

The combined cost of the three priority enhancements is around **£880k**, with the equalisation of weekday and weekend services accounting for around **three quarters** of this.

For the avoidance of doubt, there is no order of preference within the priority groupings.

Outer Isles Routes

The table below sets out the priorities for the Outer Isles routes (Fair Isle, Foula, Papa Stour and Skerries):

Outer Isles Routes – Priorities & Costing

Priority	Option	Estimated Net Additional Cost
1=	PS3: Operate one additional sailing day per week	£53,573
1=	SK2: Return sailing from Skerries on a Tuesday and Thursday	£108,997
	Total Cost of Priority 1 Enhancements	**£162,570**

The immediate priority on the Outer Isles routes is to plug the gaps in connectivity in Papa Stour and Skerries created by the withdrawal of the air service. It is estimated that this would cost in the region of **£163k**.

Combined Priorities

The delivery of all priority options would cost just over **£1m** in additional revenue funding per annum.

Given that both Papa Stour and Skerries are suffering a reduction in connectivity due to the withdrawal of their air services, it is recommended that equal priority is given to enhancements for these communities as is given to the short & high volume routes.

Deliverability & Risks

Should additional funding be made available, there are two key deliverability challenges / risks which would need to be addressed:

- The primary challenge would be recruiting crew in Whalsay to simultaneously enhance both the weekend services to that island, as well as scaling up the Skerries service to operate on a Tuesday and Thursday. More generally, SIC would need to put in place a recruitment / training plan to scale up the other routes.
- A number of the options would require a change in crew terms & conditions, particularly in terms of working hours and patterns. Negotiation would be required with the relevant crew representatives to further explore the issues around this.

Shetland Islands Council

Agenda Item

5

Meeting(s):	Special Shetland Islands Council	26 June 2019
Report Title:	Inter-Island Air Services Outline Business Case – Emerging Principles and Next Steps	
Reference Number:	DV-18-19-F	
Author / Job Title:	Michael Craigie – Executive Manager Transport Planning	

1.0 Decisions / Action Required:

1.1 That the Council **NOTES**: -

1.1.1 the Socio-Economic case of the Outline Business Case (OBC) for Inter-Island Air Services contained in Appendix 1 of this report (conclusions summarised in section 4.2); and

1.1.2 the intention to complete the Strategic, Financial, Commercial and Management components of the OBC and report these to the Council on 20 August 2019 and the Full Business Case to the Council on 25 September 2019.

1.2 That the Council **RESOLVES** to **APPROVE**: -

1.2.1 that Tingwall Airport remains at present the base for inter-island air services taking account of detail given in sections 4.3 to 4.12 of this report;

1.2.2 Subject to 1.2.1**,** that the Director of Infrastructure Services, or his nominee, undertakes a Business Case for the required capital investment in Tingwall Airport; and

1.2.3 that the Director of Infrastructure Services, or his nominee, undertake a Business Case for the licensing Foula Airstrip to meet relevant Civil Aviation Authority standards and report the Business Case to the Environment and Transport Committee as soon as practicable.

2.0 High Level Summary:

2.1 In October 2015 Shetland Islands Council commissioned a study into inter-island transport to support the work with Scottish Government and Transport Scotland on the funding of inter-island transport services.

2.2 The study culminated in reports to Shetland Islands Council, on 14 December 2016 (Min Ref 84/16) and ZetTrans, on 15 December 2016 (Min Ref 28/16) on the Strategic Outline Case (SOC) covering revenue and capital investment options across the Shetland inter-island transport network. The study can be found at: - http://www.shetland.gov.uk/transport/siits.asp.

2.3 From this, four priorities were identified for progress to Outline Business Case (OBC) stage. These were: -

- Inter-island Air Services
- Fair Isle Capital OBC
- Whalsay Transport Link Capital OBC
- Ferries Revenue OBC

2.4 This report summarises the conclusions of the Socio Economic component of the Air Services OBC and seeks the Council's approval of a recommendation that Tingwall Airport remains the base for inter-island air services for at least the duration of the next inter-island air services contract from 1 April 2020 to 31 March 2025.

3.0 Corporate Priorities and Joint Working:

3.1 The Council's Corporate Plan states as one of its five top political priorities, "Provide quality transport services within Shetland, and push for improvements in services to and from Shetland" (Our Plan – 2016 – 2020).

3.2 The Council works closely with ZetTrans, as the main partner, to deliver its transport priorities along with NHS Shetland and Highlands and Islands Enterprise.

4.0 Main Issues:

Summary of Socio-Economic OBC Conclusions

4.1 A copy of the Air Services Socio Economic component of the OBC is attached as Appendix 1 to this report.

4.2 The main conclusions are : -

- It appears highly likely that any airfield into which inter-island air services operate in the medium term will have to be licensed.
- The current aircraft type remains the most appropriate type for operations for the foreseeable future.
- There is some scope to increase current service levels but it is limited by maintenance requirements and reliability arising out of weather constraints.
- The preferred option for Papa Stour is the withdrawal of the air service with consideration to be given to a compensating measure to add a double return ferry service on a Monday or Tuesday (preference appears to be towards Monday).
- The preferred option for Skerries is the withdrawal of the air service with consideration to be given to compensating measures in relation to the ferry service [no practical short-term measures but further work is included in the Ferry Services OBC included on the agenda for this meeting].
- Explore enhancements to the Fair Isle and Foula services to reflect current and future demand.
- The financial comparison of the operation of inter-island air services from Tingwall compared to a move to Sumburgh airport is finely balanced and in itself does not provide a case for selecting a preferred mainland airfield.
- However, the socio-economic case overwhelmingly favours Tingwall as the base for inter-island air services, which leads to a conclusion that the preferred option for the mainland base for inter-island air services is Tingwall Airport.

The Base for Inter-island Air Services

4.3 Sections 2.4.9 to 2.4.15 and Section 4 of Appendix 1 sets out the considerations, analysis, comparison and conclusions relating the location for the mainland base for inter-island air services.

4.4 The analysis concludes this matter is complex and finely balanced. Whilst the financial benefits of moving to Sumburgh are apparent but marginal (and perhaps more significant in the longer term), the socio-economic case overwhelmingly favours Tingwall insofar as it provides the most effective means of maximising connectivity and reliability.

4.5 The communities of Fair Isle and Foula have made it very clear through the consultation that it should be a priority of the Council to decide to retain Tingwall Airport as the base for inter-island air services.

4.6 There are several other matters that the Council may wish to consider. These are set out in sections 4.7 to 4.12.

4.7 As stated above, the Fair Isle (and Foula) community has a very strong and unambiguous view that operating the inter-island air services from Sumburgh would lead to a degradation in service through reduced reliability and longer travelling times, leading to less time on mainland for islanders and less time on island of service providers, tourists and family and friends. This would place additional pressure on the sustainability of the island.

4.8 Furthermore, it is certain at this point that moving the base for inter-island air services from Tingwall to any other location cannot be achieved in time to align with the start of the next inter-island air services contract on 1 April 2020.

4.9 Significant time and effort would be needed to reach a position with Highlands and Islands Airport Ltd to develop and finalise the detail of the operation.

4.10 To tender for a new contract where the base for inter-island air services is uncertain is likely have a significant negative impact on the cost of the contract as any tenderer would be taking significant risks arising out of uncertainty relating to cost of operations over the course of the contract.

4.11 In summary, there is no convenient “clean cut” position on the mainland base for inter-island air services but on the balance of financial matters and the socio-economic matters that are important to the island communities, the balance falls in favour of retaining Tingwall Airport as the base for inter-island air services.

4.12 Subject to a decision to retain Tingwall Airport as the base for inter-island air services, the Director of Infrastructure Services will undertake a Business Case for capital investment requirements at Tingwall Airport reflecting that there are several options around runway lengths, lighting, buildings, etc. that can be considered.

Licensing of Foula Airstrip

4.13 In recent months, officers have been working with the Civil Aviation Authority (CAA) to establish the requirements of licensing Foula Airstrip.

4.14 The CAA has confirmed that licensing of Foula Airstrip is not mandatory but it is highly advisable on the basis that the regulatory environment is becoming increasingly more onerous and it is likely that any exemptions currently in place will be difficult to sustain beyond the short/ medium term.

4.15 There are three main drivers for considering licensing: -

- There is a lack of competition for inter-island air services contracts with previous bidders stating that it is unlikely that they can satisfy CAA requirements to enable licensing of a new operator.
- The current model of provision is unreliable and the Foula Community does not have the skills and resources necessary to sustainably provide Rescue and Fire Fighting and Airstrip Management functions without external support and expertise.
- If an incident were to occur at Foula Airstrip it is likely that the Council would be exposed to some degree of risk insofar as it grant aids the Foula Airstrip Trust.

4.16 The CAA has confirmed that the Foula Airstrip can be licensed subject to: -

- Remedial works to address the condition and layout of the airstrip related drainage, lighting, buildings and apron area; and
- Putting in place appropriate management and governance structures and resources necessary to demonstrate compliance with regulatory requirements.

4.17 To enable the Council to fully understand and consider its options for the continued and reliable operation of an airstrip in Foula, the Executive Manager - Marine Infrastructure and Airports is preparing a Business Case that will be presented to Members in due course.

<u>Next Steps</u>

4.18 In order to further develop the Financial, Commercial and Management components of the OBC, there are some tasks to be undertaken. These are: -

- Further engagement with Fair Isle and Foula communities to resolve a service specification that addresses the islands' needs and can then be included in a the Financial, Commercial and Management cases in the Outline and Full Business Cases.
- Conclusion of the ferry services capital and revenue OBCs that will have a bearing on what is required of air services.
- The Tingwall Airport Business Case should begin immediately.
- The Foula Airstrip Licensing Business Case should begin immediately.

4.19 With the input from these work streams, a complete OBC will be presented to the Council on 20 August 2019 and the Full Business Case will be presented to 25 September 2019. The Full Business Case will define the specification for a tender package, which will be issued at the end of September 2019 with the aim of having a new inter-island air services contract in place from 1 April 2020 onwards.

5.0 Exempt and/or Confidential Information:

5.1 None.

6.0 Implications :	
6.1 **Service Users, Patients and Communities:**	Throughout the Business Case process, communities and stakeholders have been involved in establishing the needs to be addressed by inter-island air services. Further engagement with communities and stakeholders will be undertaken through the work described in Section 4.3 and included in subsequent reports.
6.2 **Human Resources and Organisational Development:**	There are no human resources or organisational development issues arising immediately out of this report.
6.3 **Equality, Diversity and Human Rights:**	An Integrated Equalities Impact Assessment will be carried out as part of the remainder of the Business Case process.
6.4 **Legal:**	The Civil Aviation Authority (CAA) is empowered to licence aerodromes (including airfields) under various sources of aviation law – at both EU and UK level. For the avoidance of doubt, legal provisions are in place or due to be in place shortly to ensure a high degree of continuity of aerodrome and aviation regulation post-Brexit, e.g. via the European Union (Withdrawal) Act 2018. It should therefore be assumed that the CAA's current intentions to make airfield-licensing exemptions subject to more stringent and onerous conditions will remain largely unaffected due to Brexit (especially as it relates to the possible need to secure CAA licensing of the Foula Airfield). Unlike in other sectors or industries, aviation regulation and licensing standards are unlikely to become less heavily regulated in consequence of Brexit. ZetTrans has functional responsibility and the duty to secure transport services in Shetland under the Transfer of Functions to the Shetland Transport Partnership Order 2006.

6.5 Finance:	A decision to retain Tingwall Airport as the base for inter-island air services could result in the Council foregoing an opportunity to reduce the costs of operating inter-island air services into the future, at least for the duration of the next contract. The complete OBC will report detail in Financial Case that will provide Members with detail on financial implications of preferred the preferred service option. The Business Case for Licensing Foula Airstrip will establish if there are any additional costs that need to be considered by the Council. At this time it isn't possible to determine if any additional costs would be incurred and if so at what level. However, matters relating to airfield licensing will be reported to Council for decision.
6.6 Assets and Property:	There are no Assets and Property issues arising immediately out of this report. The Business Cases for Tingwall Airport and the Licensing of Foula Airstrip may raise issues relating to assets in the future.
6.7 ICT and New Technologies:	There are no ICT or New Technologies arising immediately out of this report.
6.8 Environmental:	There are no environmental issues arising immediately from this report.
6.9 Risk Management:	Shetland's inter-island air services are profoundly important to the social and economic wellbeing of Fair Isle and Foula communities. Failure to conduct a thorough Business Case approach to making decisions on the future services and infrastructure requirements would undermine the capacity of the Council and ZetTrans to make informed investment decisions that can be shown to be based on policy aims and objectives. This could lead to unintended or unexpected consequences in terms of effective delivery of community planning objectives and outcomes. Furthermore, the Business Case approach will mitigate risk of unsustainable financial consequences that may arise out of inadequate account being taken of Shetland Islands Council's financial position and priorities. Having said that, at this stage of the process there is a solid evidence base from the socio-economic case and the relative costs of options for the base for inter-island air services to address this matter now, i.e. take a decision to continue operations from Tingwall Airport. This in turn will simplify and enable more precision in the Financial, Commercial and Managements cases of the OBC.

	There are significant risks attached to leaving this matter unresolved in terms of uncertainty in the specification for the next inter-island air services contract which could lead to higher contract costs and even a risk of no bids at all. Furthermore, ongoing delays to refurbishment of facilities at Tingwall Airport (runway surface, airfield lighting mainly) could lead to the airport capabilities being diminished with unexpected constraints on service. On balance therefore it is reasonable to reach a conclusion on the matter of Tingwall Airport as the base for inter-island air services at this stage of the process. If the air services contract is not tendered in sufficient time to ensure a new contract is in place on 1 April 2020, then this could lead to suspension of air services and a gap in services to the islands served. To fill the gap it would be necessary to adopt interim supply arrangements, e.g. 'day rate' cover which is likely to prove very costly relative to a contracted position. If completion of the OBC and ultimately the FBC is not achieved then there is no evidence base for the future of air services and required infrastructure. This in turn would lead to a poor basis for pursuing the case to Scottish Government for 'Fair Funding', which is likely to put the Council in a weaker position. Although it isn't at this stage a mandatory requirement for island airstrips to be licensed, there is a strong opinion that it will become a requirement in the foreseeable future. In this connection it is prudent to undertake a study into the the licensing requirements so that the Council can take informed decisions on whether to pursue this direction and the options for achieving it.	
6.10 **Policy and Delegated Authority:**	The Council has reserved authority for the determination of new or variations to existing strategic objectives or policy. The Council's policy is to seek to have in place transport arrangements that meet people's needs and that can be afforded in the medium term. To achieve this policy the Council works closely with ZetTrans.	
6.11 **Previously Considered by:**	None.	

Contact Details:
Michael Craigie, Executive Manager Transport Planning,
Michael.Craigie@shetland.gov.uk 14 August 2018
Tel: 01595 744160
Report Cleared: 20 June 2019

Appendices:
Appendix 1 – Inter Island Air Services Outline Business Case

Background Documents: Shetland Inter Island Transport Study.

http://www.shetland.gov.uk/transport/siits.asp

Shetland Inter-Island Transport Study

Air Services Outline Business Case – Socio-Economic Case

On behalf of ZetTrans

Project Ref: 40238 | Rev: SC | Date: August 2018

Office Address: 3rd Floor, Randolph House, 4 Charlotte Street, Edinburgh EH2 4QZ
T: +44 (0)131 297 7010   E: edinburgh@peterbrett.com

Document Control Sheet

Project Name: Shetland Inter-Island Transport Study

Project Ref: 40238

Report Title: Air Services Outline Business Case

Date: 30st August 2018

	Name	Position	Signature	Date
Prepared by:	Stephen Canning	Associate – Transport Planner		28/08/2018
Reviewed by:	Scott Leitham	Director, Transport Planning		29/08/2018
Approved by:	Scott Leitham	Director, Transport Planning		30/08/2018
For and on behalf of Peter Brett Associates LLP				

Revision	Date	Description	Prepared	Reviewed	Approved
Final Report v1.0	20/09/18	Final report addressing SIC comments of 05/09/18.	SC	SL	SL
Final Report	22/10/18	Revised Final report addressing SIC comments of 10/10/18.	SC	SL	SL

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Appendices

Appendix A Community Feedback

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Executive Summary

Shetland Islands Council (SIC) / ZetTrans funds lifeline transport connections to nine islands across the archipelago. These connections are delivered through a combination of air and ferry services.

The inter-island transport network has been supported in both capital and revenue terms by the Council over many years. Whilst this remains the case, capital investment requirements, escalating costs and a reduction in the funding available at the local authority level has led to a need to consider the future of the inter-island transport network at the strategic level. To this end, the Council, in partnership with Highlands & Islands Enterprise and Transport Scotland, commissioned the Shetland Inter-Island Transport Study (SIITS), with a view to developing and appraising options for the future of the inter-island transport services.

The Strategic Business Case (SBC) was completed in Autumn 2016, and set out a range of capital and revenue options for all islands across the archipelago, together with a timeline for progressing specific elements of the SBC to Outline Business Case (OBC) stage. The immediate priority in this respect was the OBC for the inter-island air services, which connect the islands of Fair Isle, Foula, Papa Stour and Skerries to Tingwall, near Lerwick.

There are a range of strategic issues in need of resolution as well as day-to-day considerations of how the service should be delivered. To this end, ZetTrans commissioned Peter Brett Associates LLP (PBA) to develop the *Air Services Outline Business Case*. This report forms the Socio-Economic Case of the Air Services OBC.

Assets & Infrastructure

Through desk-based research and consultation with the operator, it was confirmed that:

- It appears highly likely that any airfield into which the inter-island service operates in the medium term will have be **licenced**. This has cost and human resource implications, which fed through into the consideration of islands to be served (see below).
- The current aircraft type remains the most appropriate for operating the service in the medium-term.
- Investment in navigational aids including Global Navigation Satellite System (GNSS) and runway lighting are unlikely to offer any more than a marginal improvement in service reliability and thus should not be considered further at this stage.

Islands Served

A review of the current operation and consultation with the operator, Airtask, suggests that, from an asset utilisation and human resource perspective, there is some scope to increase the intensity of the current service. However, this is likely to be limited - aircraft maintenance requirements and the paramount importance of flexibility in responding to circumstances (particularly weather windows) significantly reduces the scope for expanding services without a step-change in resourcing. Therefore, **25-27 rotations per week (fewer in winter) can be broadly assumed to be the maximum** given:

- the flexibility required in the schedule to react to weather windows – i.e. there is little point in adding rotations to the schedule (and contract) which cannot be delivered with any degree of certainty;
- current pilot numbers & flying hours;
- current aircraft and maintenance schedules;
- current ground staff at Tingwall; and

- current ground staff resource on island.

Any scaling up to more than 25-27 rotations and the current days of operation would have an impact on some or all of the above parameters. Assuming the number of rotations is therefore broadly fixed, the question then becomes: what is the optimal use of these rotations between the islands and across the week. It is the conclusion of this OBC that, from the commencement of the next contract, **the inter-island air service should operate to Fair Isle and Foula only**. With regards to the other islands in the current service or identified in the SBC:

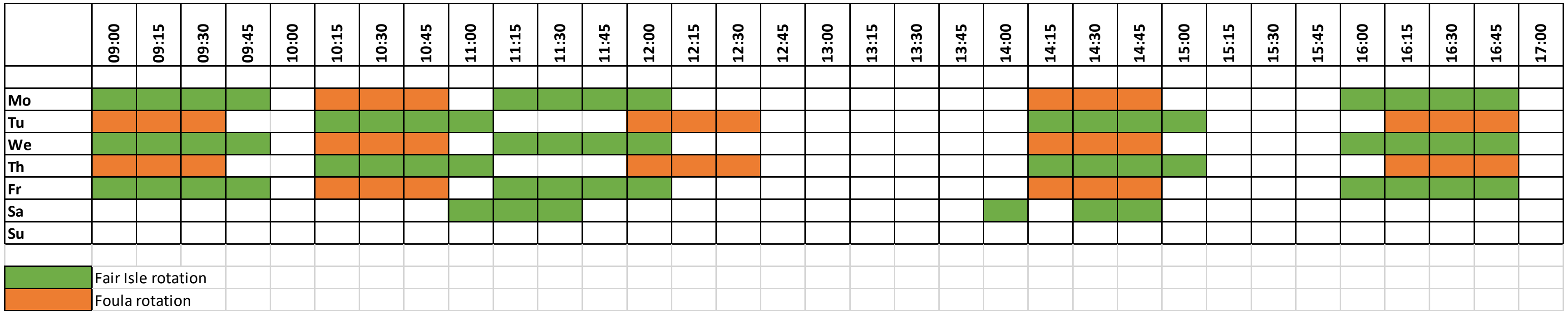
- The preferred option for **Papa Stour** is the permanent withdrawal of the air service with the addition of a double-return ferry service on either a Monday or a Tuesday as a compensating measure. Further enhancements to the ferry service will be considered as part of the ongoing revenue OBC.
- The preferred option for **Skerries** is the permanent withdrawal of the air service. There are no practical short-term measures for improving the frequency of the current ferry service. However, the ongoing Revenue OBC, due to report in mid-2019, will consider options for expanding the operating envelope of the service, whilst there is a longer-term consideration as to the practicality of overnighting the Skerries vessel in the island.
- The aspirations for a space port and associated industrial development in **Unst** preclude using the airfield at Baltasound for the development of an air service.

Service Specification

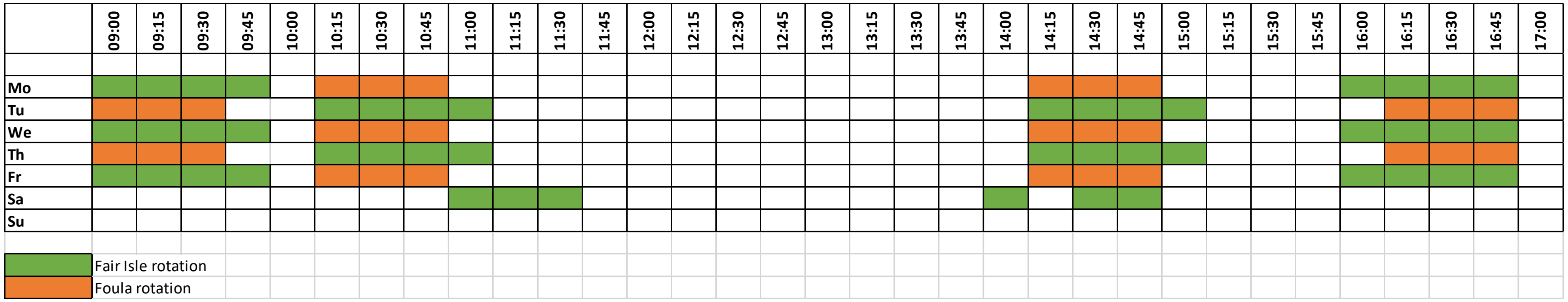
The options developed within this OBC therefore broadly worked within the relatively fixed operating window and focused largely on weekday connectivity, which is arguably more important than weekend connectivity from a resident perspective in terms of accessing key services.

To summarise, the preferred service specification for Fair Isle and Foula is:

- The introduction of **five rotations per day from Tingwall or Sumburgh, with alternating days of 3 rotations & 2 rotations for each island (Option 1)**. This would provide for 15 rotations per week to Fair Isle and 12 to Foula. It is recommended that this timetable is operated for the summer or peak summer timetable, providing the island residents want this level of service and can provide the necessary airfield resourcing. The illustrative timetable is shown below:



- The introduction of **four rotations per day from Tingwall or Sumburgh, with alternating days of each island having the first and last rotation (Option 3)**. This would provide 11 rotations per week for Fair Isle and 10 rotations per week for Tingwall, as well as providing some slack in the timetable for operating *ad hoc* / banked services. It is recommended that this timetable is operated for the shoulder winter and winter period (or year round if the islands cannot accommodate Option 1), providing the island residents want this level of service and can provide the necessary airfield resourcing. The illustrative timetable is shown below:



- Should island residents wish to receive, and are capable of accommodating, **additional weekend flights**, this should be included as a priced option through the tender specification for the next contract. A further costing exercise will be required from an SIC perspective depending on whether the service operates from Tingwall or Sumburgh.
- The timetables presented above set out the **maximum** service which can be delivered. Engagement with the Fair Isle and Foula communities would be required to determine whether they would want this level of service and whether it can be accommodated within available island resources. If not, a scaled back version of Option 1 and / or 3 could be delivered, potentially with *ad hoc* / banked flights being offered where a scheduled rotation is not flown.

Choice of Mainland Airfield

There has been a long-running debate as to whether the inter-island air service should operate from the Council owned Tingwall Airport or the HIAL owned Sumburgh Airport, which is the main gateway to the Shetland Islands. An increasingly urgent need for capital investment at Tingwall to ensure regulatory compliance has brought this issue more sharply into focus.

Financial Comparison

The table below presents 30-year costs for the two airfields in 2018 prices and as a 30-year Present Value of Costs (PVC):

Comparative Costs of Tingwall & Sumburgh

	Tingwall	Sumburgh
Capital Costs	£1,787,000	£1,141,000
Operating Costs	£11,121,472	£12,019,590
Tingwall Lifecycle Costs	£1,284,270	N/A
Sub-Total	***£14,192,742***	***£13,160,590***
Licencing of Foula	£85,000	£85,000
SIC Redundancy Costs	£0	£90,739
Grand Total	***£14,277,742***	***£13,336,329***
30-year PVC	***£7,184,444***	***£6,553,885***

The above table highlights that the financial case for both airfields is finely balanced. Relocating the service to Sumburgh would offer relatively small cost savings, particularly when considered as a PVC over a 30-year period. Whilst there remain uncertainties over a handful of costs at this stage, it is unlikely that the financial comparison will in itself provide a basis for selecting a preferred mainland airfield for the inter-island service.

Given the above, the next section considers the socio-economic arguments for Tingwall and Sumburgh.

Socio-Economic Case

The socio-economic considerations around the preferred mainland airfield are split between the impacts on island residents, SIC & the wider public sector and the operator.

Island Residents

- Successive consultation exercises (undertaken in 2012, 2016 and 2018) have clearly highlighted the preference of Fair Isle and Foula residents for the air service to operate to and from Tingwall. The travel time to and from Sumburgh significantly erodes available time in Lerwick, effectively the measure of how valuable any return flight is. Indeed, under the preferred timetable options recommended in this study, moving the air service to Sumburgh would only allow around 1-1.5 hours in Lerwick on the alternate 'short' days, which in all likelihood would dis-incentivise island residents to travel at all on those days.
- It is also considered that a move to Sumburgh would constrain the ability of Council service providers and contractors to access the islands resulting in increased costs to

communities or a reduction in services and trades being provided to the islands concerned.

- Relocating the inter-island air service to Sumburgh would truncate the Monday and Friday school day on weekends where Fair Isle and Foula school children return home.
- Relocating the inter-island air service would be detrimental to the supply-chain of Foula, as suppliers to the island tend to be located in Lerwick or West Mainland and can flexibly work between air and ferry connections to the island. This flexibility would be lost at Sumburgh. Fair Isle residents echoed this point, noting that a number of suppliers will not deliver to Sumburgh, or will charge a premium if they do.
- Theoretically, there is potential to improve the supply-chain efficiency of Fair Isle and Foula by moving to Sumburgh, as air-freighted goods could be trans-shipped from flights arriving from the Scottish mainland (although note that most goods arrive by sea). However, the weather-related reliability issues affecting the service suggest that any such benefits will be highly marginal if realised at all.
- One of the key benefits of Sumburgh on paper is that it would allow for those travelling to / from Fair Isle or Foula to connect with onward flights to the Scottish mainland (and Norway in summer). In reality however, the weather-related reliability of the service means that few if any people will rely on their inter-island flight to connect with a more expensive connection to the mainland. Indeed, in Orkney, where services are co-located and the inter-island service has much better weather-related reliability, only a handful of people each week make a connecting flight (despite much higher inter-island air service passenger numbers and it being the same operator for both services).
- Since the completion of the SBC, a commitment has been made to introduce a £3 daily parking charge at Sumburgh - inter-island flight users will be entitled to an exemption for one car per household. The continuation of this exemption would have to be confirmed by SIC in any contract to use the airport as the mainland base. It is possible / probable that, as happens at Kirkwall, island residents would leave a ‘mainland car’ at Sumburgh, effectively blocking up a parking space for a long period. Indeed, this may be one way in which island residents would work around the longer transfer time to Lerwick from Sumburgh by public transport. A daily £3 charge for a car parked long-term would likely be unacceptable to island residents.

Shetland Islands Council / Wider Public Sector

- SIC would lose pricing, operational and strategic control of the airfield aspects of the inter-island service if it was relocated to Sumburgh. This risk could be mitigated to some extent through the signing of a Memorandum of Understanding to protect SIC’s interests.
- The three SIC staff currently employed at Tingwall would be made redundant. For staff where part of their time is allocated to duties at Tingwall, other tasks / roles would need to be identified for them.
- The closure of Tingwall would have a negative effect on emergency service provision. Flying casualties to Sumburgh rather than Tingwall would have a highly negative impact, leading to slower turnaround times for the aircraft, increased risk to life from delayed call-outs, higher costs for the ambulance service and tie up of vehicles / staff due to the longer journey time to Sumburgh. It should however be noted that patients with a life-threatening condition and transported by helicopter are now landed at Clickimin and thus there is no negative / risk attached to Sumburgh for this category of patient (although fixed wing aircraft cannot use Clickimin).
- Whilst 75% of all landings at Tingwall in 2016/17 were inter-island flights, there was still a further 249 landings by other aircraft at Tingwall. These aircraft would need to land at an alternative airfield and the income they generate would be lost to SIC.
- Should the next contract include provision for weekend services, these could likely be delivered at a lower cost to the Council if operated from a Sumburgh rather than Tingwall base.

Operator

- The majority of Airtask staff operating the inter-island service live close to Tingwall and thus moving to Sumburgh would increase their cost of travel and journey times to and from work. The operator noted the risk that some staff may choose not to move and seek alternative employment instead.
- The closure of Tingwall would reduce diversion options during bad weather or in the event of an emergency. In the context of the former, this may add an extra level of caution to flight planning and could result in additional cancellations.

Conclusion

The review of whether Tingwall or Sumburgh should be the mainland airfield for the inter-island service has demonstrated that the choice is complex and finely balanced.

From a purely financial perspective, moving the air service to Sumburgh is marginally although not decisively less expensive. In addition to the cost savings which could be made, the use of Sumburgh reduces the requirement for SIC to plan for future airfield related capital outlay (except perhaps for a new hangar at Sumburgh) and other unexpected costs permanently. The cost of scaling up to offer a year-round weekend service to Fair Isle and Foula would also be less than at Tingwall. On the other hand, SIC would lose strategic control of the service and would be liable to pay the rates set by HIAL.

Whilst the financial benefits of moving to Sumburgh are apparent but marginal, the socio-economic case overwhelmingly favours Tingwall. This is particularly the case for residents of Fair Isle and Foula, who are strongly opposed to relocating the service to Sumburgh, but also for SIC, the emergency services, the public sector more generally and the operator.

Next Steps

From a methodological perspective, this report forms the **Socio-Economic Case** for the future development of the Shetland inter-island air services. Whilst elements of the Commercial, Financial and Management Cases are included within it, these remain to be more fully developed by ZetTrans / SIC.

The next steps in the process are as follows:

- The preferred timetable option(s) should be presented to the Fair Isle and Foula communities for consultation and agreement. It should then subsequently be presented to Members for agreement and sign-off.
- The proposed future service specification could be operated from either airfield, and thus tendering of the service should not be held back awaiting a decision on the future mainland airfield. The addition of weekend flights should be included as a priced option if desired by one or both communities.
- In parallel to tendering the next contract, the Mainland Airfield financial analysis should be updated (potentially after more detailed negotiations with HIAL if these are considered to be necessary), Members should be presented with a recommendation and a request for a decision on the future mainland airfield.
- The Commercial, Financial and Management Cases of the OBC should then be completed and the Final Business Case (FBC) progressed.

Should Members find in favour of relocating the inter-island air service to Sumburgh, a detailed period of planning would be required and thus the move would likely take place in the contract following the next one.

1 Introduction

1.1 Overview

1.1.1 Shetland Islands Council (SIC) / ZetTrans funds lifeline transport connections to nine islands across the archipelago. These connections are delivered through a combination of air and ferry services.

1.1.2 The inter-island transport network has been supported in both capital and revenue terms by the Council over many years. Whilst this remains the case, capital investment requirements, escalating costs and a reduction in the funding available at the local authority level has led to a need to consider the future of the inter-island transport network at the strategic level. To this end, the Council, in partnership with Highlands & Islands Enterprise and Transport Scotland, commissioned the Shetland Inter-Island Transport Study (SIITS), with a view to developing and appraising options for the future of the inter-island transport services.

1.1.3 The Strategic Business Case (SBC) was completed in Autumn 2016, and set out a range of capital and revenue options for nine of the inhabited islands across the archipelago, together with a timeline for progressing specific elements of the SBC to Outline Business Case (OBC) stage. The immediate priority in this respect was the inter-island air services, which connect the islands of Fair Isle, Foula, Papa Stour and Skerries to Tingwall on the outskirts of Lerwick.

1.1.4 There are a range of strategic issues in need of resolution as well as day-to-day considerations of how the service should be delivered. To this end, ZetTrans commissioned Peter Brett Associates LLP (PBA) to develop this *Air Services Outline Business Case*.

1.2 Business Case Context

1.2.1 The project will be undertaken in accordance with the *Guidance on the Development of Business Cases* (Transport Scotland, 2016). The guidance sets out three main stages which need to be completed in developing a compliant business case:

- Stage 1 - Scoping: Strategic Business Case (SBC) – analyses a variety of options which tackle the problems, issues and objectives identified;
    - *The SBC was completed and signed off in Autumn 2016.*
- Stage 2 – Planning: Outline Business Case (OBC) – identifies the Preferred Option; and
- Stage 3 – Procurement: Final Business Case (FBC) – undertaken during procurement phase.

1.2.2 Overall, the Transport Scotland Business Case development process aligns with the H.M. Treasury so-called ‘five-case model’ as follows:

- The Strategic Case – making the case for change;
- The (socio) Economic Case – optimising value for money in terms of economic, social and environmental impacts;
- The Commercial Case – commercial viability;
- The Financial Case – financial viability; and
- The Management Case – achievability.

1.2.3 This report will recap on the **Strategic Case** and develop the **Socio-Economic Case**. It will also provide inputs to the Commercial, Financial and Management Cases, although these will be undertaken internally by ZetTrans / SIC.

1.3 Study Scope

1.3.1 As noted above, the main purpose of this work is to confirm the Strategic Case and develop the Socio-Economic Case. There are three distinct strands to this:

- Reviewing the SBC to ensure that the conclusions remain current (Chapter 2).
- Establishing which islands should be provided with an air service and developing options around illustrative timetables (Chapter 3).
- Based on the outcomes of the above, further developing the socio-economic evidence base and financial considerations around the choice of mainland airfield (Chapter 4).

1.3.2 The outputs of this study, when combined with the three cases being led by SIC, will provide the basis for moving towards the Final Business Case (FBC) and subsequent implementation / procurement.

SBC Reporting

1.3.3 As part of the SBC, a comprehensive baseline of the infrastructure and operation of the air services was developed, which formed the basis of the subsequent appraisal. The SBC baselining and appraisal papers can be found at www.shetland.gov.uk/transport/siits.asp

1.3.4 In the interests of brevity, this report does not include detailed background information - reference should be made to the above papers if such information is required.

2 Review of the Strategic Business Case

2.1 Overview

2.1.1 The first step in developing this OBC, and the purpose of this chapter, is to review and where appropriate update the SBC, taking account of any changes which have occurred since the submission of the said report.

Scope of Review

2.1.2 The scope of this review is as follows:

- Review the **study objectives** set in the SBC and the OBC process, mapping these against the 'Critical Success Factors' defined for the air service by ZetTrans / SIC post-SBC sign-off to assess strategic fit.
- The SBC identified several issues / challenges in relation to **airfield management**, particularly the licensing of airstrips, which could impact on the future delivery of the service. This chapter will therefore review the current state of play with regards to licensing and set out the potential implications for the air service.
- The SBC also considered a set of **options at the network level**, which will be reviewed and updated accordingly.
- Finally, **air route based options** were developed for each island in scope. These options also included 'compensatory' changes in the respective ferry services where options included a reduction in the air services. The options emerging from the SBC will be revisited to determine whether they continue to remain appropriate.

2.2 Study Objectives

2.2.1 A key challenge in the development of the SIITS Air Services OBC is ensuring that the outcomes align with the corporate objectives of the Council whilst at the same time following the processes outlined in the Scottish Transport Appraisal Guidance (STAG) and the Transport Scotland *Business Case Guidance*. This is important because:

- On the one hand, the infrastructure and air services are currently fully funded by SIC, and thus the preferred option package emerging from the OBC must align with Council aspirations and available funding; and
- On the other hand, there is a longer-term aspiration to secure central government funding (potentially capital and revenue) support for the air services as part of the ongoing discussions surrounding 'Fair Funding'. The approach taken therefore must, as a minimum, align with the approach and processes set out within Transport Scotland guidance documents.

2.2.2 The purpose of this section is therefore to map the SIC 'Critical Success Factors' against the SBC and OBC processes, with a view to ensuring that the appraisal framework reads across to the Council's in-house requirements.

Transport Planning Objectives & STAG Criteria

2.2.3 The Transport Planning Objectives (TPOs) established in the SBC / STAG were systematically developed to reflect the transport problems and opportunities associated with the inter-island transport services. The problems and opportunities were in turn rooted in a wide-ranging baselining exercise. The TPOs were as follows:

- **Transport Planning Objective 1:** The capacity of the services should not act as a constraint to regular and essential personal, vehicular and freight travel between the island and Shetland mainland.
- **Transport Planning Objective 2a:** Where an island has a ‘commutable’ combined ferry or drive / public transport / walk time to a main employment centre (e.g. 80 minutes), the connections provided should facilitate commuting.
- **Transport Planning Objective 2b:** Where an island does not have a ‘commutable’ combined ferry or air / drive / public transport / walk time to a main employment centre, the connections provided should permit at least a half day (e.g. 4 hours) in Lerwick 7 days a week all year round. *This is the relevant objective for all islands connected by an air service within Shetland.*
- **Transport Planning Objective 3:** The scheduled time between connections should be minimised to increase flexibility for passengers and freight by maximising the number of island connections across the operating day.
- **Transport Planning Objective 4:** The level of connectivity provided should minimise the variation between weekdays, evenings, Saturdays and Sundays.
- **Transport Planning Objective 5:** Where practicable, islanders should be provided with links to strategic onward connections without the need for an overnight stay on Shetland mainland.

2.2.4 The appraisal of options against the TPOs was supplemented by further appraisal against the five STAG criteria (Environment; Safety; Economy; Integration; and Accessibility & Social Inclusion), technical & operational feasibility, affordability, cost to government and public acceptability.

SIC Critical Success Factors

2.2.5 The Critical Success Factors for the inter-island air service developed by the Council are as follows:

- Support the financial objectives of the Council’s long and medium-term financial plans in developing the best value option for a sustainable air and ferry service taking into account value for money (VfM), affordability and wider social and economic issues and benefits.
- Ensuring compliance with legislative obligations including health and safety.
- Deliver good quality and resilient transport services that people and businesses need.
- Support good employment opportunities and secure benefits to the local economy.
- Support social inclusion by maximising access to social, health and learning opportunities.
- Maximise use of critical transport assets and infrastructure.
- Reduce the environmental impact of Services particularly reducing carbon emissions.
- Reduce recurring maintenance costs and whole life costs.
- Reduce the need for future capital investment.
- Manage the risks we face and avoid high risk activities.

Mapping the Critical Success Factors to the SBC and OBC

2.2.6 The table below maps the SIC Critical Success Factors to the STAG / SBC and the forthcoming OBC:

Table 2.1: Mapping Critical Success Factors to the SBC and OBC

Critical Success Factor	SBC	OBC
Support the financial objectives of the Council's long and medium-term financial plans in developing the best value option for a sustainable air & ferry service taking into account value for money, affordability and wider social and economic issues and benefits.	- STAG Cost to government & affordability criteria ensure financial sustainability / VfM. - TPOs and STAG criteria address social & economic issues & benefits.	- Commercial, Financial and Management Cases address financial sustainability / VfM issues in their entirety. - Socio-Economic Case addresses social & economic issues & benefits.
Ensuring compliance with legislative obligations including health & safety.	- Assessment against STAG Safety criterion.	- OBC confirms Strategic & Socio-Economic Cases.
Deliver good quality and resilient transport services that people and businesses need.	- Captured in the wide-ranging TPOs - STAG Economy, Integration & Accessibility & Social Inclusion criteria cover these issues.	- OBC confirms Strategic & Socio-Economic Cases.
Support good employment opportunities and secure benefits to the local economy.	- TPOs 1, 2a, 3 & 4 - STAG Economy and Accessibility & Social Inclusion criteria cover these issues.	- OBC confirms Strategic & Socio-Economic Cases.
Support social inclusion by maximising access to social, health and learning opportunities.	- TPOs 2a/2b, 3, 4 & 5 - STAG Accessibility & Social Inclusion criteria cover these issues.	- OBC confirms Strategic & Socio-Economic Cases.
Maximise use of critical transport assets and infrastructure.	- TPOs tied to Routes & Services Methodology service levels. - STAG Cost to Government & Affordability criteria consider costs associated with additional use of assets.	- OBC confirms Strategic & Socio-Economic Cases. - The Financial Case provides a full financial appraisal of all options.
Reduce the environmental impact of services, particularly reducing carbon emissions.	- STAG Environment criterion directly addresses carbon emissions as well as a range of other environmental criteria.	- OBC confirms Strategic & Socio-Economic Cases.
Reduce recurring maintenance and whole life costs.	- STAG Cost to Government & Affordability criteria consider all costs / affordability associated with operating the service.	- OBC confirms Strategic & Socio-Economic Cases. - The Financial Case provides a full financial appraisal of all options.
Reduce the need for future capital investment.	- SBC considered capital investment options for the airframes and airfields, shortlisting options which performed well against the TPOs and STAG criteria. - STAG Cost to Government & Affordability criteria consider all costs / affordability associated with capital replacement.	- OBC confirms Strategic & Socio-Economic Cases. - The Financial Case provides a full financial appraisal of all options. - Commercial Case covers the procurement & funding strategy where appropriate.
Manage the risks we face and avoid high risk activities.	- STAG Risk & Uncertainty criterion covers the risk profile of all options and identifies the primary uncertainties.	- OBC confirms Strategic & Socio-Economic Cases. - Management Case sets out the framework for managing risk.

2.2.7 The above table clearly demonstrates that the STAG compliant appraisal undertaken in the SBC and the impending 'Five Case' assessment which will be undertaken in the OBC clearly aligns with, and indeed further develops, the SIC Critical Success Factors. We would therefore suggest that there is no requirement to amend or further develop the TPOs or change the approach to the appraisal.

Key Point: The SBC and OBC transport planning objectives and wider appraisal / business case criteria are aligned to the SIC Critical Success Factors.

2.3 Airfields

2.3.1 The SBC highlighted several challenges around the safe and sustainable operation of SIC airfields. Assessing the scale of these challenges and identifying whether there are long-term solutions to them will assist in determining the future form of the inter-island air service. This section therefore establishes the key issues in relation to airfield management and the anticipated level of investment to bring each strip up to licenced standard.

2.3.2 In the interests of brevity, the airfield management issues are only summarised in this report. Detailed background information on the status of the airfields and regulatory requirements can be found in the SBC baselining and appraisal reports.

2.3.3 It should be noted that SIC is leading on the development of options and costs for future airfield management.

Summary of Key Issues

2.3.4 The following points summarise the key issues in relation to airfield management:

- Of the six airfields currently within the system, Fair Isle, Tingwall and Sumburgh are licensed. Foula, Papa Stour and Skerries are not licensed, with the air services to Skerries currently suspended for numerous safety related reasons, including the absence of Rescue & Fire Fighting Services (RFFS).
- The topography of the islands, runway lengths and available RFFS cover also varies by island, which informs the safety considerations for operating to and from each airstrip.
- Maintaining RFFS cover in the isles is an ongoing challenge. The availability of human resource is a perennial issue given low population levels and the requirement of residents to work multiple jobs. This issue is amplified by the need for RFFS crew to attend and complete the required training, which can be time consuming and costly for island residents. Maintenance of fire tenders and associated equipment is also a challenge and can be expensive.
- SIC noted in the SBC that pressure is being applied to the Council from the Civil Aviation Authority (CAA) to invest in a new control tower for Tingwall.

Operator Feedback

2.3.5 As part of the preparatory work for the OBC, PBA met with the current operator, Airtask, to discuss the issues surrounding airfield management and other matters. The operator provided a very open assessment of the challenges that they face in delivering the service. They also stressed that, whilst the information provided is intended to support the appraisal, the views presented are Airtask's own, the implication being that a different operator may hold a different view.

Airfield Management

2.3.6 The SBC Report highlighted the risks around the licensing of airfields in the Shetland system, an issue we followed-up with the operator.

2.3.7 Airtask currently flies into two unlicensed airfields within Shetland (Foula and Papa Stour) and manages this through their in-house safety procedures. The operator has a robust risk assessment process in place, underpinned by a Safety Action Group which continuously reviews the safety of all aspects of the operation and helps inform decisions about whether to fly into a given strip or otherwise. For example, the decision to suspend flights to Skerries was informed by this group.

2.3.8 From the operator's perspective, the key difference where an airstrip is licensed is that the volume of in-house safety work is reduced (although not removed) due to a set of minimum standards being delivered at the airfield (i.e. categorised levels of fire cover).

Requirement for Licencing

2.3.9 The operator explained that they would be willing to continue to fly into unlicensed airstrips providing that they are satisfied with the safety case (informed by the Safety Action Group). However, Airtask explained that, in their view, the licensing of airstrips is likely to be mandated in the relatively near future by the regulator(s).

2.3.10 Airtask noted that where the Civil Aviation Authority (CAA) is likely to make a decision which will impact on the service, they will generally consult with the operator and provide a 12-month lead in. Where such a directive is likely to be made, there is generally a significant programme of work required to assess implementability. A case for an 'alternative means of compliance' can be made to the CAA where it is considered impractical to comply with a directive.

2.3.11 It was explained that, in Airtask's view, licensing the strips would not be without its challenges but that it would be possible.

Key Point: The operator explained that they would be willing to continue to fly into unlicensed strips providing that there is a robust safety case signed off by the in-house Safety Action Group. However, they also noted that, in their view, the regulator is likely to mandate air strip licensing in the near future. This presents a clear risk to the service if the airfield management issues are not addressed.

Island Airstrips

2.3.12 Feedback was also sought from the operator on any issues with the airstrips currently. These are reported below, although it should again be noted that these are the current operator's own views.

Fair Isle

2.3.13 The service to Fair Isle is well-established and the island airstrip is licensed.

Foula

2.3.14 The operator explained that the service continues to operate but that there have been challenges in terms of ensuring that residents are up-to-date with their six-monthly hot fire training. The service has previously been suspended but was restarted. Maintaining the fire equipment is also proving to be challenging.

Papa Stour

2.3.15 Airtask explained that the Papa Stour route is very lightly used and indeed several weeks can go by without a service operating into it. The unmanned nature of the airstrip means that services are currently restricted to two rotations per week. It was noted that if 90 consecutive days pass without a scheduled service on the route, the pilots each need to carry out six take-offs and landings to maintain their approval to fly into the island. There is now one passenger involved in public service provision that flies to / from Papa Stour with a degree of regularity, so the refresher flights are understood to be less common at present.

2.3.16 It was further noted that there are no major issues with the airfield as the topography of Papa Stour is not as challenging as the other Shetland airfields. There can be issues with sheep on the runway but a member of the local community is employed by SIC to undertake a pre-landing check for the two flights per week.

Skerries

2.3.17 The Skerries service is not currently included in the contract (although it is a priced option) given that it has been suspended since late 2015.

2.3.18 It was noted that the decision to discontinue the Skerries service was taken by Airtask, in consultation with SIC. It was explained that the CAA will allow an operator to fly into an airstrip as long as the risk is managed, but the onus is ultimately on the operator. Airtask explained that the service was maintained through the summer of 2015 (albeit at reduced frequency) and they advised the community of what was necessary to continue the service, but this was not forthcoming / available from within the community at that time. It was noted that the service would need around three volunteers, an upgrade to the runway surface and a fire appliance with breathing apparatus before it could be restarted.

Unst

2.3.19 The SBC identified the potential reopening of Unst airfield and using it for scheduled passenger services. Airtask explained that there are no technical reasons preventing a service to Unst beyond minor upgrades to the runway.

Fetlar

2.3.20 The option of restoring the Fetlar air service was considered in the SBC, although this was sifted from further consideration for several reasons. This option will not be considered further in the OBC although the operator’s comments on the airstrip are provided for completeness.

2.3.21 Airtask explained that Fetlar airstrip could still be used if it was rolled and maintained. Indeed, the company has a contract with the Scottish Ambulance Service to provide air ambulance cover to both Unst and Fetlar as required.

Airfield Management

2.3.22 As part of this OBC, SIC is undertaking an internal review of airfield management and investment needs in the context of potentially bringing Skerries, Papa Stour and Foula up to a licensed standard. This work has not yet reported but two emerging points have been fed back:

- There is broad agreement with the Airtask view that airfield licensing will be required on all strips if a service is to be maintained. It is anticipated that the licensing process would have up-front costs of around £85,000, with an ongoing financial commitment to maintain staffing numbers and training to the appropriate level.
- The runway at Skerries may be shorter than the minimum permissible length for a licensed airfield. As there are no practical options for extending or relocating it, services to Skerries would have to be discontinued if this was the case. As the airfield management work has not yet been published, options for the reinstatement of the Skerries service are retained within this OBC.

2.4 Network Issues

2.4.1 The SBC considered the extent to which investment in network-wide assets could support enhancements in the overall air service. Outwith the airfield management issues, the SBC considered the aircraft, potential navigational aids and the future mainland airfield. This section recaps on the key issues and any relevant changes since the SBC was completed.

Current and Potential Aircraft

2.4.2 As the SBC covered a 30-year appraisal horizon, it was explained that, in the medium to long-term, options for the replacement of the current BN2 Islander aircraft should be evaluated. However, the research confirmed that, in the short-term (say 0-10 years), the BN2 Islander remains the most appropriate aircraft to operate the Shetland inter-island service. It would at present be impractical and very costly to move away from these aircraft and the benefit stream is likely to be low given the limited usage and scale of the network.

2.4.3 With this in mind, this **OBC is focused on options that can be developed and delivered using the two current BN2 Islander aircraft**. There is however a medium to longer-term question around the future aircraft to operate the network (particularly with regards to the opportunity provided by Single Engine Turbine aircraft) which should be kept under review. It should be noted though that Islander aircraft and spare parts are still widely available so could form the basis of the service for the next 30 years, and these aircraft are well suited to the operation in Shetland.

Key Point: The OBC options are further developed based on the current BN2 Islander fleet, although future aircraft options should be kept under review in the medium to longer term.

Navigational Aids

2.4.4 The current Shetland inter-island air services operate on the basis of Visual Flight Rules (VFR), which constrains the operation to the hours of daylight. This is a particularly key issue in the Shetland Islands where the hours of daylight are very short in winter. The SBC considered the scope for investing in navigational aids, including Global Navigation Satellite System (GNSS) and runway lighting, with a view to identifying the scope for extending the length of the operating day.

2.4.5 GNSS is an instrument based navigation system which can permit operation into airfields at higher tolerances than under a VFR approach, which may offer an opportunity to extend the operating day. However, the challenging operating environment would give rise to a number of safety risks / challenges which could negate any benefit realised.

2.4.6 The SBC concluded that it was not possible to take a definitive view on the implementability of GNSS, but that it should be explored further given the relatively low costs & potential benefits, and its current application in other parts of Scotland. This was defined as *Air Option CO4* in the SBC.

2.4.7 Our review of the SBC and consultation with Airtask supports the view that **the implementation of GNSS in the Shetland context should not be considered at this stage** because:

- The topography of the islands served (and the siting of the strips) is more challenging than in other areas of Scotland where GNSS has been considered or implemented (e.g. the Orkney Islands and the Inner Hebrides). At present, the VFR system in Shetland works on minima of 3 kilometres and 550 feet. Feedback from the operator suggests that the topography in Shetland, particularly in Fair Isle and Foula, which account for the large majority of rotations, would mean that a GNSS approach would offer only a marginal benefit over the current VFR arrangements.

- The operator also noted that they are unaware of an approved GNSS approach for an unlicensed aerodrome. This would therefore suggest that the airfield licensing issue would need to be resolved in advance of any further consideration of GNSS.
- The two most frequently served islands in the network, Fair Isle and Foula, are also the most affected by wind, which further increases the minima and would erode the benefit of GNSS further.
- The extension of the operating day would also have implications for pilot hours, airfield manning and the maintenance cycles of the airframes. It is not therefore just a question of whether GNSS could expand the operating day, but whether the whole system could respond to this.
- Outwith the technical and operational issues set out above, there is a wider question as to whether there are any aspirations for a longer operating day in the islands served. Given the issues of weather related reliability, frequency etc, the islands do not have a regular / commuter market like that which exists in some of the Orkney Islands. In addition, there may be limited appetite amongst island residents to man the airfields later in the day or into the early evening.

2.4.8 Airtask also explained that if GNSS was to be implemented, it is likely that runway lighting would be required on all strips. This gives rise to its own issues, which were explained in some detail in the SBC.

Key Point: On balance, the evidence gathered as part of the SBC and refreshed in this paper suggests that whilst GNSS may offer marginal benefits to the service, there are considerable technical and operational challenges to its implementation. In addition, no clear evidence of demand for an extended hours service has emerged from the consultation undertaken to date. To this end, GNSS is **not** considered further in this OBC.

Mainland Airfield

2.4.9 The SBC explored the question of whether the mainland airfield for the inter-island air services should be at Tingwall or Sumburgh – a standalone paper was produced on this issue, which can be found at www.shetland.gov.uk/transport/siits.asp

2.4.10 The analysis established that the choice is a finely balanced one and set out the pros and cons of each option, but a preferred option was not identified.

Scatsta Airport

2.4.11 At the time of writing the SBC, the choice of mainland airfield was between Tingwall and Sumburgh only. However, the potential use of Scatsta emerged post-SBC completion and it is thus considered at the outset of this chapter to determine whether it should be part of the subsequent appraisal and narrative

2.4.12 Scatsta Airport is in the north of Shetland, close to the Sullom Voe Oil terminal. Originally conceived as an RAF base, the airport has acted as a hub for the offshore oil & gas industry over many years. The airside aspects of the airport are highly developed and at least on a par with Sumburgh – the airport:

- is licensed for passenger flights;
- has an asphalt runway of 1.360m length and 31m width (which compares to Tingwall 764m * 18m and Sumburgh 1,500m * 46m[1]);
- has a full range modern airport facilities & capabilities, including night operations capability;

[1] The measurements used are for the longest runways at both airports.

- has CAT5 fire cover (which is equivalent to Sumburgh);
- is currently a diversion airport for inter-island flights into Tingwall; although
- currently has no passenger facilities beyond a basic waiting room, with no onward transport connectivity.[2]

2.4.13 The Council owns the land on which most of the infrastructure is built, although most of the runway is leased from a private landlord. At present, Scatsta is leased to the operators of the Sullom Voe terminal and run on their behalf by Serco. However, title to the infrastructure at Scatsta, including the hangars, control tower and terminal, will fall to the Council on 31st March 2023, although it is possible it may revert to the Council before then. The long-term operational model for the airport beyond handback is not yet clear, although there is understood to be operator interest in taking it on.

2.4.14 The downturn in the oil & gas industry has significantly reduced passenger numbers at the airport, with a decline of 36% between 2015 and 2016[3] and a reduction of around 50% since its recent peak in 2012.

2.4.15 We have considered the potential of Scatsta as the mainland airfield but rule it out for the following reasons:

- In terms of the facilities required for the inter-island service, Scatsta offers no obvious advantage over Sumburgh and indeed would need investment in e.g. security facilities.
- Scatsta is marginally further away from Lerwick than Sumburgh (27.3 miles / 40 minutes versus 25.2 miles / 34 minutes[4]) and significantly further away than Tingwall. The combined issue of connectivity to Lerwick and time available on Shetland mainland is of key importance to island residents, so they are likely to be even more averse to Scatsta than Sumburgh in this respect.
- Fair Isle is currently the dominant island in terms of the timetable, accounting for 57% of currently timetabled summer rotations and 56% of winter rotations. Flying to Scatsta would add around 20 miles onto the flight, increasing journey times. When combined with the lack of public transport and longer journey times to Lerwick, this would significantly erode available time on mainland, particularly in winter. Journey times to Foula, the second most intensively served island, would also be extended.
- Whilst oil & gas related traffic has declined significantly in recent years, the industry is volatile and any upturn in the oil price could drive a corresponding increase in air traffic movements. As Scatsta is a commercially run airport, these flights could take precedence over the inter-island service. This lack of strategic control and the long-term uncertainty over the future of oil & gas related traffic would make Scatsta an unattractive proposition, particularly given the flexibility requirements of the inter-island service.

Key Point: Despite the high quality facilities available at Scatsta, there are a number of issues which make it an unattractive base for the inter-island service compared to both Tingwall and Sumburgh. It will not therefore be considered further in this OBC.

2.5 Review of Island-Based Options

2.5.1 The options identified in the SBC were relatively high level and thus an early task in the next chapter will be to more clearly define the parameters within which the service is delivered, providing the necessary context for the further development and assessment of options.

[2] SIITS SBC Aviation Baseline Report.

[3] Source: Scottish Transport Statistics.

[4] Source: Google Maps

2.6 Conclusion

2.6.1 This chapter has confirmed that the findings of the SBC remain appropriate but that further option development and appraisal is necessary to arrive at a deliverable preferred option, which is the required output of the OBC.

2.6.2 The next chapter will undertake a more detailed appraisal of the options against the objectives set in the SBC as well as the STAG criteria. Where possible, this appraisal will be quantified and will provide for greater cost certainty than was the case at SBC stage (informing the initial development of the Financial Case).

2.6.3 The detailed options for the future air service specification will be defined by:

- mainland airfield used;
- number of islands served;
- frequency of connections to each island across the day / week / year;
- relationships with ferry services; and
- degree of timetable flexibility required for service resilience and accommodating weather windows.

3 Future Service Specification

3.1 Overview

3.1.1 The first step in the OBC involves the further development of the options for the future service specification. As noted, the SBC developed a range of options but these were at a relatively high level - an initial task therefore is to develop a manageable number of 'network options' comprised of the individual island options. Each of these network options will therefore have to be developed in the form of an illustrative timetable for appraisal purposes.

3.1.2 The table below provides a matrix of scenarios from which network options (i.e. outline timetables) can be developed. These three themes cover:

- Present day services – islands currently served;
- Expanded service – resuming flights to Skerries and potentially running new services to Unst; and
- Core service – retrenching the service (in terms of islands served) to serve Fair Isle and Foula only.

Scenario	Mainland Base	Fair Isle	Foula	Papa Stour	Unst	Skerries
1a – Present Day	Tingwall	✓	✓	✓	×	×
1b – Present Day	Sumburgh	✓	✓	✓	×	×
2a – Expanded service	Tingwall	✓	✓	✓	✓/×	✓
2b – Expanded service	Sumburgh	✓	✓	✓	✓/×	✓
3a – 'Core' service	Tingwall	✓	✓	×	×	×
3b – 'Core' service	Sumburgh	✓	✓	×	×	×

3.1.3 In advance of developing and testing these options, it is necessary to consider the context & operational parameters of the service, thereby defining the operational envelope within which the island-specific options will be further developed.

3.2 Operational Considerations

3.2.1 The baselining undertaken as part of the SBC established the broad operational parameters of the service, effectively defining its operating envelope. Our consultation with Airtask explored these operational parameters in more detail, quantifying where possible the parameters which define the level of service offered.

Asset Utilisation

3.2.2 The current schedule is designed so that it can be delivered using a single aircraft, with the second aircraft available to cover scheduled and unscheduled maintenance (whilst it is also available for charter). The two aircraft are used broadly inter-changeably, thus distributing their available hours over the course of the year (albeit G-SICB can generally carry one passenger fewer than G-SICA due to the airframe being heavier).

3.2.3 The BN2 Islanders have a regular maintenance programme (mainly based on the number of hours flown), with the operation being reduced to a single aircraft for around four months of the year. In terms of maintenance:

- The 75-hour check is relatively small and undertaken on island over the weekend so as not to disturb the service.
- The 150-hour check takes around 3-4 days and is undertaken off-island (currently Cumbernauld), although there are relatively short-term plans to re-shore this work to Shetland.
- The 600-hour check takes around 3-4 weeks and is also undertaken off-island.
- The SB190 check is undertaken every two years and involves stripping the plane down to its component parts. Given the intensity of this check, it is generally timed to coincide with the 600 or 1,200 hour check, so as to minimise time out of service. As there are two aircraft, the SB190 checks are offset and thus there is one of these checks every year on alternating aircraft.

3.2.4 The two aircraft operate around 650 flying hours between them over the course of a calendar year. May – July is the busiest period of the year and thus every effort is made to ensure the availability of the two aircraft during this period. This is achieved through the judicious use of the two aircraft across the whole year and, if absolutely necessary, pulling maintenance forward.

Key Point: It is evident from a review of the aircraft maintenance requirements that any significant scaling up of the service would be a complex undertaking, requiring careful management of the airframes and their maintenance. Of particular importance in this respect is the ability to maintain the availability of both aircraft at peak times and reduce the window in which only one aircraft is available (thus offering no cover if the in-service aircraft breaks down). It is possible that the benefits of a more intensive service could be offset by a reduction in both availability and reliability.

Operating Hours

3.2.5 Notwithstanding the above point, a key question posed in the SBC was why the two Shetland aircraft only achieve around 650 operating hours per annum, compared to the situation in Orkney where their two BN2 Islanders achieve around 1,400 hours per annum. This issue was explored in the SBC, but it is worth recapping here as it is fundamental to the further consideration of options in this process.

3.2.6 The single most important differentiating factor between the two island groups is the environment in which they operate. The Orkney Outer North Isles offer a more benign flying environment (e.g. more favourable topography, cross runways at some airfields etc), with a lower rate of weather-related cancellations / disruption. There can be greater confidence in the Orkney context that the timetable can be regularly and reliably achieved.

3.2.7 In contrast, the Shetland service operates within a more problematic operational context. The topography in Fair Isle and Foula is particularly challenging, imposing relatively narrow constraints on VFR minima under which the service is operated. In addition, the location of the airstrips (and the length in the case of Skerries) and the absence of cross-runways make the service more susceptible to wind shear. Fair Isle is also highly susceptible to summer haar (sea fog), which can often severely limit the weather window within which operations can take place.

3.2.8 The operational challenges faced in Shetland dictate a much more flexible approach to operational planning and timetabling. It would not be possible to reliably deliver the number of scheduled flying hours in Shetland that are delivered in Orkney, or indeed anywhere close to that level. Central to the planning of the timetable is the ability to respond flexibly to weather windows and other circumstances. If the schedule is too dense, this would leave little time for recovery from weather-related service outages and would thus impact on the reliability of the entire service.

3.2.9 Given the pressures on local authority funding currently being experienced, there are also wider financial questions surrounding any expansion of the air service. In particular:

- Analysis undertaken in the SBC suggests that there would be an additional subsidy cost to the Council for every flight operated (to put this into perspective, it costs around £1m per annum to operate the service, with ticket sales amounting to around only £120k per annum). A rule of thumb therefore suggests that the average cost of operating a single sector is almost ten times the average revenue generated by that sector.
- Load factors are generally well-below the capacity of the aircraft. Airtask noted that they had piloted the concept of a 'virtual second aircraft' (i.e. pressing the second aircraft into operation where booked passengers exceeded aircraft capacity). The concept proved to be a difficult one to realise in practice as a number of passengers were booking multiple flights and not turning up (there is no penalty for doing this and payment is not taken until the passenger presents for carriage).

Key Point: Analysis and consultation suggests that, from an asset utilisation perspective, there is some scope to increase the intensity of the service. However, this is likely to be limited - aircraft maintenance requirements and the paramount importance of flexibility in responding to circumstances significantly reduce the scope for expanding services. In addition, there is an evident trade-off between operating a denser timetable and maintaining the flexibility to respond to weather windows.

Human Resources

3.2.10 The other side key component of asset utilisation is the availability of human resources to operate and administer the air service together with accompanying ground operations.

Pilots

3.2.11 The Shetland operation is run by three pilots. There is also an apprentice engineer, a customer service representative and a check-in / baggage handler employed at Tingwall.

3.2.12 In terms of the pilots, the duty regulations require pilots to have:

- 8 days off in 28 averaged over 3 consecutive 28-day periods;
- 7 days off in four consecutive weeks, within which there is a requirement for 2 days off in 14, and one day off in eight.
- It should also be noted that the current CAP371 regulations will be replaced by a new EASA single pilot flight time limitation. This is still at a consultative stage with the operators but could impose greater restrictions once published.

3.2.13 During the summer months, the three pilots are required to manage the schedule, but there have been occasions where a fourth pilot has been required to be flown in to cover sickness and leave.

3.2.14 On days where the weather is likely to prevent any rotations during that day, pilots are stood down (although they remain on standby), with their hours banked for later use if necessary, particularly in terms of clearing backlogs.

3.2.15 The operator noted that any significant scaling up of the service would require a fourth pilot to be permanently added to the roster.

Key Point: The limitations around the duty hours of the three pilots layer on top of the airframe utilisation constraints to further constrain the level of service that can be delivered.

Engineering Support

3.2.16 As explained in the previous section, the BN2 Islanders require frequent cyclical maintenance including a series of on-island checks at defined intervals. This is in addition to any *ad hoc* maintenance addressing problems as they arise. Airtask explained that there is a global shortage of qualified aero-engineers and a further challenge with the demographic profile of BN2 qualified engineers (extenuated by an issue with the operator manuals not being up-to-date).

3.2.17 The issue of a shortage of type approved engineers is amplified by the fact that it is difficult to attract and retain skilled labour within the Shetland Islands. High levels of activity in the oil & gas industry contributed to this, although this issue may be diminishing to some degree with the recent downturn in that industry.

3.2.18 There is currently one apprentice engineer attached to the Airtask Shetland operation and the company is about to embark on a new recruitment process. Nonetheless, it should be acknowledged that any increase in the intensity of operations will:

- decrease the elapsed time between on-island checks, increasing the engineering workload; and
- potentially lead to an increase in *ad hoc* maintenance.

Key Point: The available engineering resource on-island is currently limited. Any expansion of the service (i.e. flying hours) would accelerate the frequency of on-island checks and place an increased workload on the engineering resource available. This could impact on the overall reliability of the service.

Ground-Based Human Resource – Shetland Mainland

3.2.19 Outwith pilot and engineering requirements, fire cover is required for all take-offs and landings at Tingwall, in line with the licensed status of the airfield. At present, there is sufficient cover at the airfield for the current Monday – Friday and summer Saturday operations. However, any expansion of the service into the weekend would require additional ground support resources to be provided by the Council.

3.2.20 The Tingwall customer service / baggage handling team also play a significant role in coordinating the service, liaising with customers during periods of disruption, managing bookings etc. Airtask noted that an additional customer service operative would be required if the service was to be expanded.

Ground-Based Human Resource – Islands

3.2.21 If the air service was to be scaled up, ensuring the availability of ground support staff and the provision of fire cover on the isles would also present a challenge (indeed Skerries could not support the previously timetabled air service). Island residents are generally employed in multiple jobs and thus accommodating additional rotations of the air service on any given day could be problematic (this issue is discussed later in this report).

Key Point: Any increase in the intensity at which the air service is operated would require a commensurate uplift in ground based resources at both ends of the route. This could be particularly challenging here where population levels are low and where most, if not all, residents are employed in multiple roles.

3.2.22 In consideration of the air service as a whole, the operator explained that there is some scope to fly more hours with the available aircraft, particularly given that the Skerries service is not currently operating. However, as described above, this is far from a straightforward process, with a number of connected factors influencing the overall operational envelope.

3.3 What can be delivered with the current resources?

3.3.1 The previous section set out how the service is operated and the potential constraints in scaling it up beyond the current level. As the options are developed and refined from SBC to OBC, in order to make this process manageable, it is helpful to frame this within a meaningful set of parameters which define the service, the most likely of which is the **number of rotations** timetabled and flown across the week (where a rotation is a return flight from Tingwall or Sumburgh).

Timetable

3.3.2 Prior to the suspension of Skerries services, there were a total of 25 scheduled rotations per week in the Summer and 22 in the Winter. This number has dropped to 21 and 18 respectively since the Skerries service was suspended as no additional rotations have been scheduled in these slots, given the 'temporary' nature of this service suspension.

3.3.3 The Summer timetable previously saw a scheduled five rotations per day Monday to Wednesday, four on Thursday and Friday, and two on Saturday. Without Skerries, this dropped to four on a Monday and Wednesday and two on a Thursday. The summer and winter pattern of rotations is shown in the figures below.

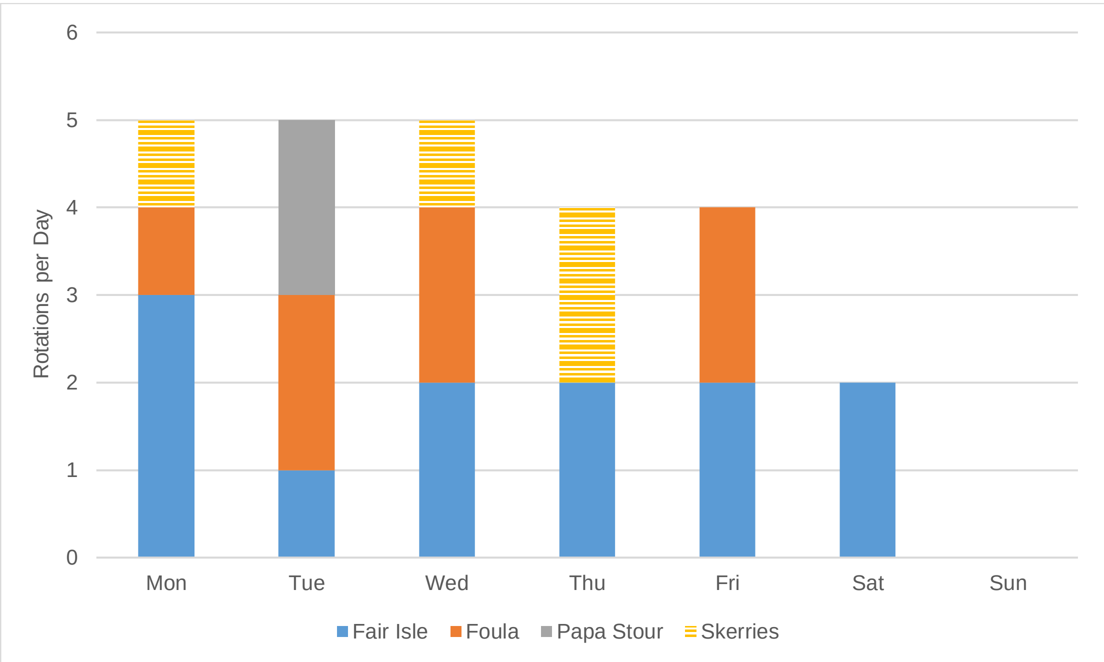


Figure 3.1: Summer Flight Rotations from Shetland Mainland

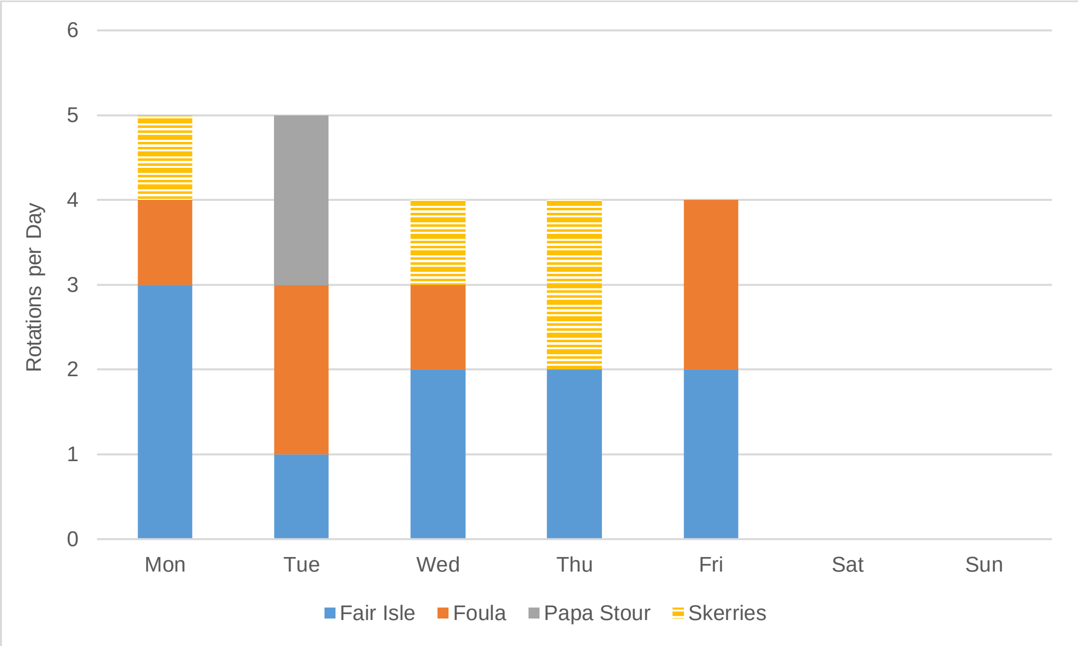


Figure 3.2: Winter Flight Rotations from Shetland Mainland

Services Operated

3.3.4 The previous section explained that the timetable for the Shetland inter-island air services operates a comparatively low number of hours due to the requirement for flexibility to work around weather windows. In order to evidence this point, the table below sets out the total number of flights operated and passenger numbers in 2017:

Table 3.1: Number of Flights & Passenger Volumes 2017

Days in 2017 when there was…	Fair Isle	Foula	Papa Stour	Skerries	Total
…no scheduled flight	75	151	311	365	
…extra flights (on scheduled & unscheduled flying days)	19	17	8	0	
…fewer than scheduled flights	145	84	41	0	
…match with schedule	126	113	5	0	
Total Passengers	*2,812*	*1,246*	*66*	*0*	*4,124*
Total Freight Volumes (Tonnes)	*45*	*23*	*1*	*0*	*69*

3.3.5 The key points of note from the above table are as follows:

- The Fair Isle service operated to the timetable on 126 days in 2017. However, there were 145 days on which there were fewer than the scheduled number of flights operated. In most cases, this was due to adverse weather (see below) – this highlights the significant challenge faced by the operator with respect to Fair Isle and highlights the need for timetable flexibility.
- The Foula service displayed a similar pattern, with 84 days on which there were fewer than the scheduled number of flights.
- Conversely, the flexibility of the service is highlighted by the number of days on which extra flights were operated.

- The Papa Stour service only operated to timetable on 5 days out of the 54 it was scheduled to operate. Skerries did not receive any flights in 2017 due to the service suspension.

- Whilst not shown in the table, it should be noted that the load factor for the Saturday Fair Isle / Sumburgh rotation is broadly in line with the Fair Isle / Tingwall average.

3.3.6 The table below develops the above analysis by establishing the number of cancellations by island in 2017. Note – each cancellation listed is for a 'rotation', or a return journey.

Table 3.2: Rotation Cancellations by Island, 2017

	Fair Isle	Foula	Papa Stour	Skerries
Weather	159	92	22	-
No passengers presenting	34	23	40	-
Technical	0	0	0	-
Total	**193**	**155**	**62**	**-**
Approximate Scheduled Rotations	584	344	104	
Approximate Cancellation Rate	33%	33%	60%	

3.3.7 The key points of note from the above table are:

- Around one third of Fair Isle and Foula rotations were cancelled in 2017. Some 82% of the Fair Isle cancellations and 60% of the Foula cancellations were due to adverse weather.
- There were 62 cancelations of the Papa Stour service, with 40 (65% of all cancellations) due to there being no passengers.

3.3.8 The above table supports the point that significant flexibility is required in the operation of the air service. Whilst on paper the timetable could be enhanced, delivering the additional rotations would be highly challenging even before considering the human resource and maintenance implications of this.

3.3.9 Therefore, 25-27 rotations per week (fewer in winter) can be broadly assumed to be the maximum given:

- the flexibility required in the schedule to react to weather windows – i.e. there is little point in adding rotations to the schedule (and contract) which cannot be delivered with any degree of certainty;
- current pilot numbers & flying hours;
- current aircraft and maintenance schedules;
- current ground staff at Tingwall; and
- current ground staff resource on island.

3.3.10 Any scaling up to more than 25-27 rotations and potentially the current days of operation would impact on some or all of the above parameters, and require a step-up in resourcing rather than an incremental, *pro rata* change. Assuming the number of rotations is therefore broadly fixed, the question then becomes: what is the optimal use of these rotations between the islands and across the week. The next section of this chapter considers the current and future need for the air service in each island ahead of the further development and appraisal of options.

3.4 Islands Served

3.4.1 The SBC assessed options for the current and future air & ferry services across nine of the inhabited islands within the Shetland archipelago. With regards to Fair Isle and Foula, it was determined that the air service is in many respects the 'lifeline mode' (at least for passengers) and thus the question for these islands is what can be done to enhance the service. Conversely, for Papa Stour and Skerries, the question was more one of whether there is a requirement for an ongoing air service provision, and for Unst whether starting a new service could be justified. This section therefore assesses the case for continued / new air services to Papa Stour, Skerries and Unst.

Papa Stour

3.4.2 There are currently two scheduled rotations to Papa Stour per week, both on a Tuesday. This allows for:

- Papa Stour residents to make a day return trip to Lerwick for personal business; and
- a day return trip to the island, which has historically supported service provision.

What did the SBC say?

3.4.3 The SBC noted that Papa Stour falls well short of the Routes & Services Methodology (RSM) specified level of service – there is 'substantial under-provision' in terms of the number of days with a connection, the number of connections per day and the length of the public transport operating day. The SBC therefore identified two options to be considered at OBC stage to bridge this gap:

- Option R1a: 2 * return ferry crossings 7 days per week
- Option R1b: 2 * return ferry crossings 7 days p/w & withdraw the air service

3.4.4 The next sections consider the case for retaining / withdrawing the Papa Stour air service.

Papa Stour Air Service

3.4.5 Whilst the air service does offer a connectivity benefit to Papa Stour, it is very lightly used:

- For 6 months of 2017, there were no flights to or from Papa Stour due to their being no booked passengers. Indeed, the scheduled timetable was only flown on five days across the year.
- There were only 60 passengers carried in 2017, with no passengers between the months of April and October. In contrast, 2,879 passengers used the ferry service between July 2017 and June 2018. The ferry service therefore accounts for **98%** of the total person movements to / from Papa Stour.

3.4.6 The key point of note is that when the Papa Stour rotation is not operated, the timetabled slot is not reallocated to another island and is therefore effectively 'lost'.

3.4.7 Consultation with Airtask identified that the service is primarily used by a single individual delivering a public service on the island but there are no other regular users. Given that the island does have a Ro-Ro ferry service with connecting public transport to / from Lerwick for some sailings, it is not entirely clear what role the air service fulfils (or which could not be fulfilled by an enhanced ferry service). Indeed, there are islands with longer combined ferry & road journeys to Lerwick with no air service (e.g. Unst and Fetlar).

3.4.8 It has also been noted that the airstrip at Papa Stour is currently unlicensed. Given the expectation that licensing will be mandatory in the near future, it appears likely that capital investment of £50k-£100k will be required to license the airfield (SIC is independently investigating this). Even if this investment was made, the population of Papa Stour stands at 15 people spread across nine households, not all of whom are permanently resident on the islands. This suggests that meeting the needs of a licensed airfield from amongst the indigenous population would be highly challenging – indeed, it is probable that SIC staff would need to be located on the island to support the service.

3.4.9 Given the very low demand for the service; the effective 'loss' of slots when rotations are not operated; the costs of licensing the airfield; and the challenges of maintaining a licensed airfield with a very small indigenous population, the **recommendation of this OBC is that the air service to Papa Stour is withdrawn in the next contract.**

Compensating Ferry Measures

3.4.10 As previously noted, the overall level of service to Papa Stour falls well below the RSM-specified level (even if it could be argued that an RSM-compliant service would be excessive when set against the actual needs of the island). A parallel 'Revenue Options OBC' is currently being undertaken which will consider longer-term revenue options for expanding the ferry service towards the RSM level.

3.4.11 However, in the immediate-term, our analysis has confirmed that modest service improvements to the West Burrafirth – Papa Stour ferry service could be made to offset the loss of the air service (circa one additional day of operation per week, offering an equivalent timetable to that currently provided on a Wednesday or Friday). These services could be introduced on a Tuesday as a direct replacement for the air service or on a Monday, which is understood to be the preference of the community and was operated until the service redesign in 2013.

Community Feedback

3.4.12 In order to test the options emerging from the OBC, SIC led a consultation with each of the island communities. A full record of the consultation feedback provided by each island is included in Appendix A. Feedback from Papa Stour residents on the above options and recommendations was as follows:

- The community recognises that the air service meets a small number of individual needs and if the ferry service was improved then there may be little or no need for an air service. However, the air service does provide a means of getting off the island and to a mainland UK destination quickly and it provides a connection on a Tuesday where there currently is not one.
- It was noted that the reintroduction of the Monday service as a day return would greatly enhance the capacity to conduct business from the island and would enable a weekly commute. A single run on a Monday is not however considered adequate.
- It was also noted that, if the ferry service was early enough on a Monday, it would enable people to stay on the island until Monday morning and still be able to access employment, etc on mainland Shetland. This may also offset the need for an air service.

Key Point: The identified preferred option for Papa Stour is the permanent withdrawal of the air service with the addition of a double-return ferry service on either a Monday or a Tuesday as a compensating measure.

Skerries

3.4.13 The Skerries air service was suspended on Monday 23rd November 2015 due to the lack of appropriately categorised Rescue & Fire Fighting Services (RFFS) on the island. Whilst the service has now been suspended for approaching three years, there remains provision in the timetable for a single rotation to Skerries on a Monday and Wednesday and a double rotation on a Thursday.

3.4.14 Whilst a service was offered prior to November 2015, operating to and from Skerries was always challenging. The airstrip is the shortest in the system and one of the shortest in the world handling scheduled passenger services. The short runway creates difficult operating conditions, with aircraft only being able to take off if there is a sufficient headwind. When such a wind is not blowing, Whalsay was used mainly as a ‘stop & shuttle’ point, but this is clearly not ideal for passengers.

What did the SBC say?

3.4.15 The SBC was undertaken against the backdrop of the then recent suspension of the air service to Skerries. As with Papa Stour, the island is under-provided in terms of the RSM, ‘substantially’ in terms of the number of days on which there is a connection & the length of the operating day and ‘marginally’ in terms of the number of connections per day. The SBC therefore identified the following options to be considered at OBC stage to bridge this gap:

- Option R1 – Do Minimum (air services as per pre-RFFS cuts)
- Option R2 – Return sailing from Skerries on a Tuesday & Thursday
- Option R3 – Two return Vidlin services or one return Lerwick service seven days a week
- Option R4 – Permanently Discontinue the Air Service

3.4.16 The Do Minimum reflected the hope / expectation at that point that mitigating measures could be taken to return the air service to its former timetable relatively promptly. Option R4 did however recognise that it may be difficult to restore the air service and assumed that a compensating ferry measure (i.e. options R2 or R3) could be introduced to address this connectivity shortfall.

3.4.17 The next sections consider the case for retaining the Skerries air service.

Skerries Air Service

3.4.18 When in operation, the Skerries air service was considered to be of significant value to the community, particularly in permitting a short / quick day return to Lerwick on a Thursday and likewise a day return for those delivering public services on the island. Unlike Papa Stour, the air service did provide for a relatively defined need, although the absence of a double rotation on a Monday and Wednesday hindered its effectiveness to some degree.

3.4.19 By way of context, passenger numbers in 2013 and 2014 were 218 and 113 respectively. In 2014, there were 120 sectors flown, so the average load factor was less than one passenger per sector. In contrast, passenger carryings on the ferry service 2014/15 were 4,703 – as with Papa Stour, the ferry again accounted for 98% of all passenger movements to and from Skerries for the most recent year for which data are available.

3.4.20 Airtask noted that for the service to restart, there would be a need for around 3 volunteers, an upgrade to the runway surface and a fire appliance with breathing apparatus. SIC has indicated that this level of resource is simply not available currently and that it would be impractical to crew the airstrip with shift-based SIC staff.

3.4.21 Overall, there does not appear to be any immediate prospect of the air service restarting and, as with Papa Stour, there is an opportunity cost associated with retaining these slots within the timetable (in terms of fewer rotations elsewhere). Given the extent of these challenges, the **recommendation of this OBC is that the slots for the Skerries service are withdrawn in the next contract**.

3.4.22 It is also worth noting that early outputs from the SIC airfield review suggest that the current airstrip at Skerries may be shorter than the minimum length which can be licensed. This point remains to be confirmed but, if this proves to be the case, it appears unlikely that the air service could ever be restarted. If this proves not be a hard constraint, consideration would have to be given as to whether minimum maintenance should be undertaken on the airstrip, allowing services to be reinstated if the human resource became available.

Compensating Ferry Measures

3.4.23 Whilst the air service has been suspended for almost three years, its withdrawal represented a significant reduction in the overall connectivity of Skerries, at a time when the population and economic base were both contracting. Community feedback provided as part of the SBC highlighted the need to at least maintain if not improve the overall level of connectivity offered pre-RFFS cuts.

3.4.24 As noted at the outset of this section, options to enhance the ferry service were developed as part of the SBC. These options will be considered as part of the ongoing Revenue OBC which will report in 2019. There is also a longer-term infrastructure issue to consider whether the vessel should overnight in Skerries – this is the primary aspiration of the community and would allow an expansion of the number of services operated within the same crewing envelope.

3.4.25 Unlike the Papa Stour service however, there is no scope within the current asset & crewing envelope to immediately expand the number of services offered. The crew of the Skerries vessel, MV *Filla*, is based in Whalsay (and the vessel overnights there) and shared with one of that island's ferries, the MV *Hendra*. Any reorganisation of the service would require a detailed crew planning exercise, including recruitment of additional crew – this is not a short-term exercise.

Community Feedback

3.4.26 Unsurprisingly, the future of the Skerries air service was a key element of the public engagement at the time of the SBC. The community submitted a paper highlighting the value of the air service noting that no decision should be made on the future of the service until stakeholders have had the opportunity to review in detail:

- the need for, and the requirements of, an air service to Skerries;
- if the service is to continue, how it can best be reinstated; and
- if the service is no longer required, how the capability to reinstate it in the future can be retained.

3.4.27 Given the passage of time since the SBC was completed, SIC undertook a fresh round of consultation with island residents to discuss the emerging OBC options and recommendations. Key points raised were as follows:

- It was stated that the new landlord of (some of) the island may have intentions to develop business and tourism projects in the island, although there are no specific details at this stage. However, there is a very strong view that more services are required to provide the community with the level of connectivity necessary to attract people to live in the island and for any business potential to be realised.
- It was noted that getting to Lerwick quickly so that there is enough time to conduct personal affairs is an important requirement. This supports the view of this OBC that 'time in Lerwick' is the principal deliverable from the transport system of the four Outer Isles.
- The community queried whether the passage of time since the Skerries service was suspended means that it is now more onerous to reinstate the air service. SIC explained that if RFFS cover was provided, then services could be reinstated quickly, but that there remains uncertainty on what the requirements will be if licensing is adopted (which appears highly likely).

- The community feels that even if there is not an air service, the airstrip should be subject to a 'care and maintenance' approach to ensure future reinstatement remains an option (subject to licensing requirements).
- It was recognised that any future island-based ferry crew would not necessarily be able to provide RFFS cover due to conflicting times of services.
- The community representatives explained that, whilst the air service has been of value, if the ferry service was adequate then there would be a diminished or even no need for the service. The ferry service is considered to be the crucial component of connectivity between Skerries and Mainland Shetland.
- The view of the community is that it needs 14 return sailings per week configured such that their needs are met. It was noted that any timetable would need development and agreement with the community but an example weekly schedule could be:
  - 3 return journeys on a Monday
  - 1 return journey on a Tuesday
  - 1 return journey to Lerwick on a Wednesday
  - 2 return journeys on a Thursday
  - 3 return journeys on a Friday
  - 2 return journeys on a Saturday
  - 2 return journeys on a Sunday
- It was recognised that crewing the vessel from the island may be a challenge initially but the first step is to establish if it can be done and then how it can be done. This will be a key issue for the Revenue OBC.
- There is also a strong desire for the MV *Filla* to lie overnight in the island, which would open up a range of possible connections and provide the community with more control and flexibility over the service.
- The community believes that a timetable which permitted weekly commuting (i.e. departing Monday morning, returning Friday evening) would be a step in the right direction for the island.
- The community noted that, if the MV *Hendra* (the second Whalsay vessel) was used on the Skerries route at the weekend (it is currently tied up at weekends, although the Whalsay community is lobbying for an enhanced weekend service), this would improve the capacity of the service. It was noted that this is not needed every weekend but if it was known that it would be available then it is argued that it would stimulate ideas to arrange activities on the island. It was further noted that, if the wider public was aware of it, then more discretionary travel may take place.
- The 10:00 ferry that used to be operate on a Saturday from Vidlin to Skerries before the cuts in 2013 was considered a useful connection that encouraged visitors to come to Skerries. However, the current 08:30 ferry now departs from Symbister on Whalsay, which means that travellers must get the 07:10 from Laxo which is considered to be far too early.

Key Point: The identified preferred option for Skerries is the permanent withdrawal of the air service. There are no practical short-term measures for improving the frequency of the current ferry service. However, the ongoing Revenue OBC, due to report in 2019, will consider options for expanding the operating envelope of the service, whilst there is a longer-term consideration as to the practicality of overnighting and crewing the Skerries vessel in the island.

Unst

3.4.28 The SBC identified the commencement of an air service between Unst and Tingwall (but not Sumburgh) as an option worthy of further consideration in the OBC. The thinking was that this service could transform journey times and exploit opportunities presented by available flying hours and a high-quality airfield.

3.4.29 However, the ongoing proposals for a space port and the associated industrial development at the site preclude using the airfield at Baltasound for the future development of an air service for Unst. This option is not considered further.

Key Point: The aspirations for a space port and associated industrial development in Unst preclude the development of an air service. This option will not be considered further.

3.4.30 The inter-island air service will therefore be focussed exclusively on meeting the air connectivity needs of Fair Isle and Foula – this the 'Core' Service (Options 3a & 3b) identified in Table 3.1.

3.5 Further Option Development

3.5.1 This section further develops the timetable options for Fair Isle and Foula.

Connectivity Review

3.5.2 Unlike Papa Stour and Skerries, the balance between the air and ferry services is much more heavily weighted to the former in terms of the number of connections and passenger carryings. In advance of further option development, it is worth recapping on the connectivity of the two islands.

Fair Isle

3.5.3 The figure below shows the **summer** connectivity of Fair Isle:

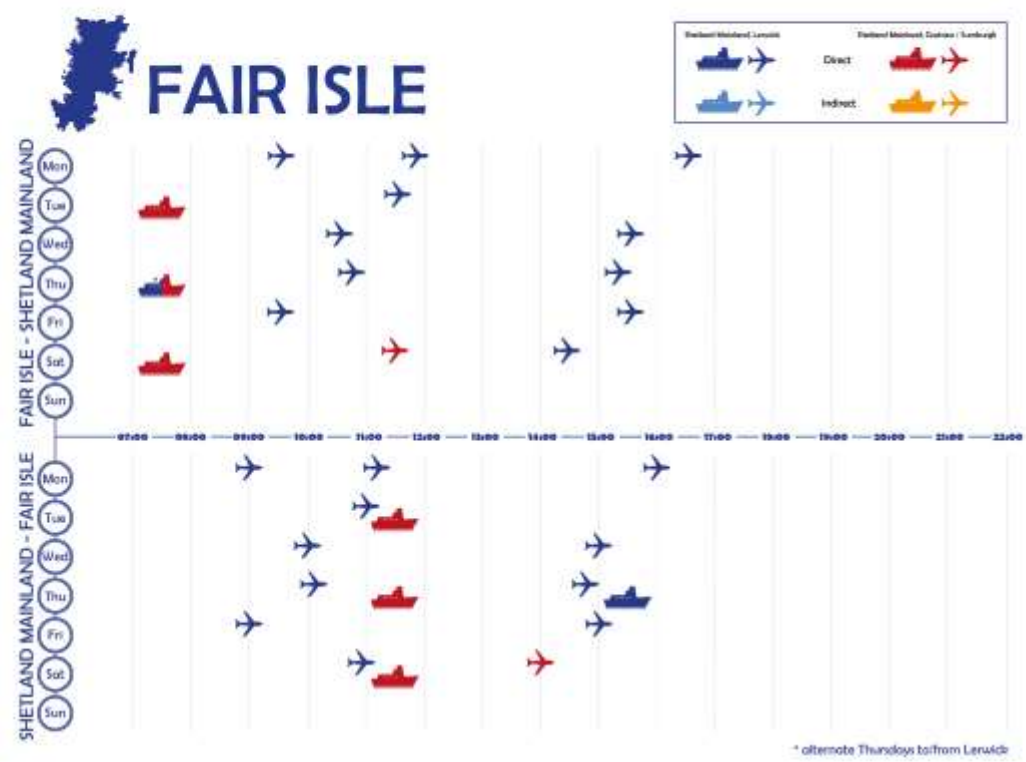


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Figure 3.3: Fair Isle Summer Connectivity

3.5.4 The following points are of note from the above figure:

- Fair Isle has air services six days per week in the summer months. There are also three return ferry services scheduled from Fair Isle per week, with the Thursday service alternating between Grutness and Lerwick as the mainland port.
- There is a minimum of two rotations per day on all weekdays except a Tuesday. This allows for a meaningful day return trip to Shetland mainland to be made. There are three rotations on a Monday.
- There is a Saturday rotation to / from Sumburgh and Tingwall during the peak summer months.
- From the perspective of the air service, the number of rotations offered in the shoulder winter and core winter timetables is the same Monday to Friday, although the day gradually compresses as daylight hours shorten. The Saturday services do not operate outwith the summer months.
- There is only one return ferry scheduled from Fair Isle per week in the winter, which is timetabled on a Tuesday.

3.5.5 The key deliverable of the air service is the amount of 'effective' time on island and on mainland (and, in reality, Lerwick as the main service centre) offered. This is summarised below for the three timetable periods.

Table 3.3: Fair Isle - Air Service Time on Mainland / Island by Timetable

	Summer[5]	Shoulder Winter[6]	Core Winter[7]	Summer	Shoulder Winter[8]	Core Winter
	Time on Mainland			Time on Island		
Monday	06:00	04:45	04:15	07:10	05:55	05:25
Tuesday	00:00	00:00	00:00	00:10	00:10	00:10
Wednesday	04:00	03:45	03:15	05:10	04:55	04:25
Thursday	06:00	02:30	02:00	07:10	03:40	03:10
Friday	05:00	03:40	03:20	06:10	04:50	04:30
Saturday	02:15[9][10]	00:00	00:00	03:05[11]	00:00	00:00
Sunday	00:00	00:00	00:00	00:00	00:00	00:00
Total	**23:15**	**14:40**	**12:50**	**28:55**	**19:30**	**17:40**

3.5.6 The key points from the above are as follows:

- Summer timetable

[5] 25th June – 26th October 2018 (a slightly modified table ran from 12th February – 24th June)

[6] Shoulder winter timetable not yet published – based on Winter Air Timetable 1 from SBC – 12th October – 15th November 2015 and 18th January 21st February 2016

[7] Winter timetable not yet published – based on Winter Air Timetable 2 from SBC – 16th November 2015 – 17th January 2016

[8] Shoulder winter timetable not yet published – based on Winter Air Timetable 1 from SBC – 12th October – 15th November 2015 and 18th January 21st February 2016

[9] Winter timetable not yet published – based on Winter Air Timetable 2 from SBC – 16th November 2015 – 17th January 2016

[10] 5th May – 6th October only

[11] 5th May – 6th October only

- The air service offers Fair Isle residents varied amount of time on Shetland mainland over the week.
- The Saturday service to Sumburgh does not represent a meaningful connection to Lerwick once onward travel is factored in.
- With only one rotation on a Tuesday, it is not possible to make a day return trip to Shetland mainland using the air service alone.

- Shoulder winter timetable
  - The shoulder winter timetable reduces time on mainland across all operating days.
  - The Saturday services do not operate in the shoulder winter timetable.
- Winter timetable
  - The winter timetable leads to a further reduction of around 30 minutes of time on mainland per day when compared with the shoulder winter timetable.
  - The Saturday services do not operate in the winter timetable.

3.5.7 The Fair Isle ferry carried 713 passengers in 2017[12], compared to 2,812 passengers on the air service, making the market share 20% ferry and 80% air. This would suggest that the main source of any future passenger growth in the island would be driven by the air service.

Foula

3.5.8 The figure below shows the **summer** connectivity of Foula:

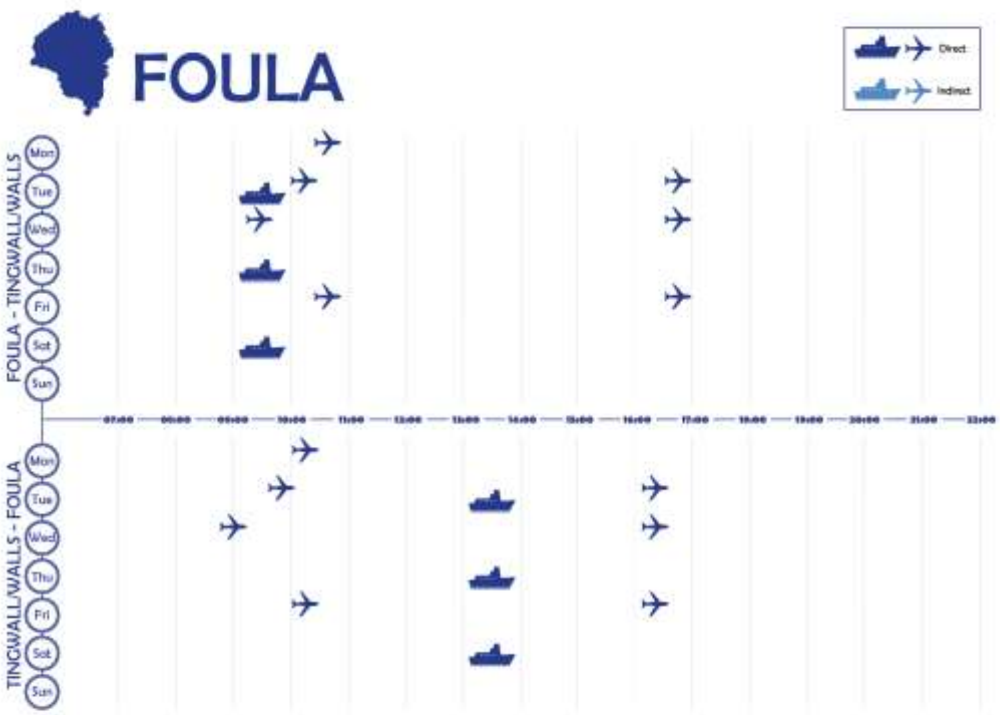

Figure 3.4: Foula Summer Connectivity

3.5.9 The following points are of note from the above figure:

- Foula benefits from an air service four days per week, although Monday is only a single rotation. There are no flights on a Thursday, Saturday or Sunday.

[12] Shetland in Statistics 2017, p.49.;

- During the shoulder and core winter timetables, the air service is reduced to a single rotation on a Wednesday. The two rotations on a Tuesday and Friday are retained but the length of operating gradually reduces in line with reduced daylight hours.
- There are three return ferry connections from Foula to Walls in the summer timetable, including a Saturday connection. The winter timetable reduces to two return sailings per week, with the Saturday sailing not operated during this period.

3.5.10 The amount of 'effective' time on island and on mainland is summarised in the table below for the three timetable periods.

Table 3.4: Foula - Air Service Time on Mainland / Island by Timetable

	Summer[13]	Shoulder Winter[14]	Core Winter[15]	Summer	Shoulder Winter[16]	Core Winter
	Time on Mainland			Time on Island		
Monday	00:00	00:00	00:00	00:10	00:10	00:10
Tuesday	05:50	04:20	04:05	06:40	05:10	04:55
Wednesday	06:40	00:00	00:00	07:30	00:10	00:10
Thursday	00:00	00:00	00:00	00:00	00:00	00:00
Friday	05:25	04:00	03:40	06:15	04:50	04:30
Saturday	00:00	00:00	00:00	00:00	00:00	00:00
Sunday	00:00	00:00	00:00	00:00	00:00	00:00
Total	**17:55**	**08:20**	**07:45**	**20:35**	**10:20**	**09:45**

3.5.11 The following points are of note from the above:

- Summer timetable:
  - The air service offers Foula residents varied amount of time on Shetland mainland over the week.
  - There is only one air rotation on a Monday, which means a day return trip to Shetland mainland cannot be made.
  - The ferry service offers limited amount of time on mainland but the relatively long and uncomfortable journey coupled with the ferry terminating at rural Walls means that the air service is generally the lifeline mode.
  - Connectivity on a Thursday and summer Saturday is by ferry only.
- Shoulder winter timetable:
  - The shoulder winter timetable reduces time on mainland across all operating days.
  - A day return trip is no longer possible on a Wednesday as there is only one rotation. This continues to be the case on a Monday.
  - There is no weekend connectivity by air or ferry.
- Core winter timetable:

[13] 25th June – 26th October 2018 (a slightly modified table ran from 12th February – 24th June)

[14] Shoulder winter timetable not yet published – based on Winter Air Timetable 1 from SBC – 12th October – 15th November 2015 and 18th January 21st February 2016

[15] W

[16] Shoulder winter timetable not yet published – based on Winter Air Timetable 1 from SBC – 12th October – 15th November 2015 and 18th January 21st February 2016

- The winter timetable leads to a further marginal reduction of time on mainland for Foula residents on a Tuesday and Friday.

3.5.12 There were 1,246 passengers carried on the Foula air service in 2017. The equivalent figures for the ferry service are unknown as it is a tendered service, but it can be assumed that the proportional split is perhaps similar to Fair Isle.

Summary

3.5.13 The following key points emerge from this section:

- The inter-island air service is clearly the lifeline mode of transport for Fair Isle and Foula (at least for passengers).
  - The Fair Isle route carried approximately 68% of total inter-island air service passengers in 2017, with the equivalent proportion for Foula being 30%[17].
  - The proportional number of passengers carried suggests that Fair Isle should benefit from the largest number of services.
- The retention of Papa Stour and Skerries within the current timetable means that:
  - Foula gets no rotations on a Thursday
  - Fair Isle only gets a single rotation on a Tuesday year-round. Foula only gets a single rotation on a summer Monday and a winter Monday & Wednesday. The single rotation means that it is not possible to undertake a meaningful day return trip to either island or Shetland mainland.
- There are no weekend services to and from either island, outwith a Saturday Tingwall – Fair Isle – Sumburgh – Fair Isle – Tingwall service between early May and early October.
- There is a lack of consistency / clockface timetabling across the week in terms of departure times.

3.5.14 The focus of the option development in the next section is therefore on addressing the above issues, with the key metric for measuring the impact being the amount of daily time on mainland and on-island.

Option Development

3.5.15 In order to meet the 7-day connectivity aspiration set out within the RSM, the SBC identified, as a revenue option, increasing the frequency of the air service to Fair Isle and Foula to two rotations per day, seven days per week. This section further develops these options into a set of draft timetables which have been taken out to consultation.

3.5.16 As noted earlier in this chapter, the current assets and human resource can broadly deliver **25-27 connections across the week** whilst maintaining the required level of flexibility to respond to e.g. weather windows. The initial set of options presented in this section therefore work within this relatively fixed operating window and focus largely on weekday connectivity, which is arguably more important than weekend connectivity from a resident perspective in terms of accessing key services.

3.5.17 A subsequent section considers the required step-change in resource to migrate to a seven-day service.

3.5.18 It should be noted that:

[17] The other 1.6% of passengers was accounted for by the Papa Stour route.

- The timetables have been developed based on operation from Tingwall for comparative purposes. However, it is assumed they could all be operated from either Tingwall or Sumburgh, although clearly the latter would offer reduced journey times to Fair Isle and an equivalent journey time to Foula (thus increasing slack / flexibility within the timetable).
- The timetables presented are for summer only. It is assumed that the timetable would be scaled back in the winter timetable period.
- The number of rotations across the day and across the week are assumed to be the **maximum** that can be realistically offered. Depending on the options taken forward, it would be important to work with both the Fair Isle and Foula communities to establish whether all of the connections set out are seen as beneficial and can be accommodated at the island airstrips. This would assist in developing the ‘on the ground’ service.
- The timetable options below assume that SIC would wish to directly specify how the service is operated within the tendered contract. However, an alternative option would be to specify the required number of rotations required per week (either overall or to Fair Isle & Foula specifically) and allow bidders to come forward with options.

Option 1: Five rotations per day from Tingwall or Sumburgh (alternating days of 3 rotations / 2 rotations)

3.5.19 This option involves providing a total of five rotations per day from Tingwall or Sumburgh Monday – Friday, with the summer Saturday Fair Isle rotation to Sumburgh retained. The timetable operates on the basis of alternating days of three rotations one day and two the next over a standard working week (Monday – Friday). This is illustrated in the example timetable below:

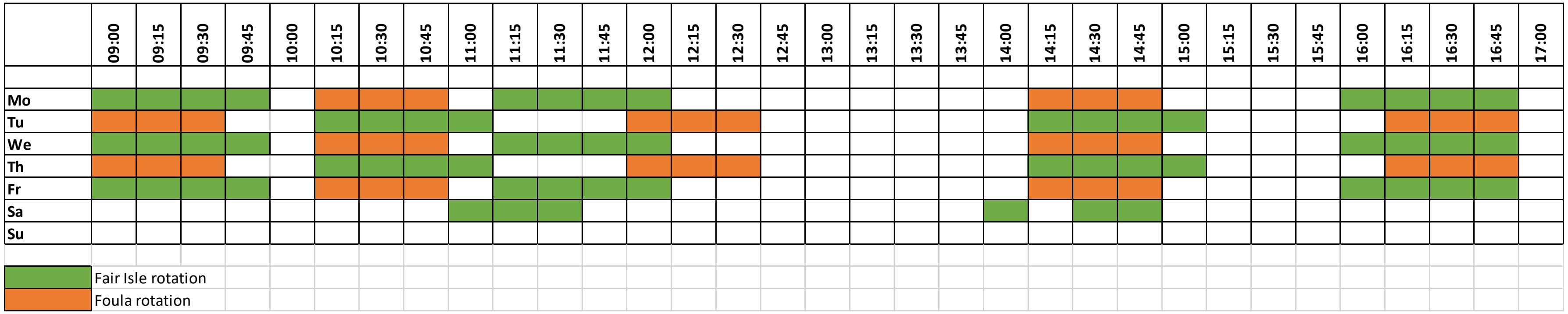

Figure 3.5: Option 1 – Five rotations per day from Tingwall or Sumburgh, example timetable

3.5.20 It is assumed that, as the Fair Isle route carries around two thirds of the inter-island air service passengers, it would benefit from the three rotation service on three days of the week (e.g. Monday, Wednesday and Friday). Foula would have two three rotation days (i.e. Tuesday and Thursday). In total this would provide:

- Fair Isle with 15 rotations across the week (an increase of three rotations per week)
- Foula with 12 rotations across the week (an increase of five rotations per week)
- A mix of short and long days on the island or on Shetland mainland, allowing for a half or full day of personal business to be conducted.

3.5.21 The table below provides estimated hours on island and on Shetland mainland under the above timetable permutation, comparing this with the current summer timetable:

Table 3.5: Time on Island / Mainland – Option 1 v Current Summer Timetable

	Time on Mainland (Option 1)	Time on Mainland (Current Summer Timetable)	Difference	Time on Island (Option 1)	Time on Island (Current Summer Timetable)	Difference	Time on Mainland (Option 1)	Time on Mainland (Current Summer Timetable)	Difference	Time on Island (Option 1)	Time on Island (Current Summer Timetable)	Difference
	Fair Isle						**Foula**					
Monday	06:00	06:00	-	07:10	07:10	-	03:20	00:00	+03:20	04:10	00:10	+04:00
Tuesday	03:00	00:00	+03:00	04:10	00:10	+04:00	06:35	05:50	+00:45	07:25	06:40	+00:45
Wednesday	06:00	04:00	+02:00	07:10	05:10	+02:00	03:20	06:40	-03:20	04:10	07:30	-03:20
Thursday	03:00	06:00	-03:00	04:10	07:10	-03:00	06:35	00:00	+06:35	07:25	00:00	+07:25
Friday	06:00	05:00	+01:00	07:10	06:10	+01:00	03:20	05:25	-02:05	04:10	06:15	-02:05
Saturday	02:15	02:15	-	03:05	03:05	-	00:00	00:00	-	00:00	00:00	-
Sunday	00:00	00:00	-	00:00	00:00	-	00:00	00:00	-	00:00	00:00	-
Total	**26:15**	**23:15**	***+03:00***	**32:55**	**28:55**	***+04:00***	**23:10**	**17:55**	***+05:15***	**27:20**	**20:35**	***+06:45***

3.5.22 Outwith the ability to make a daily return trip and a regular timetable, the key points in relation to Option 1 are:

- Time on mainland across the week for Fair Isle residents increases by three hours, and time on island increases by four hours.
- Time on mainland for Foula residents increases by over five hours, with time on island increasing by almost seven hours.
- Whilst Fair Isle gets a greater number of flights in total, the increase in the number of rotations to Foula (5) is greater than that to Fair Isle (3).
- However, time on mainland and on island reduces for Fair Isle on a Thursday and for Foula on a Wednesday and Friday.

3.5.23 It is assumed that this timetable could be operated during the shoulder winter and winter months (with a later start and earlier finish to the operating day) but a detailed operational planning exercise would be required to determine this. If this timetable could not be delivered during the winter months, a four-rotations per day (see options 3 & 4 below) timetable could be adopted during this period.

Option 2 – Five rotations per day from Tingwall or Sumburgh (Clockface timetable with 3 * Fair Isle and 2 * Foula rotations daily)

3.5.24 This option involves the operation of a clockface timetable, with three rotations to Fair Isle per day and two rotations to Foula per day Monday – Friday. This is illustrated in the example timetable below:

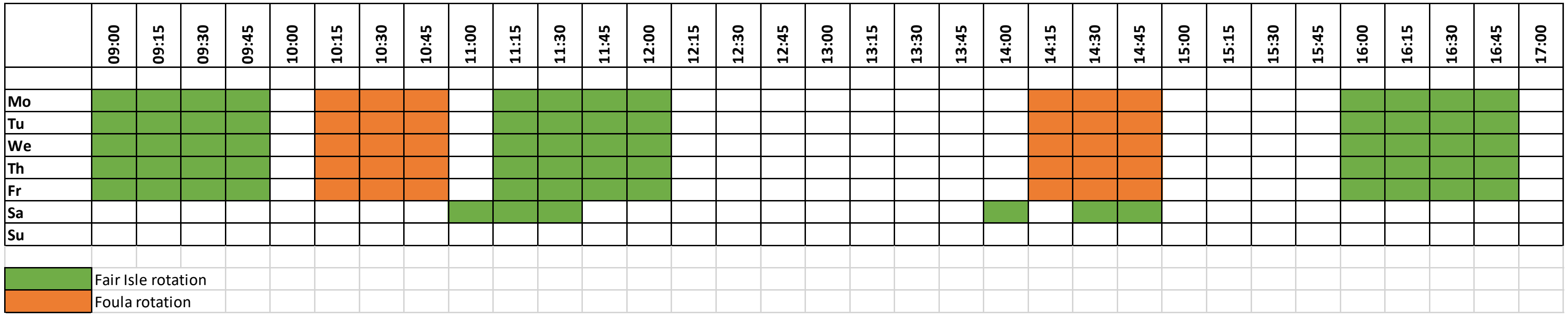

Figure 3.6: Option 2 – Clockface timetable with 3 * Fair Isle and 2 * Foula rotations daily, example timetable

3.5.25 This option would effectively allocate three fifths of the rotation slots to Fair Isle (plus the summer Saturday service to Sumburgh), which is broadly the market share of the two islands in terms of the passenger numbers using the service. The first and last Fair Isle rotation would bookend the day. In total this would provide:

- Fair Isle with 17 rotations across the week (an increase of five rotations per week)
- Foula with 10 rotations across the week (an increase of three rotations per week)
- Fair Isle would have a daily mix of short and long days on the island or on Shetland mainland, allowing for a half or full day of personal business to be conducted. Foula would benefit from a daily half day on mainland or on island.

3.5.26 The table below provides estimated hours on island and on Shetland mainland under the above timetable permutation, comparing this with the current summer timetable:

Table 3.6: Time on Island / Mainland – Option 2 v Current Summer Timetable

	Time on Mainland (Option 1)	Time on Mainland (Current Summer Timetable)	Difference	Time on Island (Option 1)	Time on Island (Current Summer Timetable)	Difference	Time on Mainland (Option 1)	Time on Mainland (Current Summer Timetable)	Difference	Time on Island (Option 1)	Time on Island (Current Summer Timetable)	Difference
	Fair Isle						**Foula**					
Monday	06:00	06:00	-	07:10	07:10	-	03:20	00:00	*03:20*	04:10	00:10	*04:00*
Tuesday	06:00	00:00	*+06:00*	07:10	00:10	*+07:00*	03:20	05:50	*-02:30*	04:10	06:40	*-02:30*
Wednesday	06:00	04:00	*+02:00*	07:10	05:10	*+02:00*	03:20	06:40	*-03:20*	04:10	07:30	*-03:20*
Thursday	06:00	06:00	-	07:10	07:10	-	03:20	00:00	*03:20*	04:10	00:00	*04:10*
Friday	06:00	05:00	*+01:00*	07:10	06:10	*+01:00*	03:20	05:25	*-02:05*	04:10	06:15	*-02:05*
Saturday	02:15	02:15	-	03:05	03:05	-	00:00	00:00	-	00:00	00:00	-
Sunday	00:00	00:00	-	00:00	00:00	-	00:00	00:00	-	00:00	00:00	-
Total	**32:15**	**23:15**	***+09:00***	**38:55**	**28:55**	***+10:00***	**16:40**	**17:55**	***-01:15***	**20:50**	**20:35**	***+00:15***

3.5.27 Outwith the ability to make a daily return trip and a regular timetable, the key points in relation to Option 2 are:

- Time on mainland for Fair Isle residents and time on island increases substantially.
- Conversely however, whilst Foula gets daily time on mainland / island, the total amount of time marginally decreases across the week. Of particular importance here is a Tuesday, Wednesday and Friday where a near full day on mainland / island reduces to around half a day.
- The number of rotations to each island is brought largely into line with the respective proportion of passengers using the service.

Option 3 – Four rotations per day from Tingwall or Sumburgh (alternating days of first and last rotation)

3.5.28 This option involves providing a total of four rotations per day from Tingwall or Sumburgh Monday – Friday, with the summer Saturday Fair Isle rotation to Sumburgh retained. The timetable operates on the basis of alternating days, whereby Fair Isle gets the first and last rotation one day and Foula the next. This is illustrated in the example timetable below:

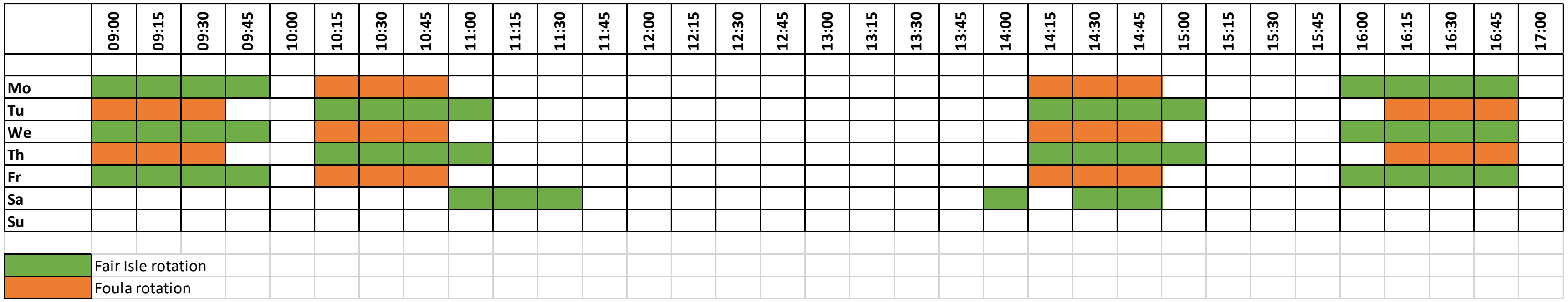

Figure 3.7: Option 3 – Four rotations per day from Tingwall or Sumburgh with alternating days of first & last rotation, example timetable

3.5.29 It is assumed that, as the Fair Isle route carries around two thirds of the inter-island air service passengers, it would benefit from the first and last rotation on three days of the week (e.g. Monday, Wednesday and Friday). Foula would have the first and last rotation on two days (i.e. Tuesday and Thursday). In total this would provide:

- Fair Isle with 12 rotations across the week (maintaining the current number of rotations per week)
- Foula with 10 rotations across the week (an increase of three rotations per week)
- The total number of rotations scheduled within the timetable would reduce from 25 to 22 (although acknowledging that the Skerries rotations are not currently operated). This could provide some flexibility for offering *ad hoc* / banked flights.
- A mix of short and long days on the island or on Shetland mainland, allowing for a full day one day and a half day the next.

3.5.30 The table below provides estimated hours on island and on Shetland mainland under the above timetable permutation, comparing this with the current summer timetable:

Table 3.7: Time on Island / Mainland – Option 3 v Current Summer Timetable

	Time on Mainland (Option 1)	Time on Mainland (Current Summer Timetable)	Difference	Time on Island (Option 1)	Time on Island (Current Summer Timetable)	Difference	Time on Mainland (Option 1)	Time on Mainland (Current Summer Timetable)	Difference	Time on Island (Option 1)	Time on Island (Current Summer Timetable)	Difference
	Fair Isle						**Foula**					
Monday	06:00	06:00	-	07:10	07:10	-	03:20	00:00	+03:20	04:10	00:10	+04:00
Tuesday	03:00	00:00	+03:00	04:10	00:10	+04:00	06:35	05:50	+00:45	07:25	06:40	+00:45
Wednesday	06:00	04:00	+02:00	07:10	05:10	+02:00	03:20	06:40	-03:20	04:10	07:30	-03:20
Thursday	03:00	06:00	-03:00	04:10	07:10	-03:00	06:35	00:00	+06:35	07:25	00:00	+07:25
Friday	06:00	05:00	+01:00	07:10	06:10	+01:00	03:20	05:25	-02:05	04:10	06:15	-02:05
Saturday	02:15	02:15	-	03:05	03:05	-	00:00	00:00	-	00:00	00:00	-
Sunday	00:00	00:00	-	00:00	00:00	-	00:00	00:00	-	00:00	00:00	-
Total	**26:15**	**23:15**	**+03:00**	**32:55**	**28:55**	**+04:00**	**23:10**	**17:55**	**+05:15**	**27:20**	**20:35**	**+06:45**

3.5.31 Outwith the ability to make a daily return trip and a regular timetable, the key points in relation to Option 3 are:

- Time on mainland for Fair Isle residents and time on island increases by three and four hours per week respectively.
- Time on mainland for Foula residents and time on island increases also.
- Whilst overall time on island / mainland increases for both Fair Isle and Foula, there are individual days where it does reduce (i.e. Thursday for Fair Isle and Wednesday & Friday for Foula).
- This option reduces the number of scheduled week rotations from 25 to 22, offering potential for additional flights to be added on weekdays to clear weather backlogs or a limited weekend service (subject to a number of factors explained in the next section).
- This option could be combined with Options 1 or 2 to provide the winter timetable variant of those options.

- The balance of long days versus short days favours Fair Isle in a 3:2 ratio, which broadly reflects the proportional passenger numbers on each route.

Option 4: Four rotations per day from Tingwall or Sumburgh with clockface timetable

3.5.32 This option involves the operation of a clockface timetable, with two rotations per day to Fair Isle and Foula Monday – Friday. This is illustrated in the example timetable below:

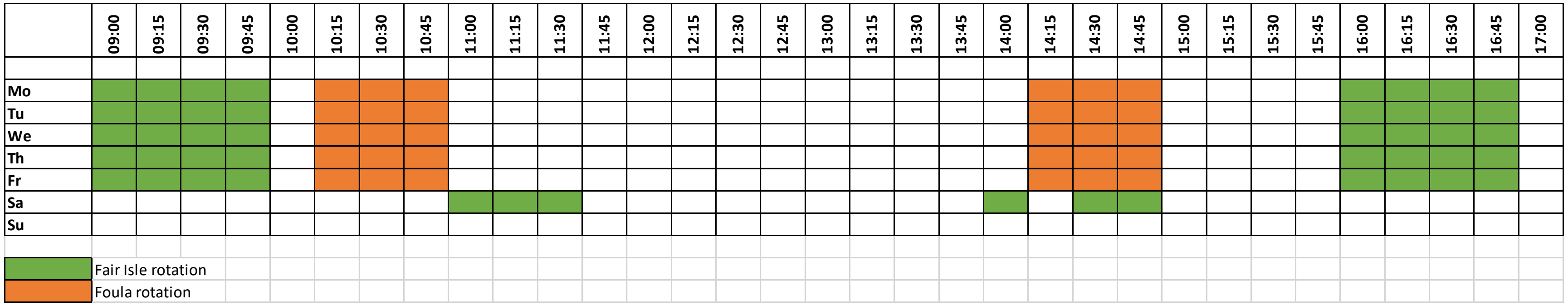

Figure 3.8: Option 4 – Four rotations per day from Tingwall or Sumburgh with clockface timetable, example timetable

3.5.33 It is assumed that, as the Fair Isle route carries around two thirds of the inter-island air service passengers, it would benefit from the first and last rotation. In total this would provide:

- Fair Isle with 12 rotations across the week (maintaining the current number of rotations per week)
- Foula with 10 rotations across the week (an increase of three rotations per week)
- The total number of rotations scheduled within the timetable would reduce from 25 to 22 (although acknowledging that the Skerries rotations are not currently operated). This could provide some flexibility for offering *ad hoc* / banked flights.

3.5.34 The table below provides estimated hours on island and on Shetland mainland under the above timetable permutation, comparing this with the current summer timetable:

Table 3.8: Time on Island / Mainland – Option 4 v Current Summer Timetable

	Time on Mainland (Option 1)	Time on Mainland (Current Summer Timetable)	Difference	Time on Island (Option 1)	Time on Island (Current Summer Timetable)	Difference	Time on Mainland (Option 1)	Time on Mainland (Current Summer Timetable)	Difference	Time on Island (Option 1)	Time on Island (Current Summer Timetable)	Difference
	Fair Isle						**Foula**					
Monday	06:00	06:00	-	07:10	07:10	-	03:20	00:00	03:20	04:10	00:10	04:00
Tuesday	06:00	00:00	+06:00	07:10	00:10	+07:00	03:20	05:50	-02:30	04:10	06:40	-02:30
Wednesday	06:00	04:00	+02:00	07:10	05:10	+02:00	03:20	06:40	-03:20	04:10	07:30	-03:20
Thursday	06:00	06:00	-	07:10	07:10	-	03:20	00:00	03:20	04:10	00:00	04:10
Friday	06:00	05:00	+01:00	07:10	06:10	+01:00	03:20	05:25	-02:05	04:10	06:15	-02:05
Saturday	02:15	02:15	-	03:05	03:05	-	00:00	00:00	-	00:00	00:00	-
Sunday	00:00	00:00	-	00:00	00:00	-	00:00	00:00	-	00:00	00:00	-
Total	**32:15**	**23:15**	**+09:00**	**38:55**	**28:55**	**+10:00**	**16:40**	**17:55**	**-01:15**	**20:50**	**20:35**	**+00:15**

3.5.35 Outwith the ability to make a daily return trip and a regular timetable, the key points in relation to Option 4 are:

- Time on mainland for Fair Isle residents increases and time on island increases substantially (an increase of 10 hours per week).
- Conversely however, whilst Foula gets daily time on mainland / island, the total amount of time marginally decreases across the week. Of particular importance here is a Tuesday, Wednesday and Friday where a near full day on mainland / island reduces to around half a day.
- This option could be combined with Options 1 or 2 to provide the winter timetable variant of those options.

Summary

3.5.36 A summary of time on mainland / time on island for each of the above four options is presented in the table below.

Table 3.9: Summary of Options – Time on Mainland / Island

Option	Time on Mainland	Time on Island	Time on Mainland	Time on Island
	Fair Isle		Foula	
Option 1: 5 rotations per day from Tingwall or Sumburgh (alternating days of 3 rotations / 2 rotations.	+03:00	+04:00	+05:15	+06:45
Option 2: Five rotations per day from Tingwall or Sumburgh (clockface – 3 *Fair Isle / 2 * Foula)	+09:00	+10:00	*-01:15*	*-00:15*
Option 3: Four rotations per day from Tingwall or Sumburgh (alternating days of first & last rotation)	+03:00	+04:00	+05:15	+06:45
Option 4: Four rotations per day from Tingwall or Sumburgh (clockface – 2 *Fair Isle / 2 * Foula)	+09:00	+10:00	*-01:15*	*-00:15*

3.5.37 Fair Isle would benefit in terms of total hours on mainland and island across all of the options. However, the benefit is clearly most significant when the first and last rotations are from the island. In contrast, whilst Foula would benefit from a daily return service, the hours on mainland / island in Options 2 and 4 reduce due to the current (near) full days on mainland / island being reduced to half days.

Option 5: Weekend Operation

3.5.38 The options presented above are focused on enhancing the current weekday timetable operated to Fair Isle and Foula, whilst also maintaining the summer Saturday connection between Fair Isle and Sumburgh, which is understood to be valued by residents. However, the SBC recommended that the potential for seven-day air connectivity be considered in keeping with the RSM-model level of service. This section therefore considers the option of introducing additional weekend services.

3.5.39 For a weekend service to be meaningful, it is assumed that it would be necessary to operate a minimum of two rotations on a Saturday, although perhaps scaling back to one on a Sunday (implying an overnight stay on island or mainland because a meaningful day return trip would not be possible) as is common in public transport operations. This would effectively involve extending the timetables under Options 3 or 4 into the weekend. There are a number of important considerations surrounding the deliverability of this option:

- Given that the number of rotations achievable with current assets and human resources is largely fixed at 25-27 per week:
  - Weekend services could only be delivered where the weekday service is fixed at two rotations per day to each island (i.e. Options 3 & 4), with a single Sunday rotation. These timetables currently offer 21 rotations per week, which would increase to 25 per week if extended into the weekend as described above. This would therefore not offer meaningful time on mainland or the respective islands on a Sunday.
  - The current assets and human resource could not deliver a weekend service on top of a five rotations per day weekday schedule. Additional resource would be required.
- Even if it is theoretically possible in terms of available rotations to extend into the weekend, it is unlikely that this could be delivered with the current resource in that the weekend provides rest days for pilots and days off for ground staff, whilst also allowing maintenance to be undertaken on the aircraft. Scaling up to a seven-day service would in

all likelihood require at least one additional pilot and ground staff member, as well as careful maintenance planning for the aircraft to ensure continuity of service.

- Tingwall is only open on a Saturday during the summer months and is closed year-round on a Sunday. The operation of a year-round air service would require additional staff to be deployed (and potentially recruited) on non-summer Saturdays and Sundays, which would increase the overall cost of the service. Sumburgh could more readily handle this step change and the increase in cost would be reflected in the rates charged to the Council. It should however be noted though that Sumburgh closes at 16:00 on a Saturday.
- The airstrip staff in the two islands would also have to move towards seven-day working, which could be problematic in Foula in particular.

3.5.40 An alternative to a timetabled weekend service would be the ability to operate *ad hoc* services where there is a clear requirement to do so, assuming staffing at Tingwall could be organised (should the service base remain there). This could include, for example, times of peak demand at Fair Isle Bird Observatory or during periods when there is sustained weather disruption to the ferry service during the week. Again, this option would only be viable in tandem with Options 3 & 4 (i.e. two rotations each to Fair Isle and Foula Monday – Friday).

3.6 Community Feedback

3.6.1 In order to test the viability and popularity of the various timetable options, SIC attended a consultation event in both Foula and Fair Isle. The key findings are set out below.

Fair Isle

- The Fair Isle community would like to see an 08:00 flight out of Fair Isle. An earlier start would mean more effective use of time on Shetland mainland.
- It was noted that any service improvements would need to integrate with the ferry timetable recognising that ferry crew are also RFFS staff and also other island residents need to attend the arrival / departure of the vessel.
- Additional flights on a Wednesday and Friday would be welcome by the community as it would improve capacity. The detail would need to be worked through with the community but it was noted that, on a Friday, a flight at around same time as the current flight from Orkney would mean efficient use of RFFS staff.
- It was noted that attention needs to be given to any limitations on licensing conditions, e.g. is there a point where the number of movements could lead to a need to increase the category of the airport with consequent increase in resources required from within the island.
- If there are no aircraft movements the RFFS staff do not get paid. However, RFFS staff still make themselves available because most of the time, notice of no flights is short.
- It was noted that Saturday flights from Tingwall in the winter would be a useful service improvement to support more travel choices, especially friends and family at the weekend.

Foula

- It was noted that the population of Foula is growing and this means there is increasing need for connections to the mainland and for services to access the island.
- The community explained that there needs to be better back up in times of disruption. In particular, it is considered important that:
    - If flights are cancelled on a Friday, they should be provided on a Saturday or Sunday weather permitting.

  - It is felt that the principle of "banked flights" would be a means of providing flexibility. Banked flights is a system of building a "bank" of flights that arises out of carrying forward any flights that have not been flown due to weather and/or no bookings. The community can then call off these flights at times, in addition to scheduled flights, when they benefit the community.

- It was noted that reinstatement of a day return on a Monday would enable better access to the mainland for islanders and better access to the island for service providers. It is argued that this would go some way towards addressing the concern some day trippers have about getting stuck in Foula at the weekend.
- It was also noted that a single rotation on a Thursday would enable better connections and would provide 6-day connectivity in the summer and 5-day connectivity in the winter.
- The community noted that any additional Saturday and / or Sunday flights should be about recovery from disruption through the week rather than additional scheduled services. An example was given where if there are cancellations on a Friday which means that Foula pupils do not get home, then by the next scheduled trip it will have been six weeks between trips home. The community noted that, in this scenario, there should be a flight made on a Saturday as a matter of course, particularly during the ferry winter timetable when there is no Saturday ferry.
- The need for resources for the ferry service and the RFFS is acknowledged. However, it was explained that this need will always be there and is manageable for the foreseeable future.
- It was also noted that there are a good number of volunteers on the island to undergo RFFS training. The issue is having everyone available at the same time if training is concentrated on specific and infrequent days. It was explained that it would be better if training could be organised in such a way that there is higher number of opportunities across the year. This would reduce the bottlenecks in the system where everyone's renewal training occurs at the same time, which has in the past led to the certification of most trained personnel coming to an end at the same time.
- It was noted that care should be taken to coordinate training with Foula RFFS personnel rather than just impose a date. There are important community events that are known about in advance that should be built into planning training.
- The community also noted that it should be recognised that comparing the air and ferry timetables as a means of identifying resource requirements is not very accurate because both the air and ferry services are so affected by weather. It is often the case that neither depart in line with the schedule, rather they depart when the weather permits. Furthermore, if there is a rare lack of RFFS personnel then the ferry departure is adjusted to allow ferry crew to be available for RFFS cover.

3.7 Appraisal of Options

3.7.1 Having further developed the options, this section extends the appraisal against the Transport Planning Objectives and STAG criteria undertaken in the SBC.

Transport Planning Objectives

3.7.2 The options developed in this OBC reflect the transport problems identified in the SBC, together with a gradual refinement of the air service to focus on the volume routes. They therefore make a significant contribution to the TPOs, as will be explained below.

3.7.3 It should be noted that Option 5, the introduction of weekend services, is not strictly speaking a standalone option, rather one which would magnify the benefits of Options 1-4 by introducing weekend connections. The scoring in the table and subsequent narrative reflects this.

3.7.4 The appraisal of the five timetable permutations against the TPOs is provided in the table below:

Table 3.10: Appraisal of Timetable Options against TPOs

	Option 1: Five rotations per day from Tingwall or Sumburgh (alternating days of 3 & 2 rotations	Option 2: Five rotations per day from Tingwall or Sumburgh (clockface: 3 * Fair Isle, 2 * Foula)	Option 3: Four rotations per day from Tingwall or Sumburgh (alternating days of first & last rotation)	Option 4: Four rotations per day from Tingwall or Sumburgh (clockface: 2 * Fair Isle, 2 * Foula)	Option 5: Introduce 2 rotations on a Saturday and 1 one a Sunday to Fair Isle & Foula
TPO1: The capacity of the services should not act as a constraint to regular and essential personal, vehicular and freight travel between the island(s) and Shetland mainland.	✓✓	✓✓✓	✓✓	✓✓	✓✓
TPO2b: Where an island does not have a 'commutable' combined ferry or air & drive / public transport / walk time to a main employment centre (e.g. 80 minutes), the connections provided should reliably permit a half day (e.g. 4 hours) in Lerwick, 7 days a week, all year round.	✓✓	✓	✓✓	✓	✓
TPO3: The scheduled time between connections should be minimised to increase flexibility for passengers and freight by maximising the number of island connections across the operating day.	✓✓✓	✓✓✓	✓✓	✓✓	✓
TPO4: The level of connectivity provided should minimise the variation within and between weekdays, evenings, Saturdays and Sundays.	✓	✓✓	✓	✓✓	✓✓
TPO5: Where practicable and realistic, islanders should be provided with links to strategic onward connections without the need for an overnight stay on Shetland mainland.	✓✓✓	✓✓✓	✓✓	✓✓	✓✓

3.7.5 **Options 1 & 2** offers the most significant benefit in terms of **capacity** as they offer the largest increase in the number of rotations across the week, seven in total across both islands. Option 2 is considered to offer a marginally larger capacity benefit as Fair Isle, the higher volume route, obtains the majority of the additional connections - Option 1 increases weekly Fair Isle rotations by 3 & Foula by 5, whilst the figures are 4 and 3 respectively for Option 2. **Options 3 & 4** offer three additional rotations per week to Foula, with the number of Fair Isle rotations remaining unchanged. Any additional weekend services **(Option 5)** would further increase capacity.

3.7.6 All of the options provide the ability to make a day return trip to the mainland / island, and the addition of weekend services would allow this to happen on six days (it is assumed that Sunday is a single rotation only). **Options 2 & 4**, which are based on clockface timetabling, only record a minor benefit as Foula experiences a reduced number of hours on mainland / island across the week, even though there is a daily connection (although conversely these options are best for Fair Isle). **Options 1 & 3** record a moderate benefit as they increase the number of hours on mainland / island for both islands and broadly offer a minimum half day on mainland Monday – Friday.

3.7.7 In terms of frequency, **Options 1 & 2** maximise the number of connections available within the current operating envelope and thus record a major benefit, whilst **Options 3 & 4** offer a moderate benefit (albeit greater flexibility / slack within the timetable). The addition of a weekend service **(Option 5)** would address a connectivity gap for both islands.

3.7.8 The provision of a minimum two daily rotations across all options goes some way towards addressing variations in the level of connectivity across the week. Indeed, they address the current issues of days with no rotations and days with only a single rotation, meaning that it is not possible to spend any effective time on mainland / island. **Options 2 & 4** record a moderate positive because they offer a clockface timetable. The addition of weekend services **(Option 5)** would address the variation between weekdays and weekend days.

3.7.9 In terms of onward transport connectivity, **Options 1 & 2** maximise the number of connections across the day and thus opportunities for transport integration. They therefore record a major benefit, whilst **Options 3 & 4** record a moderate benefit. **Option 5** would also record a moderate benefit in this respect as it means that island residents could travel to / from the respective islands at the weekend as part of a longer journey without needing to stay over on Shetland mainland. This would be particularly beneficial for those (i) arriving in Shetland on a Saturday; and (ii) departing Shetland early on a Monday morning (i.e. preventing the need for two overnight stays).

STAG Criteria

3.7.10 The appraisal of the five timetable permutations against the STAG criteria is provided in the table below:

Table 3.11: Appraisal of Timetable Options against STAG Criteria

	Option 1: Five rotations per day from Tingwall or Sumburgh (alternating days of 3 & 2 rotations	Option 2: Five rotations per day from Tingwall or Sumburgh (clockface: 3 * Fair Isle, 2 * Foula)	Option 3: Four rotations per day from Tingwall or Sumburgh (alternating days of first & last rotation)	Option 4: Four rotations per day from Tingwall or Sumburgh (clockface: 2 * Fair Isle, 2 * Foula)	Option 5: Introduce 2 rotations on a Saturday and 1 one a Sunday to Fair Isle & Foula
Environment	×	×	-	-	×
Safety	-	-	-	-	×
Economy	✓✓	✓✓✓	✓	✓	✓✓
Integration	✓✓✓	✓✓	✓✓	✓	✓✓
Accessibility & Social Inclusion	✓✓✓	✓✓	✓✓	✓	✓✓✓
Established Policy Directives	✓✓✓	✓✓✓	✓✓	✓✓	✓✓
Technical Feasibility	*There are no technical feasibility issues associated with this option*	*There are no technical feasibility issues associated with this option*	*There are no technical feasibility issues associated with this option*	*There are no technical feasibility issues associated with this option*	*There are no technical feasibility issues associated with this option*
Operational Feasibility	*Operating this timetable during the winter could be challenging and there may be a need to migrate to a four daily rotations schedule when daylight hours are fewer.*	*Operating this timetable during the winter could be challenging and there may be a need to migrate to a four daily rotations schedule when daylight hours are fewer.*	*There are no operational feasibility issues associated with this option.* *The available island airfield resource would need to be discussed with the community in*	*There are no operational feasibility issues associated with this option* *The available island airfield resource would need to be discussed with the community in*	*There are several operational feasibility issues with this option including the need for an additional pilot & ground crew, the potential opening of Tingwall Airport at weekends, impacts*

	Option 1: Five rotations per day from Tingwall or Sumburgh (alternating days of 3 & 2 rotations	Option 2: Five rotations per day from Tingwall or Sumburgh (clockface: 3 * Fair Isle, 2 * Foula)	Option 3: Four rotations per day from Tingwall or Sumburgh (alternating days of first & last rotation)	Option 4: Four rotations per day from Tingwall or Sumburgh (clockface: 2 * Fair Isle, 2 * Foula)	Option 5: Introduce 2 rotations on a Saturday and 1 one a Sunday to Fair Isle & Foula
	The available island airfield resource would need to be discussed with the community in advance of a final timetable being set.	*The available island airfield resource would need to be discussed with the community in advance of a final timetable being set.*	*advance of a final timetable being set.*	*advance of a final timetable being set.*	*on maintenance and resourcing island airstrips at weekends.*
Affordability	-	-	-	-	××
Public Acceptability	*This option is publicly acceptable and delivers a number of community aspirations identified through the consultation. However, it limits timetable flexibility and could put too great a strain on island resources.*	*This option is publicly acceptable and delivers a number of community aspirations identified through the consultation. However, it limits timetable flexibility and could put too great a strain on island resources.*	*This option is publicly acceptable and delivers a number of community aspirations, whilst offering some flexibility in the timetable. The exact number of rotations offered would depend on available island resources.*	*This option is publicly acceptable and delivers a number of community aspirations, whilst offering some flexibility in the timetable. The exact number of rotations offered would depend on available island resources.*	*This option, particularly the Saturday connection would be popular in Fair Isle. Foula would welcome weekend flights to recover from weekday cancellations but would not necessarily seek scheduled flights.*

3.7.11 As with the assessment against the TPOs, it should be noted that **Option 5**, the introduction of weekend services, is not strictly speaking a standalone option, rather one which would magnify the benefits of Options 1-4 by introducing weekend connections. The narrative below again reflects this.

3.7.12 It is important to note at the outset that none of the options are likely to have a significantly negative environmental impact. Any impacts will be concentrated in a very minor increase in global emissions from additional flights being operated. **Options 1 & 2** would have a very minor negative impact as they would increase the number of flights currently operated (it should be noted that whilst the timetabled number of rotations does not notably increase, the current Skerries slots in the timetable are not flown, whilst the Papa Stour service is rarely operated). The addition of weekend flights **(Option 5)** would also have a marginal negative impact as a result of increasing the number of rotations operated across the week.

3.7.13 The various weekday timetable permutations would be neutral from a safety perspective. The addition of weekend flights **(Option 5)** would increase the safety risk marginally by increasing pilot workload and reducing maintenance windows, but it can be assumed that such risks would be appropriately managed and mitigated.

3.7.14 All of the options would be positive from an Economy perspective, as they would enhance the connectivity of both islands, providing a daily return service Monday – Friday, thus facilitating personal and employer business, public sector service provision etc (the exact number of rotations would be dependent on the ability of each island to accommodate them and would be subject to agreement with the community). **Option 2** records the largest benefit in this respect as it maximises the number of connections to Fair Isle, which is the volume route and which also has a strong and growing tourism market. The addition of weekend flights **(Option 5)** would also provide a clear economic benefit, particularly from the perspective of tourism in Fair Isle.

3.7.15 All of the options would make a positive contribution to both Integration and Accessibility & Social Inclusion by enhancing the number of connections across the week and improving integration with onward transport. The overall benefit would be greatest with **Option 1**, as this offers an increase in weekly time on mainland / island for both Fair Isle and Foula. For this reason, **Option 3** also offers a larger benefit in the round than **Option 4**. **Option 5** (weekend flights) would obviously make a positive contribution to improving both Integration and Accessibility & Social Inclusion.

3.7.16 All of the options would make a positive contribution to established policy directives. This includes moving the service in both islands towards the RSM level and supporting the development plans of both islands as well as the community planning and economic development aspirations of SIC and Highlands & Islands Enterprise.

3.7.17 There are no technical feasibility issues associated with any of the options. However, the operational feasibility of all timetable options depends on appropriately qualified staff being available at the island airstrips to handle additional services. It could also be challenging to maintain a five rotations per day schedule **(Options 1 & 2)** in winter and thus there may be a need to move towards a daily four rotations schedule during this period. The primary technical feasibility issues are associated with weekend operation.

3.7.18 The weekday timetable permutations are likely to be broadly neutral from an affordability perspective. Whilst there would be some additional flights operated (i.e. in the current Skerries & Papa Stour slots) and more flights to Fair Isle (which has the longest flight time from Tingwall (although not Sumburgh)), the additional costs would not be substantial, as the service would be broadly returning to the pre-Skerries suspension level. Scaling up for weekend operation **(Option 5)** could however involve additional cost, as there would be a requirement for an additional pilot, ground staff (on the mainland and islands) and either operational hours similar to the current summer opening of Tingwall or the payment of additional dues at Sumburgh.

3.8 Rationale for Selection / Rejection

3.8.1 Having further developed and appraised the options, this section considers their selection / rejection. The purpose of an OBC is to move towards a preferred option. However, with regards to timetable development in the context of a contracted air service, a shortlist of potential options or broad service specification (e.g. number of connections per day or week) could be included within the tender document and bidders invited to come forward with innovative solutions through which to deliver it.

3.8.2 Once a preferred option is identified, engagement will be required with both the Fair Isle and Foula communities to establish whether they can accommodate the maximum number of rotations offered by each timetable or whether a scaled back version of the timetable should be offered.

Table 3.12: Rationale for Selection / Rejection

Options	Take Forward (✓) / Reject (✘)	Ration for Selection / Rejection
Option 1: Five rotations per day from Tingwall or Sumburgh (alternating days of 3 & 2 rotations	✓	This option offers an improvement to the connectivity of both Fair Isle and Foula in terms of the number of connections across the week and available time on mainland / island. Maintaining this timetable in the winter may be challenging. There may therefore be a benefit of using Option 3 in the winter months.
Option 2: Five rotations per day from Tingwall or Sumburgh (clockface: 3 * Fair Isle, 2 * Foula)	✘	Whilst this option increases the number of connections for both Fair Isle and Foula across the week, the overall reduction in time on mainland / island for Foula does not align with the study objectives. Whilst it could be argued that the step change in connectivity to Fair Isle (the volume route) offsets this disbenefit, the loss of a full day on mainland / island for Foula residents on any day of the week is a significant disbenefit.

Options	Take Forward (✓) / Reject (✗)	Ration for Selection / Rejection
Option 3: Four rotations per day from Tingwall or Sumburgh (alternating days of first & last rotation)	✓	This option offers an improvement to the connectivity of both Fair Isle and Foula in terms of the number of connections across the week and available time on mainland / island (although less than Option 1). It also provides additional flexibility within the timetable to operate demand or weather responsive services. This option would appear to provide both a desirable and deliverable winter timetable, even if Option 1 is pursued in the summer months.
Option 4: Four rotations per day from Tingwall or Sumburgh (clockface: 2 * Fair Isle, 2 * Foula)	✗	Whilst this option increases the number of connections for both Fair Isle and Foula across the week, the overall reduction in time on mainland / island for Foula does not align with the study objectives. Whilst it could be argued that the step change in connectivity to Fair Isle (the volume route) offsets this disbenefit, the loss of a full day on mainland / island for Foula residents on any day of the week is a significant disbenefit.
Option 5: Introduce 2 rotations on a Saturday and 1 one a Sunday to Fair Isle & Foula	✓	The introduction of weekend services to the islands would be beneficial, particularly for Fair Isle where there is a strong tourism industry. The decision as to whether to pursue this option does however depend on the ability of the islands to accommodate the service and to some extent the choice of mainland airfield, as this option would be less costly to deliver from Sumburgh. The cost of scaling up the air service itself is not known at this stage. Should SIC wish to explore this option further, it would be beneficial to include it as a 'priced option' in the next contract and assess the practicality and cost of solutions brought forward by bidders.

3.8.3 To summarise, the preferred option is:

- The introduction of **Option 1** for the summer or peak summer timetable, providing the island residents want this level of service and can provide the necessary airfield resourcing.
- The introduction of **Option 3** for the shoulder winter and winter period (or year-round if the islands cannot accommodate Option 1).
- Should island residents wish to receive, and are capable of accommodating, additional weekend flights, this should be included as a priced option through the tender specification for the next contract. A further costing exercise will be required from an SIC perspective depending on whether the service operates from Tingwall or Sumburgh.
- The timetables presented in this chapter set out the maximum service which can be delivered without a substantial ramp up in cost. Engagement with the Fair Isle and Foula communities would be required to determine whether they would want this level of service and whether it can be accommodated within available island resources. If not, a scaled back version of Option 1 and / or 3 could be delivered, potentially with *ad hoc* / banked flights being offered where a scheduled rotation is not flown.
- This solution provides a service which best matches the resources available to the needs of the islands.

4 Mainland Airfield

4.1 Overview

4.1.1 One of the drivers of this OBC is the need to further develop the evidence on the most appropriate Shetland mainland airfield for the inter-island air service, allowing the Council to come to a conclusion ahead of the next air services contract. Chapter 3 recommends that the current air services to Papa Stour and Skerries be discontinued, whilst no new service will be commenced to Unst. **The focus will be on operating an enhanced service to Fair Isle and Foula only**; the mainland airfield debate therefore needs to be considered in this context.

4.1.2 There has been a long-running debate as to whether the service should operate from the Council owned Tingwall Airport or the HIAL owned Sumburgh Airport, which is the main gateway to the Shetland Islands. An increasingly urgent need for capital investment at Tingwall to ensure regulatory compliance has brought this issue more sharply into focus. This chapter therefore considers the comparative merits of both airfields from:

- a purely financial perspective, considering an estimated 30-year Present Value of Costs (PVC) for operating from both airfields;
- a socio-economic perspective, particularly in terms of the impacts on the island served; and
- within the context of the SIITS TPOs and STAG Criteria.

4.1.3 The issue of the mainland airfield was considered in some detail in the SBC (Section 3.5 and Appendix A) – as previously noted, this analysis can be found at www.shetland.gov.uk/transport/siits.asp. The purpose of this chapter is to update and develop this analysis, particularly from a cost perspective, and ensure that the narrative reflects the current position.

4.2 Financial Comparison

4.2.1 An indicative financial comparison of Sumburgh and Tingwall was undertaken as part of the SBC. This section updates that comparison based on additional research and dialogue with SIC and HIAL in relation to the capital and revenue costs at each airport.

Capital Costs

4.2.2 Irrespective of which airfield is chosen to host the inter-island service, there will be up-front capital costs. An estimate of capital costs was made in the SBC and has been updated in this study through further dialogue with Shetland Islands Council (Tingwall) and HIAL (Sumburgh).

4.2.3 The key point of note is that all future capital costs at Tingwall will accrue to the Council, including any unexpected costs associated with equipment failure, the ‘emergency’ £100k investment in a new hangar door in 2018 for example.[18] With the exception of assets dedicated to the inter-island air service (the hangar for example), all costs at Sumburgh would accrue to HIAL, thus removing this risk to SIC permanently.

4.2.4 The appraisal is being undertaken over a 30-year period, and it is therefore assumed that only one round of capital expenditure is required within this period. The costs of maintaining the airfield at Tingwall are accounted for on an annual basis – this includes periodic but fairly substantial sums of money for e.g. runway maintenance over the 30-year period. However, it should be noted that, in the longer-term (i.e. post 30-years), a second wave of capital investment will be required at Tingwall which will not be required at Sumburgh, except for the

[18] http://www.shetnews.co.uk/newsbites/16254-tingwall-hangar-door-replaced

potential replacement of the hangar building. Whilst this cost may be significant, its present value in appraisal terms is likely to be relatively small given how far in the future it is – for example, the present value of costs (PVC) of a £1.5m investment at Tingwall in say 2059 would be around £400k. This is not, at this stage, considered to be deciding factor between the two options but should be borne in mind.

Tingwall

4.2.5 The table below sets out the capital expenditure required at Tingwall:

Table 4.1: Required Capital Expenditure at Tingwall

Cost Item	Cost	Comment
Runway upgrade	£922,000	Required in short-term.
New watch tower	£250,000	The SBC noted that this is required in the short-term but that there is a degree of debate as to whether a new watch tower is required. This issue remains unresolved.
Terminal improvements	£100,000	Upgrade of passenger and office facilities.
Runway lighting	£515,000	
Total	**£1,787,000**	**2018 prices**

4.2.6 Capital investment profiling work undertaken by SIC suggests that the expenditure is required in the immediate future. It can therefore be reasonably assumed that this cost will fall in year 1 of the appraisal (2019).

4.2.7 It should be noted that the SBC raised reservations over the £515,000 cost for the renewal of the runway lighting as there may be cheaper alternatives (e.g. light protectors) or battery operated LEDs. This may still be the case but the cost cited in the table above is considered by SIC to represent the most appropriate estimate based on currently available information.

The Future of Tingwall

4.2.8 If the inter-island air service was relocated to Sumburgh, Tingwall airfield would, from a local development planning perspective, be reclassified as vacant & derelict land. This represents both a cost and a potential opportunity.

4.2.9 From a pure accounting perspective, the airfield would have residual value which would show on the SIC balance sheet. At the same time however, there would be ongoing costs associated with the liability of maintaining the site. As part of this study, we engaged with the Council on the potential residual value, sale value and ongoing costs associated with Tingwall but specific numbers were not available at this stage given the degree of uncertainty.

4.2.10 Initial discussions with the Council did however suggest that there would be no interest in selling the airfield, rather there would be an aspiration to redevelop it as a commercial or mixed use site. There is therefore a potential longer-term financial benefit to SIC in terms of business and / or domestic rates and socio-economic benefit form a masterplan-led approach to the development of the airfield.

Redundancy Costs

4.2.11 There are currently three permanent SIC staff stationed at Tingwall who would be made redundant in the event that the airfield closed. For obvious reasons, redundancy figures were not requested as part of this study, but we have assumed for the purposes of this exercise that this would be around **£90,000** (or half the annual staff wage bill at Tingwall, averaged over three financial years (FY2014-15 to FY2016/17)).

4.2.12 The remaining staff who work less than their full hours at the airport would still need to be paid and would not therefore result in a saving to SIC overall.

Sumburgh

4.2.13 The table below sets out the capital expenditure required at Sumburgh:

Table 4.2: Required Capital Expenditure at Sumburgh

Cost Item	Cost	Comment
Hangar	£600,000	The estimated cost of a new hangar capable of withstanding the Shetland environment has been verified as a reasonable estimate by the SIC Civil Engineering Department.
Connecting utilities	£101,000	HIAL draft offer letter dated 14th March 2017. Excludes provision of phone line
Car parking & road access	£250,000	Estimate from SBC but will depend on the exact location of the hangar.
JAR145 standard interior	£90,000	JAR-145 is a regulation first published in 1991 which addresses the requirements to be met by a maintenance organisation that wishes to maintain aircraft, components or equipment used in commercial air transportation. Under the regulations, only organisations that are certificated under JAR-145 may carry out maintenance of such aircraft, components and equipment.[19] Cost estimate provided by Mott MacDonald Lerwick Office.
Fuel farm	£100,000	Estimate from SBC
Total	**£1,141,000**	**2018 prices**

Hangar

4.2.14 At the SBC stage, discussions around the proposed hangar for Sumburgh were largely based on examples from elsewhere, Kirkwall for example. However, as part of the OBC, SIC engaged with HIAL with regards to site availability. HIAL noted that, using Tingwall hangar as a template, they have identified several sites within the airport perimeter, which offer discrete access for passengers, avoiding the scheduled and rotary traffic. The assumed footprint of the hangar is 26m * 22m and the prospective sites are shown in the figure below (blue blocks), with the option recommended by HIAL circled:

[19] https://www.aviationpros.com/article/10389043/jar-145

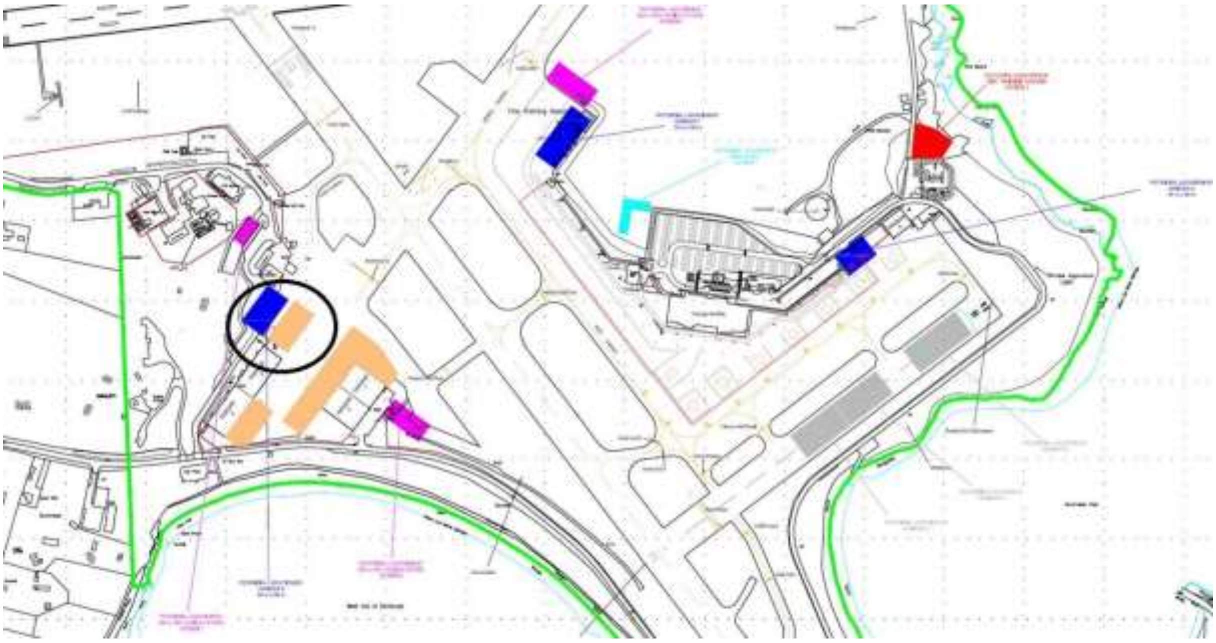

Figure 4.1: Proposed Sumburgh Hangar Site

4.2.15 The sites are offered on the basis that SIC accept its present state and have liability to form a finished surface, make all service connections and thereafter erect a hangar building. In terms of ground lease, the structure would require HIAL approval, but thereafter would be the responsibility of SIC to manage.

4.2.16 The proposed location would accommodate a modular building to provide passenger accommodation and offices as per the Tingwall footprint. HIAL is proposing to procure this building and lease it to the Council. They would maintain the modular building (wind and watertight) within the annual cost.[20]

4.2.17 Site services would be provided to the site boundary by HIAL, including power, water and waste water / sewage connections. All utilities would be metered and charged back to SIC at the appropriate rate.[21]

4.2.18 All services would be accessible from the terminal building and would be provided to the site boundary by HIAL.

Fuel Farm

4.2.19 With regards to AvGas it is likely that the increased usage of fuel would require an investment in a fuel farm (as opposed to bowser supply). Sumburgh currently supplies very small quantities of AvGas, which is delivered in 45 gallon drums with all the problems (manual handling, etc) that entails.

4.2.20 If the BN2 Islanders were to be fuelled at Sumburgh, a fuel farm similar to that built at Tingwall in 2008 would need to be installed. It is estimated that this would cost about £100,000.

Airstrip Licensing

4.2.21 As noted in the previous chapter, it is highly likely that, irrespective of which mainland airfield is selected, the island strips will require to be licensed. SIC is currently working up the detail of such licensing and the costs involved, but have included a working estimate of £250,000.

[20] HIAL did also offer SIC the opportunity to procure and own the passenger and engineering facility.

[21] Note – at the time the draft offer was made, a quotation for phone / internet connections was awaited from BT.

However, as this OBC is recommending the retrenchment of the air service to two routes, Foula would be the only remaining airstrip which is currently unlicensed. For the purposes of this appraisal a capital cost of **£85,000** has been assumed for licensing Foula. This cost will be accrued regardless of the mainland airstrip selected.

Summary & Key Uncertainties

4.2.22 The estimated capital costs of ensuring that either Tingwall or Sumburgh is capable of safely and efficiently accommodating the inter-island air service are estimated to be around **£1.8m** at Tingwall and **£1.1m** at Sumburgh.

4.2.23 It should however be noted that there remain a small number of uncertainties around the above costs, as follows:

- **Tingwall**
  - A number of questions have been raised as to whether a new control tower is actually required at Tingwall. This study is not in a position to resolve this question and further advice may be required from the CAA. If not required, this would reduce capital costs at Tingwall by around **£250k.**
  - The cost of upgrading the runway lighting (circa **£515k**) appears to be at the higher end of the range.
  - The residual value, sale value and ongoing liabilities associated with maintaining Tingwall are unknown at this stage.
- **Sumburgh**
  - The costs provided by HIAL in relation to Sumburgh represent an initial offer only and thus are subject to further commercial negotiation and refinement.
  - The cost of providing road access and car parking remains to be determined and will be dependent on the exact site to be developed.

Operating Costs

4.2.24 This section sets out the operating costs of operating from the respective airfields.

Tingwall

4.2.25 In developing the operating cost profile for Tingwall, SIC provided operating cost data for three financial years – FY2014/15 to FY2016/17. There is a degree of year-on-year variation in the operating costs of the airfield due to e.g. variances in income (revenue) and externally purchased services. The data presented in this chapter work on the average of the above financial years.

4.2.26 The table below sets out the main components of cost at Tingwall and a typical 'single-year cost':

Table 4.3: Main Components of Operating Cost, Tingwall

Operating Cost Component	Cost	Comment
Employee costs	£181,477	These costs relate solely to staff employed directly at Tingwall Airport. They do not account for Council recharges.
Operating costs	£59,484	General operating costs associated with the airfield.
Property costs	£55,396	All costs associated with maintaining and funding the buildings at the airport.
Hired & contracted services	£27,440	This incorporates all bought in services including internal

Operating Cost Component	Cost	Comment
only		SIC recharges for operational matters.
Transport hired & contracted services only	£48,494	This includes internal SIC charges for providing fire cover.
Support	£51,947	These costs cover back-office support service 'purchased' from elsewhere in SIC.
Tingwall dial-a-ride	£8,000	
LESS Income	*£61,523*	Income from landing charges from the inter-island air service and other users of Tingwall.
Total	**£370,715**	

4.2.27 It should also be noted that Airtask also make some money selling fuel to third party visitors and in a Tingwall closure option they would lose this income, and this may be reflected in their or another operator's future subsidy requests.

Sumburgh

4.2.28 As previously noted, HIAL provided an initial proposal and schedule of costs for operating the inter-island air service from Sumburgh. These costs are summarised in the table below and are based on the current timetable and passenger numbers – this would be subject to change when Fair Isle & Foula only service is introduced but any such change would be very minor in scale:

Table 4.4: Main Components of Operating Cost, Sumburgh

Operating Cost Component	Cost	Comment
Landing charges	£31,952	Figure is based on a landing fee of £35.70 and 895 rotations at Sumburgh per annum. A 66% discount of these dues in Year 1 and 33% discount in Year 2 has been offered by HIAL.
Passenger charges	£33,169	Based on standard HIAL charges of £17.90 per landed passenger.
Aircraft apron parking	£650	Estimate from SBC based on £2.83 per tonne for 24 hours
Hangar ground rent	£14,300	HIAL draft offer letter
Hangar operational costs	£114,880	Assumed to be combination of 'Operating' & 'Property' costs at Tingwall from Table 4.3 above.
Passenger handling costs	£4,633	Based on charge of £2.50 per departing passengers.
Land transport costs	£80,000	SIC estimate based on internal bus contracts
Rotation turn charge	£67,125	This figure is based in Eastern or Loganair doing the ground handling.
Waiting room & engineering facility	£20,000	Assume two modular units charged at £10,000 per annum as per the HIAL draft offer.
Additional fuel cost	£35,000	This is an estimate based on the loss of the current discount received by Airtask on AvGas at Tingwall and the requirement for a part FTE tanker driver to fuel the aircraft.
Total	**£401,709**	

4.2.29 As can be seen from the above table, the 'single year cost' of operating from Tingwall and Sumburgh is broadly similar. The key question then is how the combined capital and operating costs of each airfield compare when considered as a 30-year PVC.

4.2.30 It should be noted that there remain a number of uncertainties around the above costs, as follows:

- **Tingwall**
  - The costs at Tingwall are fairly well defined. However, it should be noted that there can be significant variances in individual year-on-year costs. Whilst the three year average used in Table 4.3 addresses this to some degree, the issue of cost uncertainty at Tingwall remains (at least when compared to Sumburgh when the annual cost would be much more predictable).
- **Sumburgh**
  - It is uncertain at this stage whether the rotation turn charge and additional fuel cost would be eliminated if Airtask managed their own ground operations as they currently do at Tingwall.
  - The additional cost of fuel at Sumburgh is a broad estimate based on professional judgement. A more robust figure would be beneficial here.

Financial Comparison - Present Value of Costs (PVC)

4.2.31 The previous two sections have considered the capital and operating costs which would accrue from operating from Tingwall and Sumburgh respectively. This section presents these costs as a 30-year cost stream, with all costs discounted at the levels recommended in the H.M. Treasury *Green Book*.

4.2.32 The following points should be noted with respect to this comparison:

- All costs are presented in nominal 2018 prices, discounted over a 30-year appraisal period.
- For the comparative purposes of this report, it is assumed that all costs remain at their 2018 level – i.e. zero real terms growth in all costs is assumed. There are two key issues with this:
  - At Sumburgh, there is no-long-term certainty over how rates may change – this would be a commercial decision and SIC would need to pay the rates set by the airport operator. This is not an issue at Tingwall.
  - Conversely, at Tingwall, the risk in relation to both operating costs and any unexpected major engineering / maintenance work is retained by the Council.
- It should be noted that SIC maintains a 30-year rolling maintenance spreadsheet for Tingwall. The scale of required maintenance varies by year, with forecast spend in some years sub-£5,000 and in others it is far more substantial. This lifecycle maintenance programme is included within the costs presented below.

4.2.33 The table below presents 30-year costs for the two airfields in 2018 prices and as a 30-year PVC:

Table 4.5: Comparative Costs of Tingwall & Sumburgh

	Tingwall	Sumburgh
Capital Costs	£1,787,000	£1,141,000
Operating Costs	£11,121,472	£12,019,590
Tingwall Lifecycle Costs	£1,284,270	N/A
Sub-Total	***£14,192,742***	***£13,160,590***
Licensing of Foula	£85,000	£85,000
SIC Redundancy Costs	£0	£90,739
Grand Total	***£14,277,742***	***£13,336,329***
30-year PVC	***£7,184,444***	***£6,553,885***

4.2.34 The above table highlights that the financial case for both airfields is very finely balanced. Relocating the service to Sumburgh would offer relatively small cost savings, particularly when considered as a PVC over a 30-year period. Whilst there remain uncertainties over some costs at this stage, it is unlikely that the financial comparison will in itself provide a definitive basis for selecting a preferred mainland airfield for the inter-island service.

4.2.35 Given the above, the next section considers the socio-economic arguments for Tingwall and Sumburgh.

Key Point: Based on the analysis undertaken to date, the respective financial cases for Tingwall and Sumburgh are finely balanced, particularly when considered as a 30-year PVC.

4.3 Socio-Economic Considerations

4.3.1 The rationale for funding an inter-island air service is to support the economic sustainability and support the social requirements of the islands it serves. It is therefore essential to view the above financial comparison within the wider socio-economic context. This section considers the case for both airports from the perspective of island residents, Shetland Islands Council (and the public sector more widely) and the operator. The analysis builds on a combination of desk-based research and public consultation undertaken as part of the SBC and this study.

4.3.2 It should be noted that this issue was considered in some detail in the SBC but is revisited and updated to take account of developments since the SBC was published.

Island Residents

4.3.3 Island residents were engaged on this matter in a 2012 review of the mainland airfield and then again in the SBC (via a public exhibition led by PBA) and also this OBC (via stakeholder consultation led by SIC). The overwhelming view of residents of both islands has been for the retention of Tingwall as the mainland base for the inter-island services. The key reasons for this are explored below.

Time in Lerwick

4.3.4 The primary issue for residents of both Fair Isle and Foula is that of land side connectivity between Sumburgh and Lerwick, the primary destination of the vast majority of trips made. The addition of approximately one hour travel time to get to and from Sumburgh would reduce the effectiveness of a day visit quite significantly.

4.3.5 This point is particularly relevant when considered in the context of the preferred option of moving to alternate long and short-days (Options 1 & 3). If the service operated from Sumburgh, the 'short' days would allow for very little meaningful time spent in Lerwick (around 1.5 hours).

4.3.6 In addition, in the event of the weather moving in, island residents can get back to Tingwall more quickly than they could get to Sumburgh, which increases the responsiveness to weather windows and therefore the overall reliability of the services.

4.3.7 Furthermore, relocating to Sumburgh would constrain the ability of services and contractors to access the islands resulting in increased costs to communities or even a reduction in services and trades being provided to the islands concerned – this is a critically important issue for island residents who depend on a range of inbound services (both Council and commercial). Many of the services accessing the islands are Council provided and therefore efficiency of provision would decrease and cost would increase.

Key Point: Successive consultation exercises (undertaken in 2012, 2016 and 2018) have clearly highlighted the preference of Fair Isle and Foula residents for the air service to operate to Tingwall. The travel time to and from Sumburgh significantly eats into available time in Lerwick, effectively the measure of how valuable any return connection is. Indeed, under the preferred timetable option recommended in this study, moving the air service to Sumburgh would only allow around 1-1.5 hours in Lerwick, which in all likelihood would dis-incentivise island residents to make a day trip on those days.

It is also considered that a move to Sumburgh would constrain the ability of service providers and contractors to access the islands resulting in increased costs to communities or even a reduction in services and trades being provided to the islands concerned.

School Children

4.3.8 At present, school children from Fair Isle and Foula return to the islands using the air service on a Friday approximately once every three weeks. It is understood that the children fly back to Shetland on the first Monday morning departure from each island. Any relocation of the service to Sumburgh would therefore lead to a further truncation of the school day on a Friday (particularly for Fair Isle) and a Monday (particularly for Foula).

Key Point: Relocating the inter-island air service to Sumburgh would truncate the Monday and Friday school day on weekends where Fair Isle and Foula resident pupils return home.

Supply-Chain

4.3.9 Another point to consider is the relationship between the air service and the ferry service to Foula. It is common that when air services or ferry services are disrupted then suppliers will put freight and supplies to either the ferry or the plane depending on requirements. Many of the suppliers (e.g. shops and veterinary practices) are based in Lerwick and the west of Shetland and therefore are unlikely to be able to provide the same flexibility at Sumburgh as they can provide to Tingwall / Walls. The Fair Isle community also noted that many suppliers would not deliver to Sumburgh, or would only do so at a higher cost.

4.3.10 It should also be noted that the current structure of the schedule makes it difficult, if not often impossible, for the islands to receive same-day Royal Mail and newspaper deliveries. These organisations could potentially adapt their sorting practices in Aberdeen to better connect with onward flights from Sumburgh. However, this benefit might only be deliverable if services to the island destinations were daily and reliable, as it would be difficult for organisations such as the Royal Mail, John Menzies and the *Press & Journal* (who sometimes act independently of Menzies combined newspaper delivery) to change their procedures dependent upon the day of the week. Whilst the preferred timetable options presented in the previous chapter increase the number of connections to Fair Isle and Foula, weather related disruptions will remain significant, regardless of mainland airport.

Key Point: Relocating the inter-island air service would be detrimental to the supply-chain of Foula, as suppliers to the island tend to be located in Lerwick or West Mainland and can flexibly work between air and ferry connections to the island. This flexibility would be lost at Sumburgh.

Theoretically, there is potential to improve the supply-chain efficiency of Fair Isle and Foula by moving to Sumburgh, as air-freighted goods could be trans-shipped from flights arriving from the Scottish mainland (although note that most goods arrive in Shetland by sea). However, the weather-related reliability issues affecting the service suggest that any such benefits will be highly marginal if realised at all.

Onward Air Transport Connectivity

4.3.11 There are no onward air connections from Tingwall as all external scheduled flights operate from Sumburgh. The split airport arrangements presently preclude processes being put in place to facilitate connections from Fair Isle or Foula to external air services, e.g. for NHS patients travelling to Aberdeen.

4.3.12 The lack of connections could therefore be constraining the economic development of these islands when compared with the Orkney Islands, which have an integrated network through use of a single hub airport. This has an impact for both incoming tourism and for quality of island life for residents by limiting their access to Scottish mainland amenities and services. It is possible that the difficulties in achieving connecting flights may also detract from the tourism potential for incoming visitors to points such as Fair Isle – in the absence of easy connections, customers may choose to go elsewhere to points which are more easily and readily accessible.

4.3.13 No figures for connecting traffic from the Scottish mainland with Fair Isle and Foula are available because the change in air transport suppliers and the itinerary interchanges make it very difficult to track. However, it was notable that no stakeholders in the previous consultations raised this as a concern. With weather related delays running at up to one third of scheduled flights to Fair Isle and Foula, few onward connecting passengers would rely on their inter-island flight to catch an expensive onward connection to the mainland and potentially further afield.

4.3.14 Furthermore, consultations at Kirkwall where the Orkney inter-island flights and onward travel flights are co-located and the numbers using the inter-island service are much greater, the numbers catching immediate onward flights were estimated by booking staff to be only half a dozen each week.

4.3.15 Initially at least, it can be assumed that the interlining benefits of co-located air services would be modest.

Key Point: One of the key benefits of Sumburgh on paper is that it would allow for those travelling to / from Fair Isle or Foula to connect with onward flights to the Scottish mainland (and Norway in summer). In reality however, the weather related reliability of the service means that few if any people will rely on their inter-island flight to connect with a more expensive connection to the mainland. Indeed, in Orkney, where services are co-located and the inter-island service has much better weather-related reliability, only a handful of people each week make a connecting flight (despite much higher inter-island air service passenger numbers).

Parking Charges

4.3.16 Since the completion of the SBC, a commitment has been made to introduce a £3 daily parking charge at Sumburgh (parking is currently free). Whilst this has given rise to significant negative press locally, it is important to note that inter-island flight users (in reality only those using the Saturday Fair Isle flight) will be entitled to an exemption for one car per household.

4.3.17 The continuation of this exemption would have to be confirmed by SIC in any contract to use the airport. It is possible / probable that, as happens at Kirkwall, island residents would leave a 'mainland car' at Sumburgh, effectively blocking up a parking space for a long period. Indeed, this may be one way in which island residents would work around the longer transfer time to Lerwick. A daily £3 charge for a car parked long-term would be unacceptable to island residents.

Key Point: Since the completion of the SBC, a commitment has been made to introduce a £3 daily parking charge at Sumburgh - inter-island flight users will be entitled to an exemption for one car per household. The continuation of this exemption would have to be confirmed by SIC in any contract to use the airport. It is possible / probable that, as happens at Kirkwall, island residents would leave a 'mainland car' at Sumburgh, effectively blocking up a parking space for a long period. Indeed, this may be one way in which island residents would work around the longer transfer time to Lerwick. A daily £3 charge for a car parked long-term would be unacceptable to island residents.

Priority at Sumburgh

4.3.18 Several key stakeholder respondents in the various consultations raised concerns about losing the current service responsiveness, as the BN2 Islander and its passengers would have to join queues of other traffic and priorities at Sumburgh both on the airfield and in the terminal, for instance when fog cleared.

4.3.19 However, as part of the consultation undertaken for this study, HIAL noted that the airport has significant capacity to accommodate the inter-island air services within the existing operation and even if increased demand was to develop, the infrastructure at Sumburgh (various aprons, runways and landing strips) means that there would be no risk to inter-island air services. It was further explained that there is no prioritisation of flights needed and it is not envisaged that this would be necessary in future. HIAL explained that the inter-island air services would not usually be constrained in either take-off or landing requirements.

Shetland Islands Council / Public Sector

4.3.20 This section considers the choice of mainland airfield from the perspective of SIC and the public sector more generally.

Strategic Control

4.3.21 The loss of strategic control by SIC was cited in 2012 as a real concern as although HIAL is government owned, it has a wide range of customers to satisfy and its agenda and priorities could stray from SIC's more particular agenda and priorities (given the need to trade-off the needs of different users and the very specific flexibility requirements of the inter-island service).

4.3.22 Direct control over the operation and destiny of the inter-island air service is valued highly by SIC and there was concern that the service falling under the pricing, operational and strategic control of HIAL might degrade the service's flexibility and responsiveness. In discussions with HIAL on the matter, it was suggested that perhaps a suitable Memorandum of Understanding, Service Level Agreement and / or communication and monitoring regime could be put in place to protect SIC's obligations and interests in this regard.

Key Point: SIC would lose pricing, operational and strategic control of the airfield aspects of the inter-island service if it was relocated to Sumburgh. This risk could be mitigated to some extent through the signing of a Memorandum of Understanding to protect SIC's interests.

Implications for Council Staff

4.3.23 The roles of the three SIC staff currently employed at Tingwall would be redundant. For staff where part of their time is allocated to duties at Tingwall, other tasks / roles would need to be identified for them within SIC.

Emergency Services

4.3.24 Tingwall is currently used by the Scottish Ambulance Service and Coastguard for **non-life threatening** emergencies, principally because it is located close to the hospital in Lerwick (Sumburgh is also used, but much less frequently). The current procedure is that the helicopter will remain with a casualty until an ambulance arrives to transfer them – Tingwall is considered to be ideal in this respect as it is close at hand for the ambulance service and allows the helicopter to be released for other duties.

4.3.25 If Tingwall was to close, these flights would be diverted to Sumburgh. It was explained by the SIC Emergency Planning Team that this would have a negative impact, leading to slower turnaround times for the helicopter (as wait times for the ambulance would increase), increased risk to life from delayed call-outs, higher costs for the ambulance service and tie up of vehicles / staff due to the longer journey time to Sumburgh compared to Tingwall.

4.3.26 It is important to note here that full planning permission has been given for the development of the helipad facilities at Clickimin, which is immediately adjacent to the hospital. Emergency patients (i.e. for those whose condition is **life threatening**) transported by helicopter are landed here rather than at Tingwall (although note that fixed wing aircraft cannot land at Clickimin). These cases would therefore be unaffected by any move.

Key Point: The closure of Tingwall would have a negative effect on non-life threatening emergency service provision. Flying these casualties to Sumburgh rather than Tingwall would have a negative impact, leading to slower turnaround times for the helicopter, increased risk to life from delayed call-outs, higher costs for the ambulance service and tie up of vehicles / staff due to the longer journey time to Sumburgh. It should however be noted that patients with a life threatening condition transported by helicopter are landed at Clickimin, and thus there is no negative / risk attached to Sumburgh for this category of patient.

Other Users of Tingwall

4.3.27 There are other users of Tingwall Airport who would also be inconvenienced by its closure. These include:

- Scottish Ambulance Service – contractor Gamma Aviation using King Air BE200 and Eurocopter EC145s (see above);
- HMCG – contractor Bristows using S92s (see above);
- General Lighthouse Authority (formerly NLHB) – contractor PDG using Eurocopter EC135s;
- Hydro – contractor PDG using various aircraft such as Squirrel and EC135s; and
- Private – various General Aviation visitors.

4.3.28 This additional traffic in 2016/17 represented about 26% of all landings at Tingwall across the year, with air ambulance visiting on average seven times each month.

Table 4.6: Landings at Tingwall

Landings at Tingwall	2015/16	2016/17
Inter-Island Air Service	751	694
Air Ambulance	56	86
Other Landings	98	163
Total	**905**	**943**

Key Point: Whilst 75% of all landings at Tingwall in 2016/17 were inter-island flights, there was still a further 249 landings by other aircraft (86 of which were Air Ambulance as previously discussed) at Tingwall. These aircraft would need to land at an alternative airfield and the income they generate would be lost to SIC.

Weekend Operations

4.3.29 From a cost to government perspective, Sumburgh would likely be the preferable airfield if additional and year-round weekend flights were to come into the timetable. As the airport is open at the weekend, the only additional costs from operating rotations would be the various charges for doing so, on a *pro rata* basis. This is likely to be much less expensive than opening Tingwall seven days a week specifically for that purpose.

Key Point: Should the next contract include provision for weekend services, these could be delivered at a lower cost to the Council if operated from a Sumburgh base.

Operator

4.3.30 The final part of this section considers the implications for the operator of relocating the service to Sumburgh.

Staff

4.3.31 Airtask explained during our consultation with them that they employ two office staff to handle the call centre with help from the engineer and pilots. It should be noted that all of these staff reside close to Tingwall and thus are distant from Sumburgh, and any move would cause disruption to them (and indeed additional cost). Indeed, some staff may choose not to make the move with the longer commute costs and times.

Key Point: The majority of staff operating the inter-island service live close to Tingwall and thus moving to Sumburgh would increase their journey times to and from work. The operator noted the risk that some staff may choose not to move and seek alternative employment instead.

Diversion Airfields

4.3.32 The loss of Tingwall would reduce the options for BN2 Islander pilots in the face of bad weather. The only other licensed airstrips on Shetland are Sumburgh, Scatsta or Fair Isle. Scatsta is some 55 miles from Sumburgh. Usually when Sumburgh is closed, Fair Isle is also closed, especially with fog. Apart from that, diversions would be looking at Kirkwall (although North Ronaldsay would also be an option in an emergency).

4.3.33 This loss of one airfield option in the Shetland system could in certain circumstances add an extra level of caution to flight planning and might result in additional cancellations. Procedures would be adjusted to take this reduction in airfields into account.

Key Point: The closure of Tingwall would reduce diversion options during bad weather or in the event of an emergency. In the context of the former, this may add an extra level of caution to flight planning and could result in additional cancellations.

4.4 Appraisal against the TPOs & STAG Criteria

4.4.1 As noted in the introductory chapter, the decision in relation to which airfield will host the inter-island service in future will be in part based on appraisal against the TPOs and STAG criteria. The tables below summarise the performance of both Tingwall and Sumburgh in terms of this appraisal framework. It should be noted that, in keeping with the guidance, the options are appraised against the current situation (i.e. operation from Tingwall) rather than relative to each other).

Appraisal against Objectives

4.4.2 The table below provides an assessment of both airfields in terms of how they perform in relation to the TPOs.

Table 4.7: Mainland Airfield – Appraisal against Objectives

	Tingwall	Sumburgh	Comment
TPO1: The capacity of the services should not act as a constraint to regular and essential personal, vehicular and freight travel between the island(s) and Shetland mainland.	-	-	Neither airfield has a demonstrated capacity issue. However, Sumburgh has higher traffic volumes and a degree of flight clustering which could reduce the timetable flexibility and thus the number of flights offered. Such impacts are unlikely to be significant.
TPO2b: Where an island does not have a 'commutable' combined ferry or air & drive / public transport / walk time to a main employment centre (e.g. 80 minutes), the connections provided should reliably permit a half day (e.g. 4 hours) in Lerwick, 7 days a week, all year round.	-	××	The journey time to Lerwick from Sumburgh by car (+23 minutes) and bus (+42 minutes) is significantly more than that from Tingwall. Relocating the mainland airfield to Sumburgh would reduce the effective time in Lerwick, particularly in the context of the preferred timetable options emerging from this OBC.
TPO3: The scheduled time between connections should be minimised to increase flexibility for passengers and freight by maximising the number of island connections across the operating day.	-	-	The choice of airport is unlikely to be any impact on frequency.
TPO4: The level of connectivity provided should minimise the variation within and between weekdays, evenings, Saturdays and Sundays.	-	✓	Sumburgh is open 7-days a week and thus seven day operations would be easier and lower cost to deliver than at Tingwall.
TPO5: Where practicable and realistic, islanders should be provided with links to strategic onward connections without the need for an overnight stay on Shetland mainland.	-	✓	Sumburgh offers the opportunity for directly connecting with flights onto / off of Shetland. However, the weather-related reliability of the air service means that the number of travellers who would choose a same day connecting flight is likely to be very small. The evidence suggests that in Kirkwall, where there is a much higher degree of weather related reliability and the ability to inter-line, very few passengers actually do this.

Appraisal against STAG Criteria

4.4.3 The table below provides an assessment of both airfields in terms of how they perform in relation to the STAG criteria.

Table 4.8: Air Capital Options – Appraisal against STAG Criteria

	Tingwall	Sumburgh	Comment
Environment	-	✓	Given the preferred option of only flying to Fair Isle and Foula, and the balance of those services operating to Fair Isle, global emissions would be lower operating from Sumburgh. Any such impact is however likely to be small in absolute terms.
Safety	-	✓	Whilst operations into Tingwall are fully compliant with safety legislation, Sumburgh offers longer asphalt runways, CAT5 fire cover and runway lighting. It should however be noted that the closure of Tingwall would reduce the available diversion airfields within Shetland. It is also worth noting that SIC Emergency Planning indicated that the closure of Tingwall would be negative in terms of coordinating emergency response.
Economy	-	×××	From a Transport Economic Efficiency perspective, there would be journey time disbenefits and higher vehicle operating costs associated with the longer road journey to Lerwick. More importantly however, any transfer to Sumburgh would decrease the amount of 'effective time' in Lerwick, which is the key requirement of the Outer Isles (see TPO 2b above).
Integration	-	××	Current public transport integration at Sumburgh would offer a poorer level of service than that at Tingwall. Moving to Sumburgh would also impact negatively on the Foula supply-chain. There would be a marginal benefit in terms of improving onward air connectivity but this is likely to be limited in scale in practise (see TPO5 above).
Accessibility & Social Inclusion	-	××	As noted above, accessibility to Lerwick, the key requirement of the Outer Isles, would diminish significantly with a move to Sumburgh.
Established Policy Directives	-	×	The negative impact on effective time in Lerwick from moving to Sumburgh would run counter to a wide range of policies, including the National and Local Transport Strategies and the Shetland Partnership Community Plan amongst others.
Technical Feasibility	-	-	Whilst investment is required at both airfields to accommodate the inter-island service, there are no technical impediments to this being delivered.
Operational Feasibility	-	-	There are no operational feasibility issues at either airfield.
Affordability	×	×	Both airports require capital investment to meet the needs of the service. The analysis to date suggests that the financial case is finely balanced with Sumburgh being marginally less costly.
Public Acceptability	-	×××	The 2012 research by SIC and the SBC and OBC consultations suggest that relocating the mainland airfield to Sumburgh would be deeply unpopular with the island communities

4.5 Conclusion

4.5.1 The review of whether Tingwall or Sumburgh should be the mainland airfield for the inter-island service presented in this chapter has demonstrated that the choice is complex and finely balanced.

4.5.2 From a purely financial perspective, moving the air service to Sumburgh is marginally although not decisively less expensive on the basis of the information received to date when considered over a 30-year period. In addition to the cost savings which could be made, the use of Sumburgh reduces the requirement for SIC to plan for longer term future airfield related capital outlay (except perhaps for a new hangar at Sumburgh Airport) and other unexpected costs. The cost of scaling up to offer a year-round weekend service to Fair Isle and Foula would also be less than at Tingwall. On the other hand, however, SIC would lose strategic control of the service and would be liable to pay the rates set by HIAL.

4.5.3 Whilst the financial benefits of moving to Sumburgh are apparent but marginal (and perhaps more significant in the longer term), the socio-economic case overwhelmingly favours Tingwall. This is particularly the case for residents of Fair Isle and Foula, which are strongly opposed to relocating the service to Sumburgh, but also for SIC, the public sector more generally and operator.

5 Conclusion & Next Steps

5.1 Conclusions

5.1.1 This OBC has confirmed and developed the analysis and narrative in the SIITS SBC, providing a level of option development and appraisal appropriate for the development of a preferred option.

Assets & Infrastructure

5.1.2 Through desk-based research and consultation with the operator, it was confirmed that:

- It appears highly likely that any airfield into which the inter-island service operates in the future will have to be licensed in the short to medium term. This has cost and human resource implications, which fed through into the consideration of islands to be served.
- The current aircraft type remains the most appropriate for operating the service in the medium-term.
- Investment in navigational aids including GNSS and runway lighting are unlikely to offer any more than a marginal improvement in service reliability and thus should not be considered further at this stage.

Islands Served

5.1.3 It is the conclusion of this OBC that, from the commencement of the next contract, the inter-island air service should operate to Fair Isle and Foula only. With regards to the other islands in the service:

- The preferred option for **Papa Stour** is the permanent withdrawal of the air service with the addition of a double-return ferry service on either a Monday or a Tuesday as a compensating measure. Further enhancements to the ferry service will be considered as part of the ongoing Revenue OBC, due to report in 2019.
- The preferred option for **Skerries** is the permanent withdrawal of the air service. There are no practical short-term measures for improving the frequency of the current ferry service. However, the ongoing Revenue OBC, due to report in 2019, will consider options for expanding the operating envelope of the service, whilst there is a longer-term consideration as to the practicality of overnighting a Skerries vessel in, and crewing it from the island.
- The aspirations for a space port and associated industrial development in **Unst** preclude the development of an air service here.

Service Specification

5.1.4 To summarise, the preferred service specification for Fair Isle and Foula is:

- The introduction of five rotations per day from Tingwall or Sumburgh, with alternating days of 3 rotations & 2 rotations for each island **(Option 1)**. This would provide for 15 rotations per week to Fair Isle and 12 to Foula. It is recommended that this timetable is operated for the summer or peak summer timetable, providing the island residents want this level of service and can provide the necessary airfield resourcing.
- The introduction of four rotations per day from Tingwall or Sumburgh, with alternating days of each island having the first and last rotation **(Option 3)**. This would provide 12 rotations per week for Fair Isle and 10 rotations per week for Foula, as well as providing some slack in the timetable for operating *ad hoc* services. It is recommended that this timetable is operated for the shoulder winter and winter period (or year round if the

islands cannot accommodate Option 1), providing the island residents want this level of service and can provide the necessary airfield resourcing.

- Should island residents wish to receive, and are capable of accommodating, additional weekend flights, this should be included as a priced option through the tender specification for the next contract. A further costing exercise will be required from an SIC perspective depending on whether the service operates from Tingwall or Sumburgh

Mainland Airfield

5.1.5 The review of whether Tingwall or Sumburgh should be the mainland airfield for the inter-island service has demonstrated that the choice is complex and finely balanced.

5.1.6 From a purely financial perspective, moving the air service to Sumburgh is marginally although not decisively less expensive. In addition to the cost savings which could be made, the use of Sumburgh reduces the requirement for SIC to plan for future airfield related capital outlay (except perhaps for a new hangar) and other unexpected costs. The cost of scaling up to offer a year-round weekend service to Fair Isle and Foula would also be less than at Tingwall. On the other hand, however, SIC would lose strategic control of the service and would be liable to pay the rates set by HIAL.

5.1.7 Whilst the financial benefits of moving to Sumburgh are apparent but marginal, the socio-economic case overwhelmingly favours Tingwall, particularly given the preferred service specification options. This is particularly the case for residents of Fair Isle and Foula, which are strongly opposed to relocating the service to Sumburgh, but also for SIC, the public sector more generally and the operator.

5.2 Next Steps

5.2.1 From a methodological perspective, this report forms the **Socio-Economic Case** for the future development of the Shetland inter-island air services. Whilst elements of the Commercial, Financial and Management Cases are included within it, these remain to be more fully developed by SIC.

5.2.2 The next steps in the process are as follows:

- The preferred timetable option(s) should be presented to the Fair Isle and Foula communities for consultation and agreement. It should then subsequently be presented to Members for agreement and sign-off.
- The proposed future service specification could be operated from either airfield, and thus tendering of the service should not be held back awaiting a decision on the future mainland airfield. Movement away from Tingwall could, however, make retention of existing staff challenging. The addition of weekend flights should be included as a priced option if desired by one or both communities.
- In parallel to tendering the next contract, Members should be presented with a recommendation and a request for a decision on the future mainland airfield (potentially after more detailed negotiations with HIAL if these are considered to be necessary).
- The Commercial, Financial and Management Cases of the OBC should then be completed and the Final Business Case (FBC) progressed.
- Should Members find in favour of relocating the inter-island air service to Sumburgh, a detailed period of planning would be required and thus the move would likely take place in the contract following the next one.

Appendix A Community Feedback

The notes presented below were prepared by SIC and agreed with the respective communities. They are reproduced without amendment.

Fair Isle

General Comments

- The issue of how advice is given to day trippers was raised. The community understands that the operator is obliged to give advice to travellers when conditions are marginal but feels that in the recent past the advice has perhaps been overly pessimistic and therefore has discouraged travel. This is particularly inconvenient when the day trippers are service providers.
- There was a question on the value of day trippers to the island.
- A point was made that not all day trippers were the same and many are important to the island.
- A question was raised on the matter of unmet demand, i.e. how many people wishing to make a journey are unable to do so.
- There are examples of important services such as healthcare being put off travelling.

Mainland Airfield

- It was explained that any decision between Sumburgh and Tingwall in terms of the mainland base for operations would take account of the community's views.
- It was stated that in terms of costs of each option, at this stage Sumburgh is marginally cheaper but some more information is required.
- It was stated that the winter time constraints are such that the extra travel time and reduced flexibility would severely constrain time available in Lerwick for islanders.
- It would also severely constrain the time available on island for day trippers. It is very important that the Council understands that day trippers include service providers and their capacity to have enough time on the island to provide services is very important.
- The community feels that some officers and decision makers simply don't understand the potential impacts of increased overland journey time combined with the fact that many services are disrupted due to weather. In winter this could lead to severe limitations.
- Tingwall is close to Lerwick and with good communication with Airtask staff it means that when disruption occurs travellers can be flexible in their journeys from Lerwick to Tingwall. This can compensate for delays.
- The travel time to Sumburgh means that travellers would not be able to have this flexibility and it is felt that there would be a lot of lost time available.
- Children travelling to and from school would miss the start of school on a Monday and the end of school on a Friday every three weeks. This is considered to be an unacceptable impact on the quality of education.
- If travellers cannot make an effective day trip either in or out of Fair Isle then the costs of staying overnight can be expensive, especially for islanders having to stay in Lerwick. The allowance for NHS appointments does not cover this.
- At this time several businesses will not/ cannot deliver to Sumburgh or will only do at significant cost.
- A point was made that some medical samples need to be delivered to mainland Shetland quickly and Sumburgh would compromise this.

- Public transport connections with Sumburgh are not sufficient to accommodate inter island travel.
- In times of weather disruption of the ferry there are fresh food flights from Tingwall. It is felt that this would be constrained from Sumburgh due to the limitations in suppliers travelling to Sumburgh compared to Tingwall.
- Almost all businesses that may provide supplies are based in Lerwick and/ or near Tingwall e.g. vets, pharmacies, fresh food suppliers.
- There is concern that operating out of Sumburgh would lead to constraints in terms of conflict with other airport users.
- There is concern that processing through the terminal building at Sumburgh would take longer.

Service Specification

- Would it be possible to have an 0800 flight out of Fair Isle? An earlier start would mean more effective use of time on mainland Shetland.
- Improvements to disabled access is felt to be important but the limitations of the current aircraft are understood.
- Any service improvements need to integrate with the ferry timetable recognising that ferry crew are also RFFS staff and also other island residents need to attend the arrival/ departure of the vessel.
- Additional flights on a Wednesday and Friday would be welcome. This would improve the capacity. The detail would need to be worked through with the community but on a Friday a flight around same time as the current flight from Orkney would mean efficient use of RFFS staff.
- Attention needs to be given to any limitations on licensing conditions, e.g. is there a point where the number of movements could lead to a need to increase the category of the airport with consequent increase in resources required from within the island.
- If there are no aircraft movements the RFFS staff do not get paid anything. However, RFFS staff still make themselves available because most of the time notice of no flights is short.
- Query on the volume of freight reported. Is 45 tonnes accurate?
- Query on whether passengers could use any empty seats on school charter.
- Saturday flights from Tingwall in the winter would be a useful service improvement to support more travel choices, especially friends and family at the weekend.
- Query raised about limitations at Tingwall. Could the performance be improved if it was Instrument Flying Rules rather that Visual Flying Rules?
- Tingwall airport snow clearing/ ice clearing needs to be given a higher priority. It has caused significant disruption every winter.
- Could spare seats on any particular day be advertised through SMS facility?

Fares / Booking

- The community feels that fare levels for island residents are adequate for the island's needs.
- Fare levels for tourists/ service providers are felt to be at the right level.
- However, there is a need for a "Friends and Family" fare recognising that the cost to extended family visiting the island is very high and this can lead to isolation between family members.

Foula

Mainland Airfield

- A move to Sumburgh as the base for inter-island air services is felt to be a threat to the island's wellbeing.
- Operating out of Sumburgh does not enable a long enough day on mainland Shetland or on the island for tourists and service providers.
- In winter the time available in Lerwick would be entirely inadequate.
- There are frequent disruptions, particularly in winter, and combined with increased travel times, this means that there would be many occasions when no time would be available in Lerwick.
- Onward travel from Sumburgh to mainland Scotland is very infrequent to direct connection with Sumburgh is of no value.
- In winter road journey times from Lerwick would be extended also.
- It is felt that there would be unacceptable compromises to life on island if services are prevented from getting to and from with relative efficiency and reliability.
- Educational trips for school children are an important part of school life and operating out of Sumburgh would compromise this.
- It is felt that any cost savings to SIC in moving to Sumburgh would be more than offset by costs to Foula economy and community.
- There would be impacts on hostel pupils through reduced time at school.
- Islanders would face higher travel costs on mainland Shetland if they had to get a taxi when public transport could not tie in with appointments in Lerwick. This would inevitably happen even with a dedicated service.
- There would be increased costs in providing services to Foula because service providers would be spending more time travelling and less time carrying out their work.
- Flights on a Saturday would mean that service providers concerned about being stuck in Foula from Friday to Monday might be less likely to cancel trips in marginal conditions.
- In times of marginal weather it is possible at the moment to be in Lerwick and communicate with Tingwall and quickly get to Tingwall to take advantage of a weather window. This could not happen at Sumburgh because the travel times would be too great. This would mean having to sit a Sumburgh rather than carry on with business in Lerwick.
- It is felt that day trips in winter would be severely limited.
- There were questions about that the operational model would be at Sumburgh. The views so far are based on an equally autonomous operational model at Sumburgh. If there were even minor additional constraints compared to the current model then the impacts on time available on/ off island would be so constrained as to be entirely unworkable.
- There is concern that on top of additional travel time there would be additional processing/ operational time required which would further cut available time in Lerwick to unworkable levels.
- Would there be impacts on the air ambulance service to/ from Shetland?
- NHS Shetland should be consulted on air ambulance functionality.
- Is there an impact on the inter-island air service if operating out of Sumburgh in terms of availability of a diversionary airport? For example, when RFFS personnel were at Sumburgh a couple of weeks ago they had to leave by 1500 because Sumburgh closed at 1600 and the plane had to be back at Tingwall by then. Would Sumburgh be reliant on Tingwall as a diversionary airport for inter-island air services?

- Query raised on whether we are getting good quality expert advice on cost and operational issues.
- There is concern that the costs of supplies to the islands will increase if suppliers have to spend more time delivering to Sumburgh due to longer travelling distances.
- Would there be an increase in the costs of providing services to the islands due to reduced effective time on the islands? What might this cost be?
- Sumburgh is simply too far from Lerwick to provide an adequate transport link because Lerwick, and to a large degree Scalloway, are the destinations.

Service Specification

- The population in Foula is growing and this means there is increasing need for connections to mainland and for services to access the island.
- There needs to be better back up in times of disruption.
- It is important that if flights are cancelled on a Friday, they should be provided on a Saturday/ Sunday weather permitting.
- This means weekend flights when necessary and should not be the exception.
- Reinstatement of a day return on a Monday would enable better access to the mainland for islanders and better access to the island for service providers. This would go some way towards addressing the concern some day trippers have about getting stuck in Foula at the weekend when they perhaps cancel a trip due to that concern.
- A single rotation on a Thursday would enable better connections and would provide 6-day connectivity in the summer and 5-dy connectivity in the winter.
- The main aim should be to have a flexible service that can reasonably accommodate the effects of weather disruption and other factors that impact on travel decisions.
- It is felt that the principle of “banked flights” would be a means of providing flexibility. Banked flights is a system of building a “bank” of flights that arises out of carrying forward any flights that have not been flown due to weather and/or no bookings. The Community can then call off these flights at times, in addition to scheduled flights, when they benefit the community.
- Any additional Saturday/ Sunday flights should be about recovery from disruption through the week rather than additional scheduled services.
- Example was given where if there are cancellations on a Friday which means that Foula pupils don’t get home then by the next scheduled trip it will have been six weeks between trips home. In this scenario there should be a flight made on a Saturday as a matter of course, particularly during the ferry winter timetable when there is no Saturday ferry.
- It was suggested that a cross runway in Foula could improve the performance of the service through providing another direction for landing/ take off dependent on wind conditions.
- Does the current runway meet licensing requirements?
- Are there any environmental constraints?
- Runway could be built using local personnel, plant and equipment.
- The performance of Tingwall airport in winter is problem. There are times when the airport cannot open due to snow and/or ice. The community believes there are operational and technical solutions if the Council is prepared to prioritise clearing of Tingwall runway and the cost of appropriate de-icing technology.
  - For example, a tractor with fertiliser spreader filled with sand available when necessary could deal with some of the problem.

- A query was raised why the use of salt at Tingwall is not permitted yet the aircraft operate in a salty environment any way.
- A voicebank with flight information in times of weather disruption. The phone is very difficult to get through on in times of disruption.
- Better collection of data to capture information for future planning including: -
  - Unmet demand
  - Reason for cancelled flights
  - No shows
  - Reasons for Tingwall closed
- Better receiving facilities at harbour and airstrip would welcome tourists better.

Island Resources

- The need for resources for the ferry service and the RFFS is acknowledged. However, this need will always be there and is manageable for the foreseeable future.
- There are a good number of volunteers on the island to undergo RFFS training. The issue is having everyone available at the same time if training is lumped into infrequent events. It would be better if training could be organised in such a way that there is higher number of opportunities in the year. This would reduce the bottlenecks in the system where everyone's renewal training occurs at the same time and we see events like those in recent years where there is suddenly a lack of certificated personnel due everyone's certification coming to an end at the same time.
- Perhaps training of Tingwall RFFS staff could accommodate training of Foula (and Fair Isle?) RFFS personnel to create more training opportunities in the year?
- Care should be taken to coordinate training with Foula RFFS personnel rather than just impose a date. There are important community events that are known about in advance that should be built into planning training.
- It should be recognised that comparing the air and ferry timetables as a means of identifying resource requirements is not very accurate because both the air and ferry services are so affected by weather that it is often the case that neither depart in line with the schedule, they depart when the weather permits.
- Furthermore, if there is a rare lack of RFFS personnel then the ferry departure is adjusted to allow ferry crew to be available for RFFS cover.
- It should be noted that members of the community provide their time for free to ensure continuation of the air service. This is not acceptable.
- Improve appearance of toilets/ waiting room at airstrip.

Fares / Booking

- The community feels that for islanders the fare levels are fine for adults but too high for island children. Consideration should be given to lowering this fare.
- However, a friends and family fare would be of great benefit to the community to improve social connections with family and friends outside Foula.
- It is very important that there is reliability in being able to book a seat because the need to travel is often about attending appointments or events that short notice or unpredictable.
- Can a booking system deal with the issue of “no shows”. It is felt that often bookings are made and travellers don't turn up for the flight. This means that someone else could not travel or had to make alternative arrangements. A system of paying at booking could perhaps address this.

- Any online booking system would be unreliable for islanders where internet is unreliable and slow.
- It is generally felt that the current booking system works well for the community and for visitors also.
- Could there be fares that encourage people to stay in the island overnight?

General Comments

- Population is growing and with it the need for social housing. One or two more families moving into Foula would create a strong community and social housing is needed to facilitate this.
- Community Empowerment Act provides ways for communities.
- There is still a need for a “No Berthing” sign and markings on the pier at Walls that ensures the berth needed for the New Advance to load/ unload freight is clear when needed.
- The issue of cranage at Walls was raised. The mobile cranage is limited in what can be lifted and isn’t always available when the ferry is in Walls. A pedestal is installed on the pier to accommodate a fixed crane and the community feels this is the best way to address the freight needs of the community.
- A new set of PPE is required for Jim Gear.

Papa Stour

Service Specification

- If a bigger vessel was on in the summer then this would greatly improve the service through greater passenger and vehicle capacity and would enable the community to hold events aimed at attracting visitors to the island.
- It used to be the case that Thora was deployed on Papa Stour all summer.
- If a seven day per week service was introduced this would open up the island once more for people to come and live on the island. May also improve interest from tourists.
- If commuting was to be possible then the ferry would need to leave early enough and return late enough to enable this.
- The reintroduction of the Monday service as a day return would greatly enhance the capacity to conduct business from the island and would enable a weekly commute. A single run on a Monday would not be adequate.
- Wednesday service demand is higher than can be coped with by the schedule due to the limited number of sailings in the week.
- Access to the slaughter house on a Friday is important. Currently livestock has to go a day earlier than necessary due to lack of service on a Thursday.
- The community recognises that the air service meets a small number of individual needs and if the ferry service was improved then there may be little or no need for an air service. However, the air service does provide a means of getting off the island and to a mainland UK destination quickly and it provides a connection on a Tuesday where there currently isn’t one.
- If a ferry service was early enough on a Monday it would enable people to stay in the island till Monday morning and still be able to access employment, etc. on mainland Shetland. This may offset the need for an air service.

Mainland Airfield

- The extra travel distance and the time required would mean much less time available in Lerwick to do business and attend appointments.
- A day return would become marginal and perhaps unachievable in winter.
- The level of disruption to services means that the extra travel time would lead to and even greater impact on time available.
- All people who wish to go to Papa Stour are based in Lerwick in terms of service providers and tourists tend to be in and around Lerwick.
- Tingwall enables quick decisions on flying opportunities and people can be contacted and at Tingwall quickly. This would not be possible at Sumburgh.
- Connections with suppliers are for more efficient through Tingwall.

General

- The lack of adequate broadband means that any opportunities that rely on good internet access are constrained or even unworkable.

Skerries

- Tingwall/ Sumburgh – there would need to be a better bus connection between Sumburgh and Lerwick.
- Getting to Lerwick quickly so that there is enough time to conduct affairs is felt to be an important requirement.
- Tingwall is felt to better serve the needs of the air ambulance service to mainland Scotland – NHS should be consulted on this.
- Community queried whether it is more onerous to reinstate the air service in Skerries since it has been come time since it was suspended.
- Response give that if RFFS was provided then services could be reinstated quickly.
- But, there is uncertainty at the moment on what the requirements of licensing will be if adopted.
- Those at the meeting felt that although the air service has been of value to the community, if the ferry service was adequate then there would be a diminished or even no need for the service. The ferry service is felt to be the crucial component of connectivity between Skerries and Mainland Shetland.
- If there is bad weather on a Wednesday and it continues for a few days then the community can be cut off for some time.
- The community feels that a flexible service to the island would better meet needs.
- If the ferry can't go one day due to the weather is should go at the next available opportunity.
- Data probably doesn't describe the reality of the challenges for the community.
- For example, if the forecast is poor then people either won't book the ferry or they will cancel their booking. This will show up as no demand.
- People may be discouraged from visiting Skerries if a sailing is cancelled and they know the next scheduled sailing is a couple of days away. E.g. if the ferry went at the next available weather opportunity then people may be prepared to still make the journey, albeit a day later, than not make the journey at all.
- The communities view is that it needs 14 return sailings per week configured such that their needs are met. This would need development and agreement with the community but as an example:
    - 3 return journeys on a Monday

- 1 return journey on a Tuesday
- 1 return journey to Lerwick on a Wednesday
- 2 return journeys on a Thursday
- 3 return journeys on a Friday
- 2 return journeys on a Saturday
- 2 return journeys on a Sunday

- The important point is that the configuration should involve the community.
- The journey from Whalsay to Vidlin on a positioning run could be used as a scheduled run for Whalsay residents to contribute to more capacity.
- Bookings only service means that there is no opportunity for discretionary "show and go" traffic which in the summer could be a good feature for the island.
- There was a query on what happens to the "hours" for ferry crew when the ferry doesn't go?
- Question on why the ferry is later on a Saturday compared to through the week.
- The Community feels that more could have been done, and more could be done, to work together to develop the optimum timetable within the current crew hours constraints.
- There is a very strong view that more services are required to provide the community with the level of connectivity necessary to attract people to live in the island and for any business potential to develop.
- The community feels that the ideas for the timetable offered by the community in late 2012/ early 2013 could have been better addressed and accommodated.
- It is felt that the constraints on available crew hours (54?) is too much of a constraint.
- The Whalsay – Lerwick connection is important because:
  - Suppliers are reluctant to or will not deliver to Vidlin – example given that Shetland Dairy will not deliver to Vidlin.
  - Those without a car need the connection to Lerwick for services and to go about their business.
- If the Hendra was used on the Skerries route at the weekend (it is tied up anyway) then that would improve the capacity of the service – this isn't needed every weekend but if it was known that it would be available then it would stimulate ideas to arrange activities on the island. If the wider public was aware of it then more discretionary travel may take place.
- The 1000 ferry that used to be on place on a Saturday from Vidlin to Skerries before the cuts on 2013 was a useful connection that encouraged visitors to Skerries. The current 0830 now goes from Symbister which means that travellers have to get the 0710 from Laxo which is far too early for travellers.
- The community does not understand the reason given that using the Hendra is difficult because equipment has to be transferred between Filla and Hendra.
- Buses do not connect very well with the ferry to/ from Skerries.
- Example give is the 1730 ferry from Vidlin leaves before the bus for Lerwick arrives.
- This means that people who wish to go to Skerries are prevented from doing so if reliant on public transport.
- The community believes that weekly commuting (i.e. departing Monday morning, returning Friday evening) would be a step on the right direction for the island.
- The community believes that basing the ferry in Skerries and running the service to meet local needs (like Fair Isle and Foula) would improve the island's opportunities.

- It is recognised that crewing the vessel may be a challenge initially but the first step is to establish if it can be done and then how it can be done.
- The community queries the reasoning that the Filla can't use the South Entrance due to draft restrictions. There is a belief that the draft restriction is over stated and this needs to be clarified.
- If the ferry was based in Skerries then could operate a shift system, say two weeks on two weeks off, and live in rented accommodation on the island.
- Could accommodation be created on the Filla where the emergency evacuation used to be?
- It was recognised that ferry crew would not necessarily to be able to provide RFFS cover due to conflicting times of services.
- Any ferry solution must have adequate freight and passenger capacity – 30 passengers is felt to be a minimum with current frequency and sometimes that isn't enough.
- It was noted that Snolda was certificated to carry 30 passengers in the past.
- It was felt that any vessel needs to be able to carry and articulated vehicle.
- A question was raised on whether a container based solution could work.
- A question was raised on whether there are different categories of dangerous goods that have different impacts on the number of vehicles and passengers that can be carried.
- It was stated that if weather disruptions occur at the end of the week or at the weekend then people can be off the island for two weeks or more which has an impact on decisions to stay in the island.
- It was stated that the new landlord of (some of) the island may have intentions to develop business and tourism projects in the island there is no detail at this stage.
- The community feels that harbour charges are high and discourage visiting yachts.
- The lack of shore power is felt to discourage visiting vessels.
- The feeling is that visiting yachts don't get the services that reflect what they pay.
- A "harbour pass" for access to all harbours in Shetland may be a means of encouraging use.
- It was suggested that the Skerries Development Group may get some helpful insights if engaging with Fair Isle Development Group.
- John Smith agreed to approach Economic Development Officer with regard to potential funding to support island development.
- The community feels that even if there isn't an air service then the airstrip there should be a "care and maintenance" approach to the airstrip to ensure future options can be considered.
- A query was raised on ownership of the airstrip and fire appliance building and any liabilities of ownership.
- This needs to be understood to evaluate options around the future of the airstrip and any matters relating to community empowerment.