

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

Present:

M Bell	A Cooper
S Coutts	A Duncan
A Hawick	C Hughson
S Leask	E Macdonald
R McGregor	I Scott
C Smith	G Smith
T Smith	R Thomson
B Wishart	

Apologies:

M Burgess	P Campbell
A Manson	A Priest
D Sandison	

In Attendance (Officers):

C Ferguson, Director of Corporate Services
N Grant, Director of Development Services
M Craigie, Executive Manager – Transport Planning
A Inkster, Executive Manager – Marine Infrastructure and Airports
J Manson, Executive Manager – Finance
P Peterson, Executive Manager - Executive
J Riise, Executive Manager – Governance and Law
V Simpson, Executive Manager – Community Planning and Development
R Barton, Transport Policy and Projects Officer
J Belford, Legal Assistant
K Collins, Financial Accountant
E Cripps, Internal Auditor
F Farquhar, Resources Manager
B Kerr, Communications Officer
R McNeillie, Internal Auditor
M Strachan, Senior Assistant Accountant
J Thomason, Management Accountant
L Geddes, Committee Officer

Also:

D Black, Audit Glasgow
C Watt, Deloitte LLP
S Canning, Peter Brett Associates
M Ross, Mott MacDonald

Chairperson

Mr Bell, Convener of the Council, presided.

Circular:

The circular calling the meeting was held as read.

Declarations of Interest

None

41/19 Zetland Educational Trust: Annual Report and Financial Statements for the year to 31 March 2019

The Council considered a report by the Executive Manager – Finance (F-040-19-F) presenting the annual report and unaudited financial statements of Zetland Educational Trust (ZET).

The Executive Manager – Finance summarised the main terms of the report, outlining the objectives and activities of the ZET and advising that the audited accounts would be presented to the Council in September. Over the year, 12 bursaries and nine grants had been awarded. As at 31 March 2019, the ZET held cash of £19,037 and investments totalling £657,161.

Responding to questions, he advised that it would be a matter for the Trustees – the elected members of the Council – to decide if changes were required to the objectives and activities of the ZET, but this was something that would also require the approval of the Scottish Charity Regulator. He went on to confirm that in the past the fund had been under-subscribed, but this past year it had been over-subscribed. A decision had therefore been taken to grant pro-rata funding, meaning that all applicants would receive funding, but not the full amount that they applied for. The situation would be reviewed again at the end of the year, when ZET had more certainty about the expected income from ZET's investments.

Some discussion took place regarding the aims and objectives of the ZET, and it was suggested that everything possible should be done to assist low-income families in accessing things like swimming lessons, school excursions and trips.

It was commented that discussion should take place regarding raising awareness of the ZET fund, and suggested that this was something that the Corporate Management Team could discuss with the Director of Children's Services.

Decision:

The Council NOTED the Zetland Educational Trust annual report and financial statements for the year to 31 March 2019, and the information at Section 4 of the report highlighting the key points from the report and financial statements

42/19 Shetland Islands Council Unaudited Accounts 2018/19

The Council considered a report by the Executive Manager – Finance (F-041-19-F) presenting the Unaudited Accounts for Shetland Islands Council.

The Executive Manager – Finance summarised the main terms of the report, advising that the audited accounts would be presented to the Council on 25 September. Two significant governance issues in respect of business continuity and fraud controls had been highlighted in the Internal Audit Report as specific areas of concern, and plans were in place to address these issues. Two new accounting standards had been adopted by the Council meaning that unrealised gains from investments would be moved from unusable to useable reserves, and that revenue from contracts with customers would now be presented in a more transparent way. He also advised that the Council acquired a 100% shareholding in

Shetland Leasing and Property Developments Limited during the year. The transfer of the company's assets and liabilities to the Council had not happened within the last financial year, but as the sole shareholder, this entity had been consolidated into the group accounts which appear towards the end of the Annual Report. Next year there would be just one set of accounts for the Council, as the transfer of assets and liabilities has since taken place.

Responding to questions, he advised that less had been drawn from reserves over 2018/19, and this was deemed to be a sustainable draw on reserves, but the audit report highlighted that this was not a financially sustainable position in the longer-term. In 2019/20, the Council was planning to draw more than was sustainable from reserves to fund service delivery. It was assumed that the return rate on investments would be 7.3%, but this was not guaranteed, and returns would not be generated and would decrease if more than this was drawn. 2018 had been a volatile year for the stock market and although it had recovered, there was uncertainty ahead that could again create volatility. A return of 7.3% equated to around £14million per annum, and the point the auditor was making was that the Council planned to draw more than this because it had otherwise been unable to balance its budget.

He went on to confirm that the benchmarking figures relating to the cost per school pupil was based on an aggregate figure for all Shetland schools, and Children's Services would be able to provide a further breakdown of costs for each school.

It was commented that the grant income the Council received relating to very specific areas tended to remove local democracy by reducing the ability to meet the needs of the community in the way in which the Council wanted.

It was also requested that documents such as the annual accounts should be written in 'plain English' wherever possible.

In moving that the recommendations in the report be approved, Mr Coutts referred to the political priority areas that the Council had set out in its corporate plan, and highlighted the progress that had been made in achieving these for the community.

Ms Wishart seconded.

Decision:

The Council NOTED:

- the 2018/19 Unaudited Accounts for Shetland Islands Council
- the key issues arising from the Unaudited Accounts, as summarised in Section 4.0 of the report
- the Council's compliance with two new accounting standards

43/19

Interim Audit Report on the 2018/19 Audit – Shetland Islands Council

The Council considered a report by the Executive Manager – Finance (F-042-F) presenting the interim findings of the 2018/19 audit as contained in the external auditor's Interim Report.

The Executive Manager – Finance summarised the main terms of the report, advising that the auditors were also required to report on wider aspects such as financial sustainability, financial management, governance and transparency, and value for money.

He then introduced Ms Watt, representing Deloitte LLP, who advised that the report was intended to give Members early sight of the financial statements and the wider scope of the audit, and an update would be provided in September. The four dimensions to the audit were aligned with the topics in the Audit Scotland Best Value Assurance Report which would be getting reviewed in 2021, and the recommendations would help the Council prepare for this work.

Ms Watt then responded to questions, and Members noted the following:

- Members' attendance at meetings was highlighted to recognise individual responsibility and commitment. The Council was encouraged to review this to ensure that it was split over various meetings and to consider if its structure was still appropriate. Attendance at seminars was not formal, but Members should have enough time to attend to take account of the bigger picture and make sure that they had the time and knowledge to do the scrutiny required.
- When the scope of the audit was set out, risk areas from previous years were identified using Audit Scotland's guidance on risk. It was then identified who there was a need to speak to - usually senior management or elected members. Papers and documentation for meetings were reviewed to back this up, and to ensure that there was evidence to support the recommendations in the Interim Audit report. The accuracy of the report had been agreed with management.
- The Interim Audit report was intended to give Members early insight into some of the recommendations and to consider some of the recommended actions. The finalised report would be sent to the Controller of Audit.
- The geographic nature of Shetland was taken into account, and it was something that the Best Value Assurance report would include.
- Homelessness was an area that had been flagged up by the housing regulator, so concerns about this information could be referred back to them. However there could be more of an explanation behind the information in relation to housing, and a reflection of the work that the Council had carried out to prevent homelessness.
- The findings in respect of Integration Joint Boards were significant for all Councils across Scotland, not just Shetland.

It was suggested that more information should be included in the report regarding how benchmarking data was arrived at, and whether geographic considerations were taken into account. This was particularly relevant in relation to homelessness, where there should be recognition of the work that the Council had carried out to prevent homelessness and to increase the availability of more housing types, especially for single people.

It was commented that it was important to see the report in context, and not to allow a fear culture to gain ground amongst staff. There was uncertainty as to whether

Audit Scotland did see things in context and recognise the geographic issues and the greater costs involved in providing services locally, and whether account was taken of the fact that the small numbers of people involved could mean there were dramatic effects when percentages were being reported on. It was felt that there was a need for the report to be able to stand up to scrutiny, and for evidence to be demonstrated and qualified to take account of these factors, and also a need to start from recognising the high quality of services delivered locally.

However it was also commented that there were some good points in the report which could be used when continuing the pursuit of funding from the Scottish Government, and acknowledged that it was important to have constructive criticism and to build up a relationship in moving forward with Deloitte LLP to help the Council achieve in continuing to deliver on community outcomes and services according to the political mandate.

It was suggested that when seeking full and fair funding for ferries, it may be useful to change the rhetoric and refer instead to 'full funding'.

In moving that the recommendations in the report be approved, Mr Coutts commented on the role of local government in continuing to meet political priorities and striving to achieve the best services and outcomes. He went on to say the Council should not apologise for being optimistic that the Scottish Government would deliver full and fair ferries funding. It had made clear its commitment but failed to deliver, so must be held to account. Most other local authorities did not have this expenditure and the significant sum of money it cost the Council each year was not sustainable, so the Council must continue to fight for a fair settlement. He also referred to the benchmark data illustrating that high-quality services were continuing to be delivered, and he gave credit to staff in continuing to do so given the cuts in local authority funding.

Mr Duncan seconded.

Decision:

The Council:

- NOTED the interim findings of the 2018/19 audit, as contained in the external auditor's Interim Report at Appendix 1
- APPROVED the agreed Action Plan as outlined in the Interim Report

44/19

Ferries Outline Business Cases and Fair Funding – Emerging Findings and Priorities

The Council considered a report by the Executive Manager – Transport Planning (DV-16-19-F) setting out the emerging findings of the socio-economic Outline Business Cases (OBCs) detailing the preferred capital options for Fair Isle and Whalsay; the potential service enhancements (PSEs) throughout the ferry network and recommended priorities; and summarising the principles of Fair Funding for Ferries that the Council continued to pursue with the Scottish Government.

The Executive Manager – Transport Planning summarised the main terms of the report, and introduced Mr Canning, Peter Brett Associates, and Mr Ross, Mott MacDonald, who would be giving a presentation to Members in respect of the Fair

Isle Capital Socio Economic Outline Business Case (OBC), and the Whalsay Capital Socio Economic OBC.

Mr Canning commenced the presentation by advising of the background to preparing the required business case in respect of Fair Isle, and he went on to outline the case for change and the strategic approach that had been taken in determining the preferred option. He advised that feedback had been sought from the community as to whether the preferred option developed was acceptable and addressed the current ferry-related transport problems the community faced.

Mr Ross then took Members through the details of the preferred option, outlining the infrastructure requirements and costings, and the design of the proposed vessel.

Mr Canning then went on to speak about the Whalsay ferry infrastructure, and the case for change. He advised that during the latest consultation phase, an option that had previously been rejected in respect of a new terminal at Bonydale was now being reconsidered, and work had been commissioned to evaluate this option further.

Mr Ross then outlined the potential design of vessels that would be suitable, and the shortlist and costs for the preferred options. The work in relation to Bonydale should be completed in July, then detailed costs could be worked up in respect of this option.

Mr Canning concluded by giving an overview of the case for change in respect of the remainder of the ferry network in Shetland, and he outlined the priorities, costings, and preferred options. He advised that for short/high volume routes it had been established that the current service levels were generally consistent with Transport Scotland's Routes and Services Methodology (RSM) on weekdays - although they could be considered to fall short at weekends – and that there was no overprovision of services. This was also reflected in the views that had been collected during the consultation period, and therefore the focus was on maintaining and developing the benefits generated through earlier investment. For the outer isles routes, it had been established that service levels fell significantly below the RSM model, and the focus was therefore on incrementally increasing services where it was practical, beneficial and cost effective to do so.

Mr Canning and Mr Ross then responded to questions, and Members noted the following:

- During the consultation that had taken place on the Fair Isle requirements, the community had expressed that their preference was to use Grutness rather than Lerwick due to the distance involved and the fact that the weather window was sometimes very short. However this did not discount using Lerwick on occasion.
- Discussions had taken place with the Fair Isle vessel master regarding the swell issues at the Grutness Pier due to the Sumburgh Airport runway extension, and there was no doubt that there needed to be increased shelter at the berth to mitigate these issues. A modern vessel on the Fair Isle route should be more manoeuvrable, and it was proposed to extend the breakwater to create a more sheltered berth. It was intended to do wave modelling at the detailed design stage, and this would be computer generated and take into account historical observations and seasonal issues.

- The Fair Isle OBC still had to be written up to include feedback that had been gathered in recent weeks, but the standard conclusions were accepted.
- In respect of the Whalsay route, it was very likely that new vessels would have to be procured due to the age of the current vessels. New vessels would have to accommodate any new infrastructure that was agreed, and should have a 60-year design life.
- It was the case that large fishing vessels – around 75 metres – could currently tie up at Symbister Harbour, however they did not have to be tied up regularly seven days per week. They only tied up occasionally and could choose conditions that were favourable to them.
- No specific consideration had been given to widening the single-track road at Vidlin to accommodate increased traffic that may arise if a larger vessel was used, but the costs of doing so could be added into the Whalsay study. The costs in respect of the Bonydale option did take into account a new two-lane road to join up to Laxo.

During the discussion that followed, it was commented that while there were some issues with the approach and the berth at Grutness, it was imperative that the Fair Isle vessel remained in Fair Isle overnight, due to the short weather window. This was the community preference, and it was as important for the Council to honour its transport responsibilities to its island inhabitants as it was for the Scottish Government to honour its transport commitments to the people of Shetland.

Concern was expressed that approval of the recommendations in the report would mean that the community aspiration for fixed links would no longer be considered in respect of Whalsay. Disappointment was expressed that fixed links appeared to have been dismissed early on in favour of pursuing the ferry option, and many people would not be happy with this approach.

In moving that the recommendations in the report be approved, Mr Thomson referred to the priorities in the Council's Corporate Plan to provide quality transport services, and the importance of the evidence gathered that could go forward to the Scottish Government to subsidise these. He also pointed out that approval of the recommendations did not mean that fixed links had been dismissed, and work would continue in conjunction with this particular piece of work. There was a need to keep raising fixed links with the Scottish Government.

Mr McGregor seconded.

Decision:

The Council NOTED:

- 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 the report
- The additional work being undertaken on the Whalsay Capital OBC, as described in sections 4.4 to 4.9 of the report

- The emerging preferred service enhancements for inter-island ferry services arising out of the socio-economic component of the revenue OBC, as detailed in Appendix 2 to the report
- That the emerging findings and issues referred in 1.1.1 to 1.1.3 of the report 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

The Council AGREED the prioritisation of the Council's funding requirements of Scottish Government as described in sections 4.36 and 4.37 of the report, namely:

- 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
- Securing 'Fair Funding' from Scottish Government that covers the full deficit the Council faces in operating the current levels of service
- 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 the report as its third priority

(Mr C Smith left the meeting)

45/19

Inter-Island Air Services Outline Business Case – Emerging Principles and Next Steps

The Council considered a report by the Executive Manager – Transport Planning (DV-18-19-F) summarising the conclusions of the Socio Economic component of the Air Services OBC, and seeking approval of the recommendation that Tingwall 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.

The Director of Executive Manager – Transport Planning summarised the main terms of the report, advising that the OBC had been concluded. Following engagement with the communities, the preferred option for Papa Stour and Skerries was that air services be withdrawn, and the service would cease on 31 March 2020. It was proposed that the space this would create would be used to enhance the service to Fair Isle and Foula within existing resources, and this would be the subject of the Full Business Case (FBC) to be presented in August or September. In respect of a base for the inter-island air services, the work carried out to date illustrated that there would be a marginal saving to the Council in operating from Sumburgh. However the evidence also illustrated that Tingwall was the most effective in terms of connectivity, and it was recommended that Tingwall be retained as the base. He then handed over to Mr Canning and Mr Ross, who gave a PowerPoint presentation to the Council.

Mr Canning gave an overview of the network level that had been considered in the Strategic Business Case, and the consideration that had taken place when looking at how many islands should be served by air and where the mainland base should be located. The conclusion arrived at had been that whilst Sumburgh was marginally cheaper when comparing costs over 30 years, there would be a loss of

strategic control over the service and the Council would be bound by the rates set by the operators. There was a strong socio-economic case for the retention of Tingwall – particularly in respect of the Foula and Fair Isle residents and the emergency services.

The Executive Manager – Transport Planning and Mr Canning then responded to questions, and Members noted the following:

- The next inter-island air services contract would commence on 1 April 2020, but it would not be possible to move the base from Tingwall to any other location in time for the start of the contract. There had been no opportunity to start working with the contract earlier due to the way Council business had worked out.
- The business case would take account of all options to be considered in relation to the capital investment requirements at Tingwall Airport, so there would be an opportunity to reduce costs.
- The Foula air service was a necessity due to the length and nature of the ferry crossing. However the licensing requirements of the airstrip would have to be worked on if it was to remain functional, and this was a key risk for the island. The Council had provided support for residents to be trained, and it had been possible to meet the requirements in respect of the Fair Isle airstrip, though Fair Isle had more resources to enable the community to provide what was required.
- Every household had contributed during engagement with the Fair Isle community. The overwhelming feedback received was that Tingwall Airport was preferred for a number of reasons – the main one being that it enabled more time availability in Lerwick to carry out personal business.
- There had been engagement with Highland and Islands Airports Limited (HIAL) in working up costs in relation to Sumburgh Airport. While the Council could have a Memorandum of Understanding with HIAL, it would have no long-term control over costs. Discussions had also taken place in respect of hangar rental and, at that point in time, none were available to include in the costings. HIAL owned some of the hangars, and others were owned by private companies. There had been extensive exploration of the detailed costs that had been worked up in relation to all options in the report.
- The Council would be responsible for costs for any unexpected capital event in relation to Tingwall Airport. The land would have residual sale value as a vacant site, but it had currently not been possible to get a figure for this. The commitment to carry out capital works at Tingwall Airport to meet licensing requirements was there, and the Civil Aviation Authority (CAA) recognised that the Council would have to take a decision on this. There were a number of operational solutions in relation to the control tower, with the CAA preferring a raised platform and CCTV. Solutions could be implemented and there was no threat to the operation of the airport. A business case would be conducted and would pick up all the relevant issues. There was also no indication that usage by a third party was an operational risk to the airport.

It was commented that Members may have been more comfortable in reaching a decision if more detail had been available around the financial costs of the various options and how extensive the exploration of these costs had been. It was also

commented that it was disappointing that the business case in relation to Tingwall Airport had not been presented, as this would have contained more information. While there may not be a case for closing Tingwall Airport at the present time, it was questioned if there was ultimately a need for Shetland to have three airports.

It was noted that the OBC highlighted emergency service provision at Tingwall Airport, and that the communities had clearly set out their aspiration to retain Tingwall. It was important listen to these communities, and to have a secure and sustainable mainland airport to ensure their sustainability.

It was commented that a move to Sumburgh Airport would only have marginal financial benefits and it would result in a loss of strategic control of a lifeline service to HIAL. It was also commented that the communities had quite clearly set out their views in favour of the retention of Tingwall Airport. The socio-economic arguments for a shift were not that strong, and it was clear that Sumburgh Airport could not meet their needs.

In commenting that the report had determined the needs of the communities involved, Mr Thomson moved that the Council agree the recommendations in the report, subject to the removal of “at present” in paragraph 1.2.1.

Mr McGregor seconded.

In commenting that there was a need for the Council to be prudent in how it dispersed its funds, and that more in-depth information was required for the Council to make a decision, Mr Fraser moved, as an amendment, that the Council defer a decision on Tingwall Airport until the exploration of economic alternatives, including the valuation and sale of Tingwall Airport site and land, and the costs of appropriate facilities at Sumburgh Airport are reported back to the Council.

However his amendment did not receive a seconder.

Decision:

The Council NOTED:

- the Socio-Economic case of the Outline Business Case for Inter-Island Air Services contained in Appendix 1 of the report
- 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.

The Council APPROVED:

- that Tingwall Airport remains the base for inter-island air services, taking account of detail given in sections 4.3 to 4.12 of the report
- that the Director of Infrastructure Services, or his nominee, undertakes a Business Case for the required capital investment in Tingwall Airport
- 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

The meeting concluded at 4.50pm.

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Convener