

[REDACTED]

From: [REDACTED]
Sent: 25 October 2017 14:29
To: Minister for Transport and the Islands
Cc: Horn ME (Margaret); Gregory C (Caroline); [REDACTED] Laidlaw GM (Graham); Holmes TJ (Terry)
Subject: RE: Briefing due for meeting with Cllr's and Mr Mackay - 26 Oct

[REDACTED]

As discussed, please see below an agenda for tomorrow which has had input from Councillors Stockan and Smith.

1. Welcome and Introductions
2. Background and Context including Audit Scotland: Transport Scotland's ferry services
3. Council Funding Requests for 2017/18 and 2018/19
4. Long term funding requests/responsibility
5. Next stage of the STAG Outline Business Case
6. Next steps/way forward

I have also attached two further pieces of information, it would be useful for Minister to have alongside the briefing:

- an email from Jonathan Belford, Finance Manager at Shetland Islands Council, on behalf of Councillor Smith which clearly summarises both Councils' short, medium and long term revenue and capital funding requests.
- a letter from SNP Shetland Councillor Robbie McGregor regarding funding for internal ferry services, which he has passed to the media.

Regards




[Redacted]

Ferries Unit – Aviation, Maritime, Freight & Canals
Transport Scotland | Area 2F-North | Victoria Quay | Edinburgh EH6 6QQ

[Redacted]

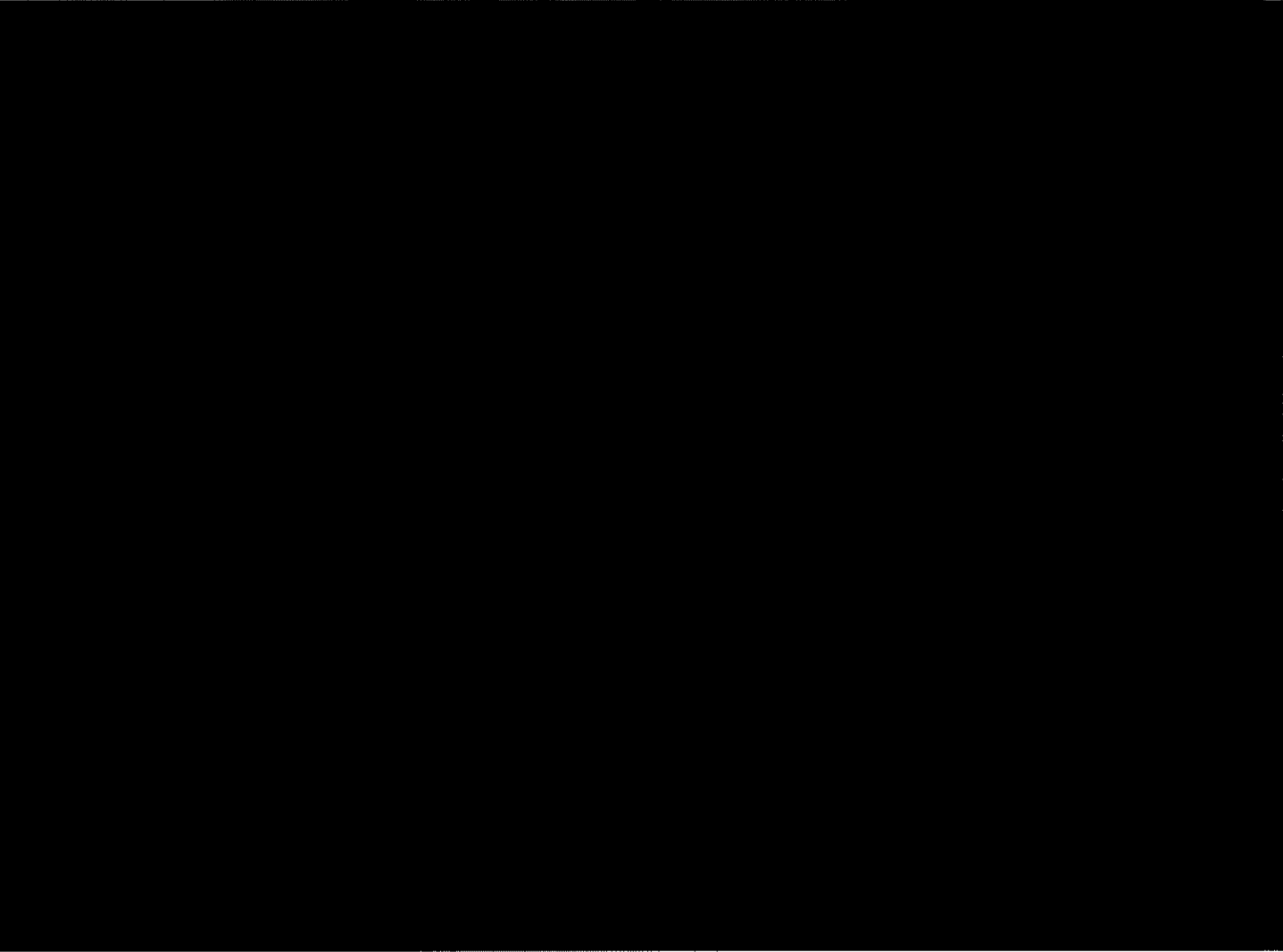


[Redacted]

 www.transport.gov.scot

[Redacted]

2 pages redacted [exempt.]



From: [REDACTED]
Sent: 25 October 2017 11:15
To: Minister for Transport and the Islands
Cc: [REDACTED]
Subject: Inter-Island Ferry Funding - Ministerial Meeting Thursday 26 October

Dear Mr Yousaf

The leader of Shetland Islands Council, Councillor Cecil Smith, thought it would be helpful that I write to you in advance of our meeting with you tomorrow at 2pm to be concise and clear in our request of the Scottish Government in support of ferry services for the Scottish Islands. You will have seen figures before but for the avoidance of doubt:

The Ask that Shetland Islands Council has of Government is for the funding responsibility to rest with them, for additional funding sufficient to cover the cost of service delivery. In short:

- Revenue funding of a further £7.6m (17/18 prices) recurring; and
- Short-term Capital funding of £1.2m per annum to pay for ferry life extension work; and
- Medium to Long-term Capital funding of approximately £121m for vessel and terminal replacement, which is, on average, £6.7m per annum for an 18 year period. The actual detail of the programme would have to be refined and may therefore differ in profile, period and cost.

With reference to our joint letter of 28 June 2017, therefore the total Ask of both Shetland and Orkney Islands Councils is:

- Revenue funding of a further £11.2m (17/18 prices) recurring; and

- Short-term Capital funding of £5.8m per annum to pay for ferry life extension work; and
- Medium to Long-term Capital funding of approximately £248m for vessel and terminal replacement, which is on average £13.8m per annum for an 18 year period. The actual detail of the programme would have to be refined and may therefore differ in profile, period and cost.

We look forward to seeing you tomorrow and continuing a positive dialogue on how we can work together to support our island communities.

Yours sincerely

Jonathan

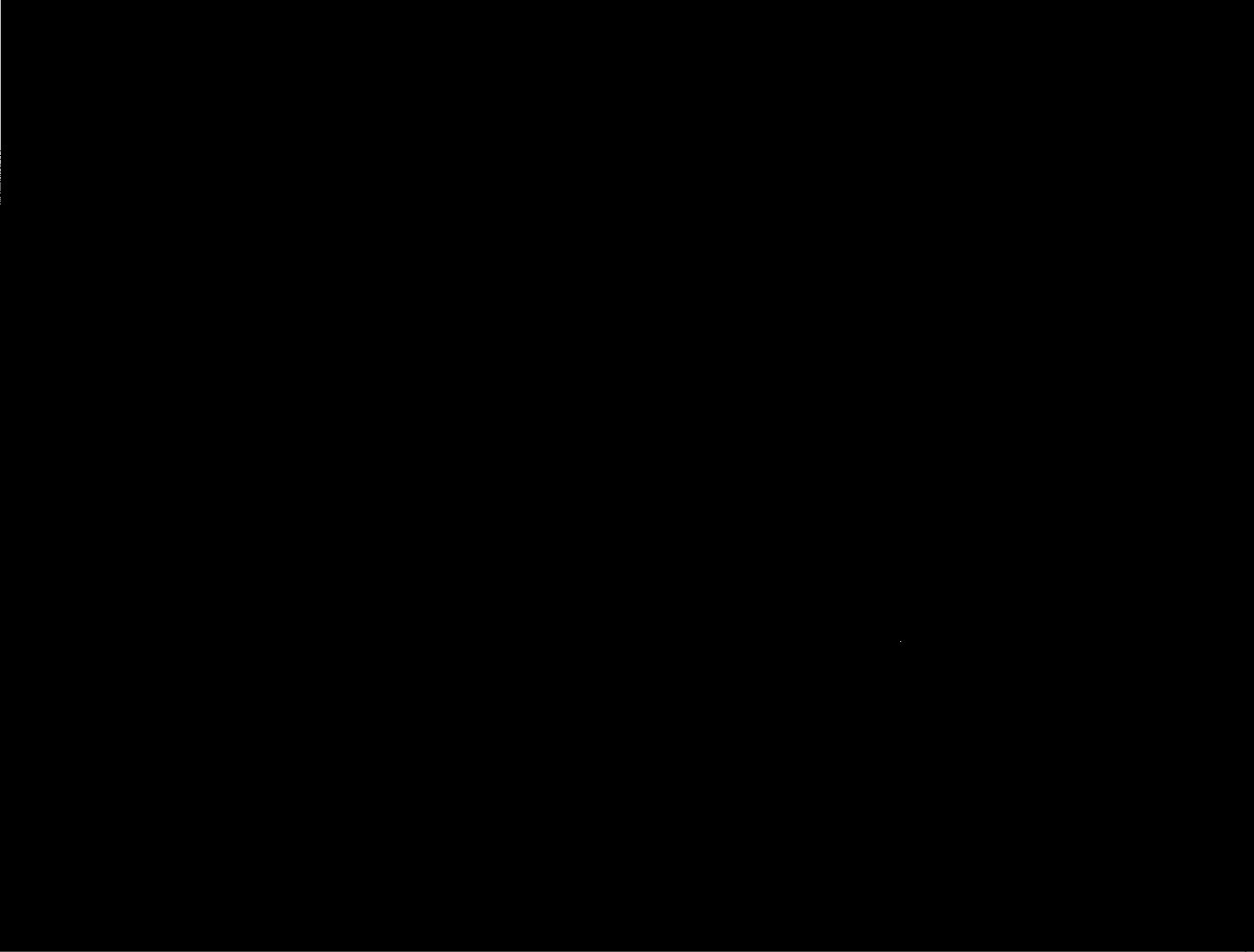
Jonathan Belford

Executive Manager – Finance

Shetland Islands Council : Burgh Road : Lerwick : ZE1 0LZ

Our values: excellent service, taking personal responsibility, working well together

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From: Robbie McGregor

Sent: Wednesday, October 18, 2017 12:48:53 PM
To: Mackay D (Derek), MSP
Subject: Fwd: Interisland Ferries in the Northern Isles

Dear Derek

Please find attached letter regarding our Inter-Island ferries

Begin forwarded message:

From:

Subject: Interisland Ferries in the Northern Isles
Date: 18 October 2017 at 12:37:26 BST
To:

Best regards

Yours for Scotland

Robbie

Robbie McGregor
SNP Councillor Shetland South
'Dumyat'
3 North Heights
Quarff
Shetland
ZE2 9EY

[REDACTED]
SIC Mobile [REDACTED]

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Derek Mackay

Dear Derek

Inter-Island Ferries in Shetland

I was delighted to hear the Minister for Transport and the Islands announce the excellent news about the reduction in fares and charges for cars for the Northlink Ferries. I would express the hope that at some stage consideration will be given to give islanders and tourists a decrease in the cabin fares which form a big part of the cost of reaching our islands.

I am writing to request that the issue of funding Shetland's internal ferry service is given your full consideration, particularly in the run up to the Budget process.

The issue of fair funding of the ferries has been going on since your time in office as Islands Minister and indications were that island communities would not be disadvantaged by the high cost of local ferries. The local opinion is that the Western Isles are treated better than Shetland in that the total cost of ferries including replacement of vessels is met centrally.

I do appreciate the current financial constraints which are being imposed on us by the Tory government in London make things extremely difficult for you to fund every request from every area of Scotland but I would point out that Shetland is an extremely expensive place for people to live in and sea travel locally has to be properly funded and is a major cost never mind getting to mainland Scotland.

I do hope that a long term funding solution can be found for the local inter-island ferries which addresses both the revenue issues and capital replacement costs.

I will also be writing to our local MSP Tavish Scott and urging him to engage positively with the Scottish Government during the budget process to make the funding of internal ferries a top priority.

Looking further ahead I am sure the long term situation needs to be looked at as well and discussion around fixed links need to be considered as well.

I intend to release the contents of this letter to the local press.

Yours sincerely

Robbie McGregor
SNP Councillor
Shetland South
3 North Heights
Quarff
ZE2 9EY

Tel [REDACTED]

Mob [REDACTED]

Robbie McGregor
SNP Councillor Shetland South

[REDACTED]

From: Horn ME (Margaret)
Sent: Tuesday October 24 2017 16:28
To: Minister for Transport and the Islands
Cc: Laidlaw GM (Graham); [REDACTED] Holmes TJ (Terry); Gregory C (Caroline);
[REDACTED]
Subject: RE: Briefing due for meeting with Cllr's and Mr Mackay - 26 Oct

<https://www.shetland.gov.uk/news-advice/response-to-audit-scotland-transport-report.asp>

Please associate this News Release from Shetland Islands Council with the briefing for the ministers' meeting. Whilst triggered by release of the Audit Scotland ferries report, it addresses the internal ferries aspect.

[REDACTED]

Ferries Briefing - meeting with Cllr Stockan, Cllr Smith & Mr Mackay

<p><i>Engagement Title</i></p>	<p>Meeting with Orkney & Shetland Council Leaders regarding internal ferry services.</p>
<p><i>Timing</i></p>	<p>Routine.</p>
<p><i>Organisation/Venue and full address including postcode</i></p>	<p>TG44, Scottish Parliament, 375 High St, Edinburgh, EH8 8BX</p>
<p><i>Date and Time of Engagement</i></p>	<p>Date(s): 26 October 2017 Time(s): 13:15 – 14:15</p>
<p><i>Background/Purpose</i></p>	<p>Orkney & Shetland Council Leaders, Councillor James Stockan & Councillor Cecil Smith respectively, have requested a meeting with both the Minister for Transport & Islands and Cabinet Secretary for Finance & the Constitution, to review the Councils funding requests for their internal ferry services. This meeting had been arranged for 26 October, however Mr Mackay is unable to attend. This meeting is therefore being rescheduled for before Mr Mackay's final budget announcement.</p> <p>This meeting is therefore an opportunity for the Council Leaders to put their case to Mr Yousaf, ahead of the meeting with Mr Mackay.</p>
<p><i>Supplementary Info:</i></p>	<p>Annex A – Orkney & Shetland Internal Ferry Services</p> <p>Annex B – Orkney & Shetland Internal Ferries Financial Briefing</p> <p>Annex C – Orkney Islands Council – Local Government Financial Key Facts</p>

<p><i>Official Support</i></p>	<p>Annex D – Shetland Islands Council – Local Government Financial Key Facts</p> <p>Annex E – Copy of Orkney & Shetland’s 2018/19 funding request</p> <p>Graham Laidlaw, [REDACTED]</p> <p>Terry Holmes, [REDACTED]</p>
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ORKNEY & SHETLAND INTERNAL FERRY SERVICES**Top lines**

- Orkney Islands Council and Shetland Islands Council are wholly responsible for internal ferry services.
- No pledge has ever been made to automatically assume responsibility for internal ferries, these very much remain the responsibility of the Local Authority. However, our continued dialogue with the council on this issue shows we remain committed to the principle of fair funding in the provision of ferry services and ferry infrastructure.
- The council has submitted funding requests for 2018/19 and these are being considered through the budgetary process.

Lines to take

- The Scottish Government's first priority is in relation to reducing ferry fares on services between the Scottish mainland to Orkney and Shetland. Accordingly, in line with our 2016 manifesto commitment on 22 August the Minister announced that a variant of the RET scheme would be brought onto the routes from Aberdeen to Kirkwall and Lerwick in the first half of 2018.
- The Scottish Government understands the significant financial challenges that can fall on individual local authorities and remains committed to the principle of fair funding in the provision of ferry services and ferry infrastructure.
- Transport Scotland have been working closely with Orkney Islands Council, Shetland Islands Council, HITRANS and Highlands & Islands Enterprise through a Working Group.
- Work to establish the Councils' 2017/18 funding requests was undertaken in good faith. However due to competing budget pressures across the Scottish Government portfolios there was no scope to support at the point of budget publication.
- I gave you a commitment to explore in-year funding support. However, given the level of budget pressures across the Scottish Government, there is no prospect of in-year financial support being available.

If pressed on 2017/18 budget

- The Scottish Government has treated local government very fairly despite the cuts to the Scottish Budget from the UK Government. Taking this year's local government finance settlement plus the additional £160 million announced on 2 February and the other sources of support available through the actual and potential increases in council tax income, and the support through the Health

and Social Care Integration, the overall increase in spending power to support local authority services amounts to over £400 million or 3.9% in cash terms.

Pay issue

- Orkney and Shetland Islands Councils are currently wholly responsible for their internal ferry services, including crew pay and terms and conditions.

Background

1. Currently, Orkney Islands Council (OIC) and Shetland Islands Council (SIC) are wholly responsible for their internal ferry services (i.e. between Orkney and Shetland mainland and outer islands), with funding provision for internal ferry services provided by the Scottish Government through the Local Government Block Grant. The Scottish Government/Transport Scotland are wholly responsible for external (i.e. between Orkney and Shetland mainland and the Scottish mainland) ferry services.

2. The Ferries Plan 2013-2022 set out that the Scottish Government was willing to take on responsibility for the provision of lifeline ferry services. The Ferries Plan envisaged that any local authority wishing to transfer responsibility must also be prepared, where necessary, to transfer ownership of the ports and harbour infrastructure used. [REDACTED]

3. The 2014 'Empowering Scotland's Island Communities' stated that *"the Scottish Government understands the significant role that can fall on individual Local Authorities, and is committed to funding in the provision of ferries and ferry infrastructure."* [REDACTED]

4. Following initial discussions, an Officer Working Group was set up in March 2016 by Mr Mackay including Transport Scotland, OIC, SIC, HITRANS and Highlands & Islands Enterprise to take forward work which will allow this commitment to be met. A Working Group meeting was held most recently on 3 August 2017.

5. Consultants Peter Brett Associates were jointly appointed to undertake 'Inter-Island Transport Studies' for both Orkney and Shetland, which were completed in late 2016. This found that all services are either at or below the level determined by the Scottish Government's Routes & Services Methodology.

6. These studies considered ferries only in the short term, however OIC and SIC want to consider **air services and fixed links** in the longer term. The Councils wish to commission further work on Outline Business Cases for specific routes based on priority and have sought further joint Scottish Government funding. Transport Scotland officials are awaiting details of the scope and costs before considering further.

7. The Councils are keen to secure considerable additional Scottish Government financial support (on top of the Local Government Block Grant funding) for their

internal ferry (and to a lesser extent, air) services, in relation to both revenue and capital support.

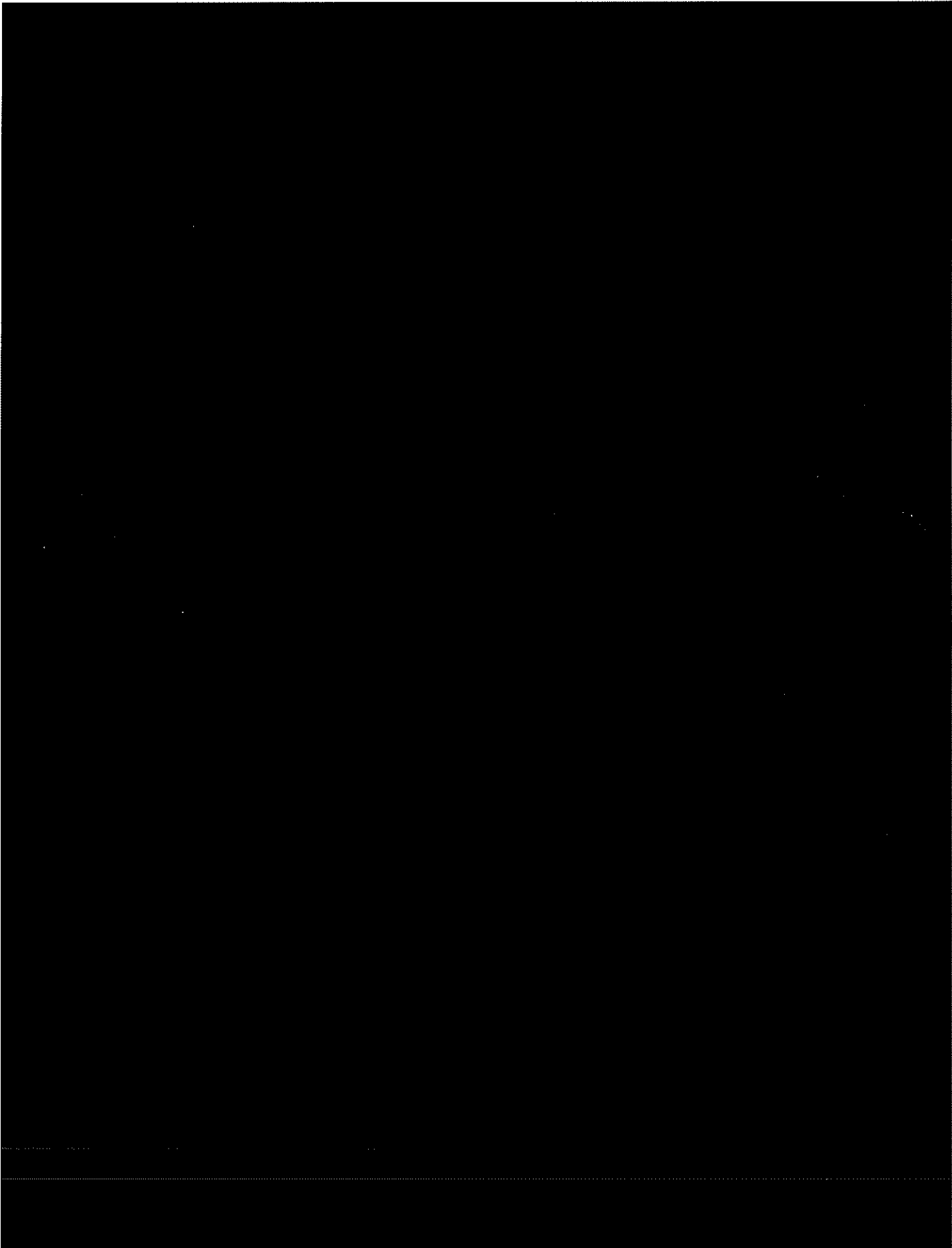
8. The longer term funding and responsibility model is being explored, however in the meantime the Councils submitted a funding request of around £11.1m revenue and £4.6m capital for 2017/18. Advice was put to Ministers regarding the 2017/18 request ahead of the budget. However following this process it was confirmed that there was no additional budget support available in 2017/18.

9. The Leaders of Orkney and Shetland Islands Councils, Cllr James Stockan and Cllr Cecil Smith respectively, wrote to the First Minister, Mr Mackay, Mr Ewing and Mr Yousaf on 28 June (MACCS ref 2017/0022900) setting out a joint statement and their funding "ask" for 2018/19. **A copy of this letter is provided at Annex E.** Their funding request for 2018/19 is for around £13m in revenue £3.8m in capital. The letter sets out the consequences of no additional funding being provided for 2018/19, this being either cuts to services or withdrawal from the provision of ferry services leaving Scottish Government/Transport Scotland to step in. The Minister spoke briefly to the new council leaders in the side of an introductory meeting. The leaders have recently written in seeking a fuller response to their request.

10. Michael Craigie, Zetrans & SIC officer, has recently been in the media discussing a report by Sustrans which identified several Shetland outer islands as suffering from "transport poverty".

Pay comparison

11. We understand that there is some resentment amongst the crew of the internal ferry services in Orkney and Shetland at the far superior levels of pay and T&Cs enjoyed by CalMac crew compared to them. This is a matter for the Councils as employers. The Minister will wish to note that the Clyde and Hebrides Ferry Services contract, operated by CalMac, caps government subsidy for pay increases at inflation (CPI).



- In 2017-18 Orkney Islands Council budgeted to spend £2.4 million or 3 per cent more than the equivalent 2016-17 budgeted figures.

3 pages redacted [exempt.]



4 pages redacted [exempt.]

COPY OF 2018/19 FUNDING REQUEST – MACCS CASE 2017/0022900

Shetland Islands Council

Leader: Cecil Smith

Town Hall
Lerwick, Shetland
ZE1 0HB

To:
First Minister
Cabinet Secretary for Finance and Constitution
Cabinet Secretary for Rural Economy and Connectivity
Minister for Transport and the Islands

Telephone: 01595 693535
Fax: 01595 744509

www.shetland.gov.uk

If calling please ask for
Cecil Smith
Direct Dial: 01595 744502
Email:
CouncilLeader@shetland.gov.uk

Our Ref: MC/CS/DH
Your Ref:

Date: 28 June 2017

Dear Scottish Ministers

Fair Funding of Inter-Island Ferry Services

With new Council Membership and Leadership now firmly in place in Orkney and Shetland Islands Councils we felt it would be worthwhile to restate our requirement of Scottish Government in terms of funding support for inter-island ferry services in the short term and inter-island transportation services as a whole in the medium and long term.

Through the previous Councils we have had a very positive and constructive relationship with Scottish Government and it is clear to us that, despite financial pressures, Scottish Government continues to be committed to reaching a Fair Funding position with the Councils in relation to inter-island transportation services and infrastructure.

The position of the new Councils in Orkney and Shetland on the level of priority which must be attached to urgently resolving the fair funding disparity remains fundamentally unaltered. Following agreement at the officer Working Group in April, we have developed a refined Joint Statement (attached as Annex 1) between the two Councils which sets out clearly what is required and the timescale that is necessary to avoid the very real prospect of cuts to services in the next financial year.

The consequences for inter-island ferry services of a failure to resolve the fair funding issue in time for budget setting for financial year 2018/19 are severe. To help Ministers understand that severity the following gives a broad description of the consequences,

Consequences of a failure to resolve Fair Funding in time to plan 2018/19 budget:-

Failure to resolve a positive Fair Funding position with Scottish Government in time to plan 2018/19 budgets would force the Councils to work within the inadequate Scottish Government support for ferry services (circa £4m for Orkney and circa £7m for Shetland)

distributed through GAE, effectively bankrupting ferry services. This is a realistic outcome for 2018/19 arising from this scenario as Councils are forced to focus the limited resources they have on core Council statutory services.

The inevitable consequence of this scenario is that the Councils would be forced to either review urgently service levels and cut services to match what can be delivered only with funding from the existing GAE arrangement, or withdraw from the provision of ferry services with responsibility transferring to Scottish Government and Transport Scotland.

This would require engagement with the public in August 2017 on options for budget savings which would include a substantial reduction in service levels. For some services, particularly in Orkney, the service levels are already well below the standards which have been evidenced as necessary through the Strategic Business Case work.

So for Orkney this would mean the removal of one or more of the three ferries serving the Outer North Isles. A timetable similar to that used during periods when individual ships are removed from service for annual maintenance would need to be in operation all year round. This would reduce daily sailing to 2 or less per island per day. For refit periods, only 1 vessel would be available to serve 6 islands. This would be a very limited timetable indeed and inevitably some islands would lose daily services.

A likely reduced service in Shetland to make the necessary savings is likely to be a single vessel service on each of the four Ro-Ro routes and a shared vessel operating to all of the smaller outlying islands.

The single ship services on the Ro-Ro routes would only operate on 6 days a week with no Sunday service. The operating day of the single vessel would be reduced from the current 18+ hours to 12. There would be no services at all on Public Holidays and no emergency out of hours stand by cover.

Reductions in service levels and / or increases in fares which would need to be implemented from April 2018 will be significantly damaging to the sustainability of fragile island communities as well as the economies of the islands as a whole. It would in some cases have the potential to result in the decline of some communities to the point that they are no longer viable with the resulting depopulation of the islands. In addition to the inevitable increased financial burden of operating ageing assets, existing infrastructure and vessels are likely to suffer increased frequency of potentially "catastrophic" breakdowns and are becoming increasingly at risk of serious mechanical and other service delivery failure.

In effect, the services in both archipelagos would be reduced to levels last seen well over 20 years ago.

In order to move matters ahead quickly and effectively we would like to meet with Ministers soon, and certainly no later than Friday 21 July, to discuss how we reach a position on matters that we can rely upon in terms of planning our services and budgets.

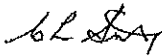
It is important that we can advise our wider Councils as well as the public of our islands honestly and accurately on the likely nature of inter island ferries if the Scottish Government is not going to address fair funding for 2018/19 to address the damaging

uncertainty that has prevailed for a long time now and give businesses, communities and individuals the capacity to plan ahead with confidence.

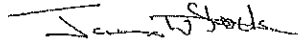
To summarise then, the resolution of a Fair Funding position on Inter Island ferry services for 2018/19 financial year and beyond is the highest priority for both Councils. Failure to achieve this means the Councils face no realistic alternative but to work within available Scottish Government funding which would lead to severe and devastating service cuts and consultation on these would need to start in August 2017. The consequences would be reduction to service levels last seen well over 20 years ago.

We look forward to working with you to achieve a positive outcome for our islands.

Yours sincerely



Councillor Cecil Smith
Leader of Shetland Islands Council



Councillor James Stockan
Leader of Orkney Islands Council

Encs

Statement of Fair Funding Requirement.

TABLE 1 - Summary of Costs of Providing Inter Island Transport Services

TABLE 1.1 - Shetland Islands Council

FERRY REVENUE:

	Approved Budget 2017/18 - NOTE 1	Provisional Budget 2018/19	Provisional Budget 2019/20	Additional annual cost ranges for SBC options - NOTE 2	
				LOW	HIGH
Turnover	£2,046,844	£2,118,484	£2,184,157		
Cost of Sales	-£14,725,860	-£15,113,466	-£15,470,803		
GROSS LOSS	-£12,679,016	-£12,994,982	-£13,286,646	£70,000	-£3,846,000
GAE	£6,801,000	£6,664,980	£6,541,678		
Misc. Income	£1,696	£1,755	£1,810		
	-£5,876,320	-£6,328,247	-£6,743,158		
Ferry Repairs	-£350,000	-£362,250	-£246,814		
CFCR	-£600,000	-£650,000	-£300,000		
Expenditure	-£802,046	-£817,815	-£959,963		
NET LOSS	-£7,628,366	-£8,158,312	-£8,249,935		

AIR SERVICE REVENUE:

	Approved Budget 2017/18	Provisional Budget 2018/19	Provisional Budget 2019/20	Additional annual cost ranges for SBC options - NOTE 3	
				LOW	HIGH
Turnover	£63,820	£66,054	£68,101		
Cost of Sales	-£1,255,651	-£1,286,241	-£1,312,434		
GROSS LOSS	-£1,191,831	-£1,220,187	-£1,244,333	£0	£0
GAE	£581,000	£569,380	£558,846		
Misc. Income	£0	£0	£0		
	-£610,831	-£650,807	-£685,487		
Expenditure	£0	£0	£0		
NET LOSS	-£610,831	-£650,807	-£685,487		

OBC STUDY COSTS:

	2017/18
PBA Budgeted Cost	£207,015

FERRY CAPITAL (Vessels & terminals):

	2017/18	2018/19	2019/20	2020/21	2021 to 2036	TOTAL
AIP	£1,200,000					
SBC - likely options		£2,700,000	£12,650,000	£22,000,000	£83,650,000	£121,000,000
SBC Cost Range					LOW	£77,350,000
					HIGH	£124,500,000

AIR SERVICE CAPITAL (Airports & Airstrips):

	2017/18	2018/19	TOTAL
Tingwall Runway	£300,000		
Watch Tower		£150,000	
Terminal Improve		£100,000	
Runway lighting		£511,000	
Licensing airstrips	??		
TOTAL	£300,000	£761,000	£1,061,000

NOTE 4

Meeting with Shetland and Orkney Council – 26 October 2017

Present

Minister for Transport and the Islands (HY)
Graham Laidlaw
Terry Holmes

James Stalken (JS)
(CS)

Mark Boden (MB)
(JB)

Alistair Buchan (AB)

JS Looking for early decisions

HY PfG / manifesto / non commitment to OIC/SIC
Spending Review
Worth meeting Derek MacKay in advance of Spending Review
Money needs to come from Derek MacKay

JS Might have major implications for ferries

CS Either reduction of ferries / no weekend ferries
Looking to get

HY True cost
Dependent on available resource
Summary of OIC/SIC ask
"Harbour Reserves" available

JB Money set aside for decommission Sullom Voe
All reserves
Investment monies £300m - £14m annually – reserve

MB All income from investment used to support revenue
Schools
Care homes

JB Also £6m surplus from Sullom Voe - ????
SIC extra £20m on top of £90m SG - £?????? spend

JS Money in OIC reserves used to fund future decommissioning

JB "Short lift" extension works
Re-engine to extend life of vessel
£1.2m p.a. for SIC
3 new engines
1 year box

MB Keeps vessels going to the next breakdown

"Good shepherd" almost life ?????
Fair Isle

- JS OIC – all vessels old
Investment elsewhere
John Swinney funded investment in 2010
No other Scottish Councils paying for vessels
- HY What are the choices?
Revenue
Short-term capital – life
Long term capital
- JS Unions agitating for strike over carried forward CalMac pay
????? with fully paying for revenue
- HY Don't have money!
Lots of committed expenditure
No current commitment to OIC/SIC
- JS Any ??? for next year
- HY Will feed this back to Derek Mackay
Some possible short term for next year / flexible
Lobbying
"Not on budget plans at the moment" – In any press statement
- JS Will come to TS to pass OIC ??? to TS
Re-cycle previous SG commitments
- JB Draft budget on going
Gap of several ?????
Following Spending Review – SIC budget pre Christmas
Budget set in February
- JS Ferries 14% of OIC budget
Priority is revenue not capital
- JB Can be flexible
- JS Looking to build with FMEL/CMAL
- HY Tourism Infrastructure Fund – use
- JS Only fares in Scotland about RET are in OIC.
- CS Ferry reductions will have major impact on
Social care
????
Medical

- HY Flexibility
Revenue is the priority
- JS Still to come to a view a capital investment
Last ?? ??? was spend used ERDF
- MB SIC have a view but not for a couple of years
- CS MCA give dispensation to SIC on particular vessel
- JB Still to complete OBC to define detail of which route and what design
- AB Problem transcends "ferries"
Unique problem
14% to spend of OIC goes into ferries
- AB Sustainable ???? on reserve
Likely to ????? "reserves" if increase revenue spend – cannot spend more
- HY Less concerned with Press coverage
Don't want to see ????? withdrawn/reduced
Mainland Island Plan – medium ???
Options to consider
Will make sure meeting with Derek Mackay happens in advance of Spending Review.
- AB Prepared to let TS examine ferry services to ensure they are reasonable
- CS Trying to get a solution
- JB Take away from this
- HY ??? to Fair Funding subject to Spending Review
Opportunity – Spending Revenue
Mr Mackay
Other parties

NIFS Procurement Review

- HY Soon make announcement
Mundel "in-house" subject to "local views"
Caveat communities ???
Working with SIC/OIC on consultation
Current take is OIC/SIC against in house"
How to engage
- CS Fishing/croft in SIC
Streamline moved out of market
Capacity constraints with RET introduction

JS Tourism interest
Agriculture

MB Full access

CS SNF engage well with first interests