

Appendix 2.

Background to transfer of Responsibility for Orkney Ferry Services to Orkney Islands Council

1.1.

Responsibility for the inter-island services was transferred to Orkney Islands Council from 1 April 1987. This was achieved by the Council acquiring the share capital of the company and an agreement on the acquisition of the vessels as noted in the minutes of the Orkney Islands Shipping company on 24 July 1986:

1.1.1.

The Department would transfer on agreed terms to the Council, ownership of the vessels Orcadia, Clytus and Lyrawa Bay and in turn these vessels would be made available to the Company at charter rates yet to be determined. The valuation which had recently been carried out indicated that these vessels had a total market value of £198,000. Islander which was owned by the Company had been valued at £14,000 compared to the written down book value at 31 March 1986 of £110,593.

1.2.

A letter from the Scottish Development Department (SDD) to the Council on 21 March 1986 set out the Department's understanding of the agreement to transfer responsibility for the service:

1.2.1.

Timescale - the Council would assume full responsibility from 1 April 1987 for the provision of internal ferry services within the Council's area.

1.2.2.

Capital Grant for Vessels - the Scottish Office would pay 50% of agreed new vessel costs, net of any assistance from European Regional Development Fund or Intervention Fund. The Council would meet the balance of costs from their own resources.

1.2.3.

Capital Grant for Piers - all capital works or piers or harbour approval as part of the overall investment programme would be eligible for grant from the Scottish Office at a level of 75% of total costs, after any ERDF grant has been taken into account.

1.2.4.

Operational delivery - the Council had indicated that they had no plans to make any immediate changes to the position on the Shipping Company whom they would continue to use as the channel for revenue support for the ferry services.

1.2.5.

Revenue Support - the original proposal had been for a specific grant to be paid to Orkney Islands Council in respect of the transferred responsibilities for ferries. The Scottish Development Department's amended proposal, in order to avoid the administrative complexities of a specific grant and also to ensure that the additional grant was directed to Orkney Islands Council, to recognise the additional responsibility would be achieved by an addition to rate support grant as follows. For 1986-87 Orkney was receiving 0.5094% of the total of needs element for Scotland. Assuming that the method of calculating grant to Orkney and Shetland was unchanged for 1987-88, it was proposed that rate support grant should be 0.5094% of the total of needs element plus the amount of the subsidy to the Orkney Islands Shipping Company that was provided for in the central government expenditure plans for 1987-88. In 1988-89, again assuming that Orkney's rate support grant continued to be calculated by means of a given percentage of the total of needs element, the percentage would be that percentage which the increased grant in 1987-88 bore to the total of rate support grant needs element for that year. This would then be the new proportion on which Orkney's entitlement to grant would be based for the purpose of rate support grant, assuming that the proportionate method was used.

1.2.6.

Future support – it was stated that there was no proposal to change the present method of calculating Orkney's entitlement to needs element but, that this was a matter for decision each year by the Secretary of State following consultation with the Convention of Scottish Local Authorities.

1.3.

The availability of ERDF grant funding to the Council on the expenditure to be incurred on the introduction of Ro-Ro services to the North Isles over the next few years would clearly have been one of the attractions to a transfer of responsibility for the inter-island ferry services from 1987.

Background to Local Authority Funding

2.1.

The funding arrangement agreed at the outset of the transfer of responsibility for the inter-island ferry service only remained in place for a year whereupon it was incorporated into the Local Government financial settlement process and distribution system where it has remained since.

2.2.

In 1989-90, the Local Government Funding distribution arrangements changed with the previous expenditure based controls discontinued in favour of a system of Grant Aided Expenditure (GAE) assessments. The main difference was that Grant Aided Expenditure represented the aggregate amount of expenditure that Scottish Ministers considered appropriate to be taken into account in deciding the level of grant support to be distributed across Scottish local authorities. Grant Aided Expenditure was intended to be a means for allocating the pre-determined Spending Review funding totals equitably amongst local authorities.

2.3.

As a mechanism for distributing grant funding, Grant Aided Expenditure no longer implied that local authorities needed to spend the amount of Grant Aided Expenditure on the supported service. In the case of Ferries, while this is still predominately an expenditure based Grant Aided Expenditure assessment, the two main variables are outwith the control of the Council - namely the overall size of the Grant Aided Expenditure quantum which is determined by Scottish Ministers, and the Council share of that quantum which varies depending on the actual expenditure of all local authorities within the Ferries Grant Aided Expenditure calculation. For financial year 2017/18, Orkney's share £4.745m of the Ferries Grant Aided Expenditure of £13.027m amounted to 36.4%.

2.4.

The principal sources of income for the General Fund revenue budget, as detailed at section 4 above, are General Revenue Grant (GRG) from the Scottish Government (SG), a share of the pooled Non-Domestic Rates and Council Tax.

2.5.

The Scottish Government Green Book, which sets out the detailed distribution of the Local Government Finance Settlement, includes a Local Authority Service GAE (LASG) which recognises that Orkney Islands Council is responsible for delivery of the inter-island ferry services. This GAE is expenditure based, so that if the Council's proportion of expenditure relative to other local authorities reduces so does the Council's share of GAE.

2.6.

The table below shows Orkney's share of the LASG for the current year and the last 4 years; Orkney Ferries' budget for the same period; actual out-turn expenditure for financial years 2011/12 to 2014/15 and estimated out-turn for 2015/16:

	2011 to 2012	2012 to 2013	2013 to 2014	2014 to 2015	2015 to 2016
	£000	£000	£000	£000	£000
Orkney Share of LASG	4,752	4,675	4,675	4,517	4,517
Orkney Ferries budget	6,791	6,876	6,944	7,106	7,079
Out-turn expenditure	6,758	6,394	6,922	7,079	7,077
Excess	2,006	1,719	2,247	2,562	2,560

2.7.

The capital expenditure incurred included alterations to the MV Shapinsay, lengthening of the MV Hoy Head, purchase of the MV Varagen from Orkney Ferries Ltd and the re-powering of the MV Graemsay. The Scottish Government contributed capital support to the MV Shapinsay project on the basis of a one off agreement.

	2011 to 2012	2012 to 2013	2013 to 2014	2014 to 2015	2015 to 2016
	£000	£000	£000	£000	£000
Capital Expenditure	212	2,566	557	218	160

2.8.

The Council's capital programme is supported by General Capital Grant received from the Scottish Government, however with an ageing fleet of ferries, the position has been reached where replacement vessels are now required with a capital cost far in excess of the level of capital expenditure that can be supported by General Capital Grant.

2.9.

A significant effort has been applied by the Council and the Scottish Government over the past three years to address these issues. A similar effort has been applied by Shetland Islands Council in relation to Shetland inter-island services.

2.10.

The Strategic Transport Appraisal Guidance (STAG) project work has been underway since 2014 and jointly funded by the Council, Scottish Government, Hitrans and HIE. The purpose of this work has been to follow the established Scottish Government methodology for examining transportation services in terms of frequency, capacity and cost of services. This work has reached the Strategic Business Case stage which has confirmed that Orkney services are below standards

elsewhere in Scotland in terms of the majority of factors. The STAG Strategic Business Case outlines a number of options for addressing these deficiencies. It is now necessary to finalise the recommended options for Orkney services through the undertaking of the STAG outline business case stage. This work is due to commence late 2017/early 2018. Initial approval of shared funding package from Transport Scotland, HIE and Hitrans has been agreed.

2.11.

In addition to the STAG work, the Coalition of the Highlands and Islands met on 30 October 2017 and agreed that addressing equality of provision of 21st Century Transportation services across the Highlands and Islands should be a priority. COHI has agreed the following principles and strategic aims to direct this work:

2.12.

Principles:

- Recognition of the prime importance of transportation infrastructure service levels and affordability to life and business prosperity across the region.
- That transport underpins and is essential to the delivery of an inclusive society and economic prosperity as well as direct accessibility of wide range of sectors including health, education, care, tourism and commerce across the region.
- The priority to urgently secure and then maintain common standards of transportation infrastructure and service provision for like for like communities across the Region, with reference to the objective of a comparable, fully integrated, 21st century standard of infrastructure and services across all of Scotland.
- That diversity and uniqueness of communities, geography and economic opportunities across and within the Region, (in particular the position for rural and island communities which have unique and different challenges) requires a greater level of subsidiarity, resourcing and flexibility in the specification and delivery of transportation services.

2.13.

Strategic Aims:

- To achieve low carbon energy based transport solutions wherever possible and the specific aspiration to identify and deliver progressively toward 100% low carbon transport systems within the region.
- To deliver an appropriate level of infrastructure and service level provision to deliver equal access to services and governance and to enable inclusive growth opportunities for all communities across the COHI region.