

## Appendix 3.

# Orkney Islands Council and Shetland Islands Council

## Joint Statement of Fair Funding Requirement

### Inter Island Ferry/Transportation Services

June 2017.

#### Introduction

Since November 2014, Transport Scotland, Orkney Islands Council, HITRANS, Shetland Islands Council and ZetTrans have been working together to progress the Scottish Government's commitment to reach a Fair Funding position for Orkney Islands Council and Shetland Islands Council in relation to inter island transportation services. More specifically, to deliver upon the political commitments established in the Empowering Scotland's Islands Communities Prospectus, and the 10 Point Islands Manifesto in relation to fit for purpose, quality ferry services and ensuring that provision of services does not place a disproportionate financial burden on Councils.

Since early 2016, this work has been managed through an Officer Working Group comprising membership from Transport Scotland, Orkney and Shetland Islands Councils, HITRANS and ZetTrans, which was set up in March 2016 by the Minister for Transport and Islands at the time, Derek MacKay MSP.

Since it did not prove possible for the Scottish Government to deliver a fair funding solution for 2017/18, there is extreme urgency to resolve this matter for 2018/19 and beyond if the Councils are to be able to sustain current service levels in the short term as well as deliver essential improvements to lifeline inter island transport services and infrastructure in line with the Strategic Business Case levels which have been validated as necessary for Orkney and Shetland for 21st century lifeline services.

The purpose of this Statement of Fair Funding Requirement is to define clearly what is necessary from the Scottish Government as well as the process and timescales essential to achieve delivery of the changes to enable informed budget setting during 2017 to allow implementation on 1 April 2018.

#### Priorities

There are **two priorities** to be addressed through this Joint Statement of Fair Funding Requirement in order to deliver an acceptable outcome for each of the Councils.

**Priority 1** is securing short term immediate funding to address the disproportionate financial demands historically and currently faced by the Councils in providing inter island ferry services. **Specifically**, this is to address a longstanding disproportionate financial burden on both Orkney and Shetland Islands Councils in relation to the provision of inter-island transportation services, a burden that no other Council in

Scotland faces to anything like the same extent. **Appendix 1 sets out the current position in terms of Council funding versus cost of delivering services. In considering this position it is important to be clear that this is specifically related to the current position / service levels.** It does not account for the additional funding which is required to develop services to match the baseline, 21st century lifeline service specification which has been evidenced through the Strategic Business Case work for both Orkney and Shetland. These additional costs are addressed (amongst other issues) through Priority 2 below.

**Priority 2 (which is equally significant)** is to establish and implement a mutually acceptable long term model of responsibility, delivery, revenue funding and a strategic capital investment programme for inter-island transport services and infrastructure to avoid decline and ultimately a high risk of failure of the network on operational grounds and to sustain viable communities and enable a viable and sustainable economy in each of the archipelagos.

For clarity, the Councils seek from Scottish Government a commitment to a principle of **either** a robust and long term funding programme covering the capital and revenue costs of providing inter-island transport services and infrastructure **or** transfer of responsibility to Transport Scotland for and deliver of inter-island transportation services.

The Scottish Government has shown its shared commitment to date through support in undertaking of the **Routes and Services Methodology (RSM) Work and Strategic Business Cases for both Orkney and Shetland's inter island transportation services during 2016.**

This work was completed in late 2016 and the Orkney Inter Island Transport Study and the Shetland Inter Island Transport Study have been validated by Transport Scotland.

Comparison of the services provided in Orkney and Shetland concludes that in Orkney all service levels are below the RSM level and in Shetland some routes are at the RSM level and some are below the RSM level.

**It can be taken from these conclusions that neither Council is currently over providing inter island ferry services and that in many cases there is under provision.** This has been validated by Transport Scotland through regular meetings and presentation for Study conclusions. The second priority therefore relates specifically to completing the work which has been started to address this imbalance and bring the Islands' transportation services up to the necessary standard for sustaining island communities in the 21st century. This will require further revenue and capital spending in the short, medium and long term. **We welcome the commitment from Transport Scotland, HIE and the RTPs to continue to work jointly on the next phase of Outline Business Case work.**

Although it is necessary to complete the priority Outline Business Cases during 2017 to specifically define these longer term requirements through a 20 – 30 year investment programme for both Orkney and Shetland, **this should not stall the process of addressing funding requirements for 2018/19.**

## The Requirements

To address the two priorities above, the specific Requirements of the Scottish Government are:

1. Before autumn 2017 address **Priority 1** through the establishment of an interim funding package which would be implemented from 1 April 2018 until a permanent solution is achieved to cover the full costs of providing necessary levels of inter-island transportation services (further details are outlined in Appendix 1). This must be achieved with an adequate level of certainty for the Councils and commitment to a timeframe which avoids the risk of reduction in lifeline services (some already sub-standard) through Council budget setting for 2018/19 which would be constrained to the funding currently provided by Scottish Government through Local Government funding streams.

To fit with both National and Local Government budget planning processes, a position must be reached between the Councils and Scottish Government by the end of July 2017. Failure to achieve this means the Councils would be forced to plan on the basis of substantially reduced funding available to transportation services and undertake unsettling and damaging engagement with communities and stakeholders on future inter island transportation service provision.

The Working Group has concluded that it would be possible for 2018/19 to administer a funding package through an itemised revenue grant payment for “Inter Island Transportation Services” from Transport Scotland to each Council. **It must be clearly understood that this is the highest priority for both Councils and must be addressed immediately.**

2. During 2017 / early 2018 address **Priority 2** through establishing a mutually acceptable position on model(s) of responsibility for, delivery and funding of inter island transport networks into the future. The early findings of the Working Group have identified that there are two likely scenarios: A) continue with the present delivery arrangements but with full funding through a grant from Transport Scotland or B) transfer of services to Transport Scotland with the Councils having a consultative rather than delivery responsibility. This will require further detailed exploration by the Working Group and formal consideration by both Councils during 2017/18.

3. To support Requirement 2 to deliver Priority 2, during the period 2017-18, contribute to the costs of and participate in the highest priority Outline Business Cases and identifying a strategic (20 year plus) investment and delivery plan for supporting the continued provision of inter-island transportation as well as, where necessary, the improvements to and funding of the service specifications arising from the Business Cases validated by Transport Scotland. Particularly (but not exclusively) in Orkney, given the age of some vessels and shore infrastructure, it is likely that the early elements of this strategic plan would require immediate implementation to ensure procurement of replacement vessels and terminals can be achieved quickly to reduce the risk of service failure. This is reflected in the capital budget plan outlined at appendix 1 and summarised in the table below. **We welcome**

**the commitment from Transport Scotland, HIE and the RTPs to continue to work jointly on this next phase of Outline Business Case work.**

## **Summary of Costs incurred in providing current Inter Island Transport Services**

To provide current service levels in Shetland and Orkney the table below sets out the net losses faced by each of the Councils from 2017/18 to 2019/20 inclusive to deliver the present level of services. Note that these costs do not take into account the expected introduction of service investment which will be necessary during this forecast period to deliver the Strategic Business Case levels for Orkney and Shetland services.

### **Orkney**

	2017 to 2018	2018 to 2019	2019 to 2020
Revenue Spend over and above Block Grant	£3,535,800	£4,858,084	£5,315,292
Capital Spend	£4,600,000	£2,800,000	£2,500,000

### **Shetland**

	2017 to 2018	2018 to 2019	2019 to 2020
Revenue Spend over and above Block Grant	£7,628,366	£8,158,312	£8,249,935
Capital Spend	Circa £1,000,000	Circa £1,000,000	Circa £1,000,000

Appendix 1 sets out the detailed current position in terms of Council revenue funding versus cost of delivering **the existing level** services for 2017/18, 2018/19 and 2019/20. It also includes a high level capital investment requirement for 2017/18 to 2035/36.

## Programme of Detailed Work Required by Orkney Islands Council, Shetland Islands Council, Hitrans, Zetrans and Transport Scotland

This document sets out a detailed programme of work for the Working Group during 2017/2018 to deliver upon the political commitments to secure a fair funding and 21st century service standard in line with the Scottish Ferries Plan.

### Component 1 – Address Revenue Funding deficit and Capital requirement with effect from 1 April 2017 and beyond.

Output and Action	Target	Lead and progress
Scottish Government and Council officers identify the options for distributing increased funding required to reflect fair funding for the delivery of life-line inter-island ferry services, including those outlined above. (Deliverable 1).	30 April 2016.	Completed. Specific Grant requested from Transport Scotland. Scottish Ministers were not able to identify funding in the 2017/18 budget setting process. However, a commitment was made to carrying forward dialogue with the aim of addressing a solution for 2018/19 and beyond.
Evaluate short term mechanism options. (Deliverable 2).	31 May 2016.	Complete – identified specific “top up” grant through Transport Scotland.
Report conclusions of evaluation of short term mechanism options and recommendations Scottish Government, OIC and SIC. (Deliverable 1).	30 June 2016.	ALL Complete. Specific “top up” Grant requirement from Transport Scotland.
Agree funding changes that can be introduced immediately to support 2016/17. (Deliverable 1).	31 July 2016.	Removed from Scope as Scottish Ministers were not able to identify funding in the 2017/18 budget setting process.
Submit Statement of Funding Requirement.	31 May 2017.	SIC/OIC.
Transport Scotland initial briefing to Scottish Ministers in relation to budget setting process.	April 2017.	Complete.
Develop project plan/timeline to clarify key budget milestones and Council	May 2017.	TS lead with input from OIC/SIC.

<b>Output and Action</b>	<b>Target</b>	<b>Lead and progress</b>
meetings etc.		
Political meeting between Scottish Ministers and Council Leaders and Committee Chairs.	mid-June 2017.	OIC/SIC/SG
Transport Scotland to review potential budget underspends for 2017/18 as per Ministers letter of 20 April 2017.		
Agree additional capital and revenue funding to be introduced to support ferry services from 2018/19 and 2019/20.	Scottish Government 2017 Spending Review.	SG.

**Component 2 – Establish and implement a mutually acceptable long term model of responsibility, delivery, replacement and funding of inter island transport services and infrastructure to avoid failure of the network and enable viable communities.**

Output and Action	Target	Lead
Work with TS to develop options for responsibility and delivery models for life-line inter-island transport services in Orkney and Shetland Islands Council Areas.	Mid June 2017.	All.
In conjunction with previous task, work with TS to develop funding options for inter-island ferry services in Orkney and Shetland.	Mid June 2017.	All.
Initial appraisal of responsibility/delivery and funding options – sift out any that are overly difficult to implement or are entirely unacceptable to SG or either Council (Deliverables 2 and 3).	Mid June 2017.	All.
Confirm scope for OBC work.	End May 2017.	OIC/SIC.
Confirm funding for OBC work.	Mid June 2017.	All.
Undertake Outline Business Cases for priority projects in Strategic Outline Business Cases (Deliverable 3).	Post Political Meeting – likely June 2017 to January 2018.	OIC/SIC. With support and input from all Partners.
Find decisions on mechanism for transferring responsibility and model for long term responsibility (Deliverable 2).	TBC.	OIC/SIC. With support and input from all Partners.
Detailed appraisal of delivery and funding options taking into account service and infrastructure requirements derived from Strategic Business Cases (Deliverable 3).	TBC.	All.
Finalise Capital Investment Plan, as an addendum to Scottish Ferries Plan.	TBC.	TS.
Review National Transport Strategy interdependencies and policy relationship.	June 2017.	All.
Review procurement and legal mechanisms.	June-December 2017.	All.