
LERWICK PORT AUTHORITY ANNUAL REVIEW 2016



LERWICK PORT AUTHORITY



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Lerwick:
Britain's
top port

MISSION STATEMENT

"The Authority aims to run an efficient, cost-effective port operation involving the management, maintenance and regulation of its activities and shipping at the port for the benefit of the Shetland community and businesses for the foreseeable future. In so doing, it will strive to invest in new facilities and to maximise the quality and value-for-money of its services in order to maintain existing and attract new business to the port. It will diversify its involvement in port-related facilities where this supports and strengthens its core harbour activity."

CHAIRMAN'S STATEMENT

I am very pleased to be delivering our first Annual Review in this new style, covering a year when the Authority has delivered a continued good financial performance and, most evidently, new quay projects were completed, enhancing economic activity in Shetland.

Lerwick Port Authority is in the fortunate position of having a diversified customer base. This has stood the port well during the downturn in the oil & gas industry. The continuing low oil price has significantly reduced the ability of the sector to undertake new investment and the harbour's traffic has reflected this, with fewer offshore installation projects coming forward. However, other sectors, such as leisure and passenger traffic, including cruise ship calls, have seen growth.

The important economic drivers of fishing and aquaculture are a mainstay of activity in the islands. Healthy fish stocks and catches of pelagic and white fish species have achieved high prices during the year, leading to reinvestment in the catching sector. Onshore processing at Lerwick has not fared so well and the Authority has faced a challenge in securing a future for the primary processor in which it has a shareholding. Early in 2017, an agreement was reached with partner Pelagia to increase its ownership of the Lerwick pelagic plant, securing the former Shetland Catch factory.

As a Trust Port, the Authority is committed to reinvest all profits generated for the benefits of its stakeholders. Two significant quay projects were completed in 2016 and have been well-received by the fishing, offshore and cruise sectors. These landmark projects are also the platform for further investment by the Authority and others. Dales Voe can deliver a UK solution for the largest offshore decommissioning projects and Holmsgarth is the new hub of white fish activity at the port, with a new fishmarket set to be built.

2016 has seen the Authority strengthening the management team, with new staff appointments and making good progress on more formalised performance procedures. Excellent progress is being made in further development of Health & Safety and Environmental standards, providing assurance to all in this important area.

On a personal note, this will be my final term as Chairman. I will be stepping down from the Board when my current three-year term comes to an end in July. I have enjoyed my time on the Board greatly and thank my Board colleagues, the executive team and the employees of the Authority for all the support and work they have done over the years. I am confident that Lerwick Port Authority, which I have been proud to be part of, will continue to provide an excellent service for the good of Shetland.

—
Brian Anderson
CHAIRMAN / JUNE 2017

£28.5M

QUAY PROJECTS
COMPLETED IN 2016



CHIEF EXECUTIVE'S STATEMENT

As our Chairman has outlined, 2016 has been an interesting year, with a pleasingly positive year-end result.

Activity levels have been much as forecast and the diversified sectors that are serviced from the port have balanced out to keep overall outcomes on track.

With the Authority not being a contracting party to much of the activity using the port, efforts continue to make Lerwick the port-of-choice across a range of industries. Port tariffs have remained competitive within the UK, additional berthing capacity has been provided and the supply chain in Lerwick continues to offer a comprehensive range of services.

The port remains a key employment location within the islands. A significant portion of the Authority's income is generated from outwith Shetland, and a major share of the Authority's expenditure is made locally. With Shetland's strategic location at the heart of the richest fishing grounds, major offshore oil & gas provinces and passenger sailing routes, it is essential that the Authority keeps pace with the changing needs of its customers.

A continuing feature across all sectors is the ever-increasing size of vessels. The current generation of offshore vessels, larger local pelagic trawlers on order, larger yachts and much bigger cruise ships are the drivers for much of the new developments at the port. Delivery of significant new capacity in 2016 – Holmsgarth North pier (newly named Mair's Pier) and the enlarged berth at



Dales Voe, as described later in this report – is already proving itself.

New infrastructure is the most visible demonstration of the strategic direction of the Authority. As reported last year, a flexible approach to meeting the requirements of port users has been necessary. There is no end to the ambition of the Authority to build new infrastructure, with at least three different deep-water projects on the drawing board to enhance the port's natural deep-water assets. However, a pragmatic approach to further development, which considers the return on investment and ability of the Authority to finance such major projects, is a defining feature to prioritising delivery of these in future years.

An update on recent activities together with our current focus and strategic outlook on the Authority's four industry sectors – decommissioning/oil & gas; fishing; ferries & freight; and tourism – is contained in this Review.

Publishing this Review gives a flavour of all the work that the Authority has done over the past year, and demonstrates the continued work it is undertaking to ensure that Lerwick remains a vibrant competitive port.

—
Sandra Laurenson
CHIEF EXECUTIVE / JUNE 2017

2016 HARBOUR STATISTICS

5,036

VESSEL ARRIVALS

12,422,896

GT VESSEL ARRIVALS

over £2M

RENTAL INCOME

184,487

PASSENGERS

954,066

TONNES CARGO

12.4M

GROSS TONNES OF SHIPPING

£56.6M

VALUE OF FISH LANDED

57,422

TONNES FISH LANDED

133,764

RO-RO PASSENGERS

1,023

PILOTAGE MOVEMENTS

199

PROPERTIES RENTED

136,709

LARGEST VESSEL GROSS TONNE

131

TENANTS

130,000 m²

OF LAYDOWN

50,723

CRUISE PASSENGERS

£11.1M

GROSS ANNUAL TURNOVER

12.5 metres

MAXIMUM WATER DEPTH ALONGSIDE

67% [^]

3 nautical miles

SIZE OF HARBOUR (INNER HARBOUR)

4,574

METRES OF QUAYS

9 nautical miles

SIZE OF HARBOUR (NORTH TO SOUTH LIMITS)

OUR BUSINESS

Lerwick Port Authority is a Trust Port and the Board was pleased to note that, following the Harbours (Scotland) Act 2015 receiving Royal Assent in December 2015, the potential threat of compulsory privatisation of Trust Ports in Scotland was lifted.

Lerwick Port Authority was established as Lerwick Harbour Trust by Act of Parliament in 1877, changing name to become Lerwick Port Authority in 1999. The 1877 Act constituted the Trust Port to manage, maintain and regulate the Port of Lerwick. Promotion of the Act was funded by the merchants of the town and a Board of trustees was established. The first task was to build a pier and Victoria Pier opened in 1886.

As a Trust Port, the harbour is operated commercially by the Authority which, although not publicly funded, is accountable to the wider Shetland community, as well as harbour users. As a self-financing business, it depends like any commercial concern on cash flows and profits for its successful operation.

The Trust Port status also means all profits are reinvested in the maintenance and development of the harbour to ensure the varied requirements of customers continue to be met. Over £110 million has been invested in port assets over the years.

Mindful of the wider community, the Authority also provides stakeholder benefits through leisure and amenity improvements and involvement in community events.



OUR PEOPLE

Board

Meeting monthly, Lerwick Port Authority is directed by eleven Board Members, nine of whom are appointed by the local community and harbour users. The Chief Executive and Deputy Chief Executive & Harbourmaster of the Authority are ex-officio Board Members.

The non-executive members are drawn from three different sets of stakeholders, ship owners, business ratepayers and Shetland Islands Council nominees. This ensures the Board has a broad level of experience and expertise, as well as representing a wide range of stakeholders.

Each of the non-executive Board Members serves a three-year term, with a rolling programme of one-third of the Board standing down in different years. The Chairman and Deputy Chairman appointments are made annually, selected by Board Members from amongst their number. Board Members are un-salaried and receive an attendance fee for meetings. Leadership is provided through the ongoing review of all business activities and setting of strategic objectives and targets. The Board provides governance of all aspects of the Authority's activities. The Chief Executive and Deputy Chief Executive & Harbourmaster are responsible for controlling and overseeing all areas of operations and providing support to senior managers in their areas of responsibility through appropriate training, mentoring and guidance.

Strategy & Risk Management

The Board implements a Strategic Business Risk Assessment. The principal outcome of this review is to have the ability to reliably understand, predict, influence and react to the factors affecting the Authority. Fundamental to the Strategic Business Risk Assessment is the identification of risks to the business.

Members

The current Board Members of the Authority at June 2017 are:



Brian Anderson
CHAIRMAN

A non-executive Board member, Brian has life-long involvement in agricultural business, and various interests in haulage, renewables and property. Brian has considerable experience in enterprise and is one of Lerwick Port Authority's nominated directors on the Board of Black Hill Industrial Estate Limited and Kebister Agricultural Limited.

—
TERM OF APPOINTMENT TO JULY 2017



Ronald Gair
DEPUTY CHAIRMAN

A non-executive Board Member, with many years' experience in the motor industry, Ronnie is a former Justice of the Peace and currently a director of local charity Moving On Employment Project Limited. Ronnie also serves as an LPA nominated director on the Board of Black Hill Industrial Estate Limited and Kebister Agricultural Limited.

—
TERM OF APPOINTMENT TO JULY 2017



Sandra Laurenson
CHIEF EXECUTIVE

An Executive Board Member with a long career at Lerwick Port Authority, Sandra is a past chairman of the Scottish Ports Committee of the British Ports Association. Directorships nominated by Lerwick Port Authority include Pelagia Shetland Limited, SFP (Shetland Fish Products) Limited and Black Hill Industrial Estate Limited.

—
EX-OFFICIO



Captain Calum Grains M.N.I
DEPUTY CHIEF EXECUTIVE & HARBOURMASTER

An Executive Board Member, Calum is a Master Mariner who joined the Authority in 2003 as Deputy Harbourmaster, becoming Harbourmaster in 2007. He holds professional memberships of The Nautical Institute, Council Member of UK Harbour Masters' Association and serves as an alternate Director to Pelagia Shetland Limited.

—
EX-OFFICIO



George Anderson

Skipper of pelagic trawler Adenia and a shareholder in the company owning the vessel. Adenia is a member vessel in the Scottish Pelagic Fishermen's Association Limited; Shetland Fish Producers' Organisation and Shetland Fishermen's Association.

—
TERM OF APPOINTMENT TO JULY 2018



James Anderson

Shareholder of Alison Kay Fishing Company and skipper of whitefish trawler Alison Kay, James is a past chairman of the Shetland Fishermen's Association which promotes its interests in the political arena in the UK and EU. James is also a member of the Shetland Fish Producers' Organisation.

—
TERM OF APPOINTMENT TO JULY 2018



Peter Campbell

Re-appointed to the Board in 2016 by Shetland Islands Council, as an elected Member for Lerwick South, Peter is the Chair of Shetland College Board and a member of University of the Highlands and Islands. He also has interests in voluntary organisations The Swan Trust and Sail Training Shetland.

—
TERM OF APPOINTMENT TO JULY 2019



Gary Cleaver

Re-appointed to the Board by Shetland Islands Council in July 2016. Living on Unst, Gary was an elected Member for the North Isles Ward and past Vice Chair of Shetland College.

—
TERM OF APPOINTMENT TO JULY 2019



John Henderson

John was newly-appointed to the Board in September 2015. He is Managing Director of Ocean Kinetics Limited, a Shetland company now operating throughout the UK and internationally in oil & gas, marine and engineering.

—
TERM OF APPOINTMENT TO JULY 2017



Robert Polson

Bobby is skipper of pelagic trawler Serene and a shareholder in the company owning the vessel and also has white fish vessel interests. Serene is a member vessel of Shetland Fish Producers' Organisation and Shetland Fishermen's Association.

—
TERM OF APPOINTMENT TO JULY 2018



Gary Robinson

Re-appointed to the Board by Shetland Islands Council in 2016, Gary was political leader of the council from 2012 -2017 during which time he was instrumental in influencing the needs of the islands at UK and European level.

—
TERM OF APPOINTMENT TO JULY 2019

55

FULL-TIME
EQUIVALENT
STAFF MEMBERS



OUR PEOPLE

Executive Management

The Executive Management Team is responsible for providing strong leadership; visible and active support to staff members and demonstrating commitment to the Board's strategic objectives.

In addition to the executive Board members of Chief Executive and Deputy Chief Executive & Harbourmaster, the Board regularly receives updates from the following executive staff members, who oversee day-to-day services, on the implementation of strategic objectives, financial and administrative processes and business development.

Captain Alexander Simpson
DEPUTY HARBOURMASTER

Victor Sandison
SENIOR COMMERCIAL EXECUTIVE

Neil Ruthven
EXECUTIVE MANAGER

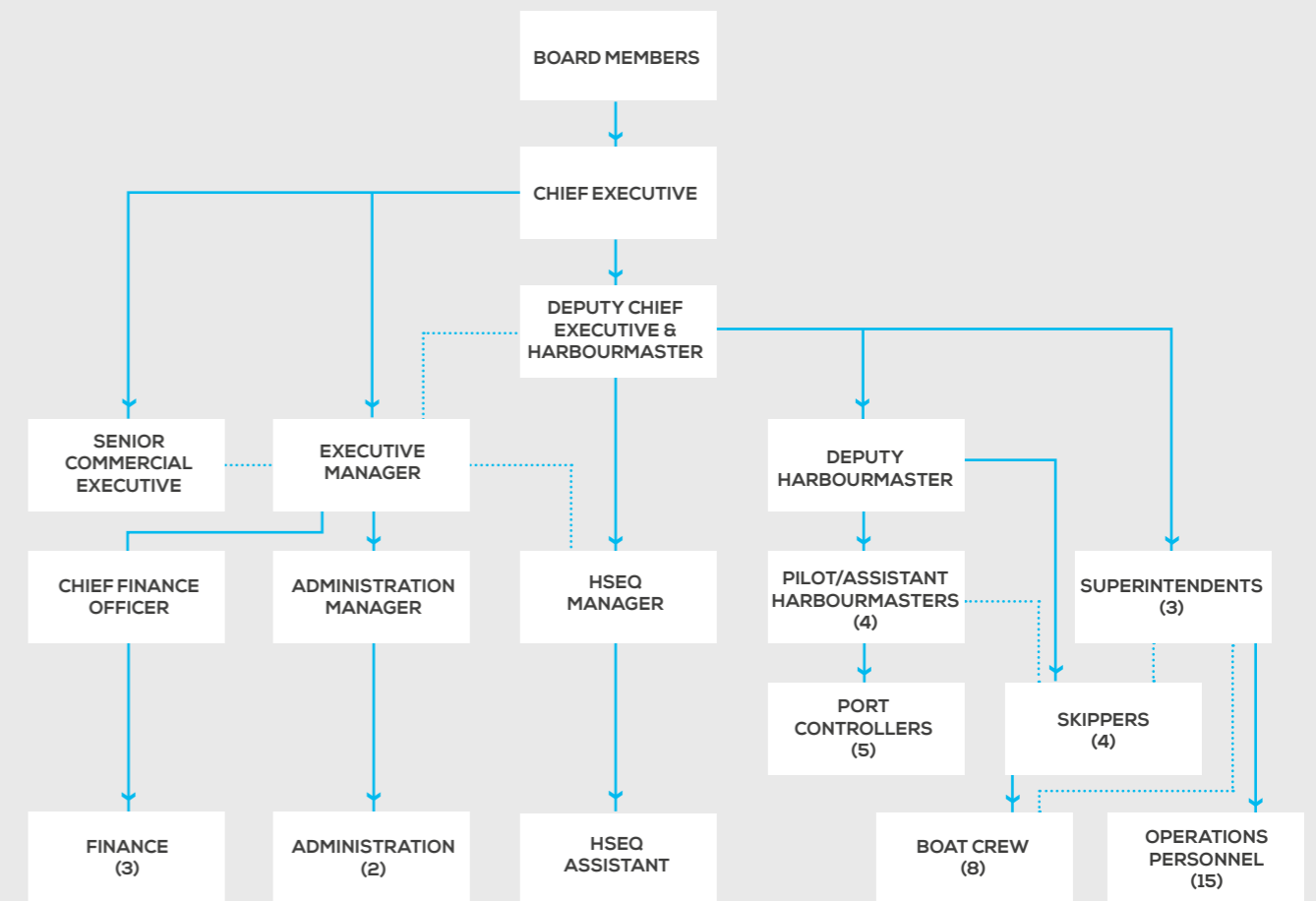
Staff

The Authority has a dedicated and long-serving workforce with a wealth of experience.

Training of the workforce continues, with a high standard of health, safety and environmental compliance in all departments.

The Authority has begun work on implementing a performance management system to assist in reaching strategic objectives to maximise productivity and efficiency in use of employees' skills.

The Staff Resource at the Authority is as shown on this organisation chart:



HEALTH, SAFETY, ENVIRONMENT AND QUALITY

The continual improvement of all harbour services is a key component of the Authority's strategy. All business activities are carried out in a responsible manner to assure the prevention of injury and ill-health to employees and port users. All services are regularly reviewed and updated as necessary to reduce environmental impact and improve quality, efficiency and sustainability of the port.

The Authority adheres to the Port Marine Safety Code which is designed to improve safety and manage operations to nationally-agreed standards. This ensures that significant safety risks are identified and evaluated and that suitable control measures are in place to manage them.

The Authority ensures the safe provision of services and the efficient discharge of its duties are

not undermined by commercial pressures. Lerwick Port Authority was the first port in Scotland to achieve certification to the BS EN ISO 14001:2004 Environmental Standard during 2008. All aspects of harbour activities which have the potential to impact on the environment are identified and those impacts are controlled as far as possible to support environmental protection and prevent pollution.

The Authority is also certified to the BSI standard on quality, BS EN ISO 9001:2008. Port user requirements are constantly monitored and the services are improved appropriately. Processes are also monitored and updated to improve efficiency.

During the year, systems have been updated to comply with the current standards of BS EN ISO 9001:2015 and BS EN

ISO 14001:2015. It is expected accreditation will be achieved in spring 2017. The Authority also has plans to start the process of achieving accreditation to OHSAS 18001 before the end of 2017.

All processes relating to harbour activities are audited regularly to ensure ongoing compliance with these requirements. Internal audits are undertaken annually by trained internal auditors covering all aspects of the business over a two year cycle to determine the effectiveness and adequacy of processes and implementation of BSI standards ISO 9001 and ISO 14001. External audit on the Authority's HSEQ system is conducted to ensure compliance with the Port Marine Safety Code and other requirements placed upon it, with a report provided to the Board bi-annually.



Zero
-
ENVIRONMENTAL INCIDENTS REPORTED

100%
-
LINKSPAN AVAILABILITY

Zero
-
LOST-TIME INCIDENTS

No accidents
-
REPORTED TO CHIEF INSPECTOR MARINE ACCIDENT INVESTIGATION BRANCH

Tree planting initiative
-
TO OFFSET PAPER USAGE

14,430 litres
-
OF WASTE OIL RECYCLED



OBJECTIVES UPDATE

Targets from 2015-2016 Strategy and Business Plan

TARGET

GOVERNANCE AND MANAGEMENT

- Delivery of updated HSEQ system, including foundation for compliance with 2015 versions of ISO 9001 and ISO 14001
- Complete review of pensions provision
- Implementation of organisational review and performance management

OUTCOME

- > Passed a "Readiness Review" in advance of full certification in early 2017
- > Review process is ongoing
- > Organisational review completed, with performance management system due for implementation 2017

FISHING RELATED INFRASTRUCTURE

- Complete construction of Holmsgarth North
- Tender Fishmarket project
- Secure EMFF for Fishmarket project

- > Final handover December 2016
- > Tender documents issued November 2016
- > Final application for funding submitted January 2017

OIL-RELATED INFRASTRUCTURE

- Site and surface clearance at Dales Voe to maximise available laydown yard
- Complete Dales Voe South project and Dales Voe reclamation project
- Engage the decommissioning sector to determine timeline of demand for ultra-deep water quay

- > Dales Voe yard has 40,000sqm of space
- > Dales Voe South project completed July 2016, with the reclamation completed in December 2016
- > There is ongoing engagement with the sector throughout the year

FURTHER INFRASTRUCTURE PROJECTS

- Completion of vessel monitoring system project
- Complete first phase of Albert Building refurbishment and award second phase
- Develop timeline for construction and delivery of replacement Kebister

- > The new vessel monitoring system was commissioned in August 2016
- > First phase completed in November 2016, with the second phase being contracted in early 2017
- > A preferred timeline has been developed with a delivery date of January 2019

TARGET

OIL AND GAS (INCLUDING DECOMMISSIONING)

- Marketing of Lerwick's new infrastructure and capability for oil & gas / decommissioning
- Secure new subsea project business for the port

OUTCOME

- > Marketing of the new infrastructure has been ongoing through the year, with a significant push to take place in 2017
- > New field subsea installation support undertaken from Lerwick 2017

FISHING (INCLUDING AQUACULTURE)

- Improve housekeeping at Holmsgarth and Mair's Quay
- Conduct economic appraisal on fish processing at the port

- > Improvements underway, with a new arrangement from 2017
- > Tenders were received for carrying out the appraisal and the contract was awarded with the final report due in July 2017

FERRIES AND CARGO

- Participate in consultations and forums to inform the port infrastructure required to support the next ferry contract from 2018

- > In early 2017, Transport Scotland announced a review of ferry services procurement

CRUISE SHIPS AND YACHTS

- Market Mair's Pier to the cruise sector
- Expand bespoke welcome offering to cruise lines seeking innovation
- Submit funding application for new pontoon system

- > Ongoing as part of the marketing of the overall cruise package Lerwick has to offer
- > Expanded in 2016, with further expansion available for 2017
- > Funding application was submitted in early 2017

2017 OBJECTIVES & TARGETS

The key strategic objectives of Lerwick Port Authority and the methods to be used to achieve them in 2017 are:

1.

OBJECTIVE - THE MANAGEMENT, MAINTENANCE AND REGULATION OF LERWICK HARBOUR

METHODS

- > Development and implementation of performance management system
- > Deliver updated Health, Safety, Environment and Quality Management System
- > Complete the review of pension provision
- > Prepare a new style annual report

2.

OBJECTIVE - TO CONDUCT ALL BUSINESS ACTIVITIES IN A RESPONSIBLE MANNER, WHICH ASSURES THE PREVENTION OF INJURY AND ILL HEALTH TO EMPLOYEES AND PORT USERS, PRESERVATION OF THE ENVIRONMENT AND QUALITY OF SERVICE AND TO PROMOTE THE DEVELOPMENT OF AN EFFICIENT, COST EFFECTIVE SUSTAINABLE PORT

METHODS

- > Achieve certification to new standards BS EN ISO 9001:2015 and BS EN ISO 14001:2015
- > Adopt a new Health and Safety Policy
- > Review and improve Risk Assessments, including Strategic Marine Risk Assessments
- > Plan route to achieving accreditation to OHSAS 18001

3.

OBJECTIVE - TO INVEST IN NEW PORT FACILITIES WHERE A NEED IS IDENTIFIED. TO DIVERSIFY ITS PORTFOLIO OF INVESTMENTS AND SOURCES OF INCOME, ESPECIALLY WHERE THIS ALSO SUPPORTS AND STRENGTHENS ITS CORE HARBOUR ACTIVITY

METHODS

- > Secure grant funding for the delivery of the replacement fishmarket and award the contract for the construction project
- > Monitor market requirements for future infrastructure projects on capital projects list
- > Continue investing in Shetland Seafood Auctions Ltd
- > Review shareholding in Shetland Fish Products (SFP) Limited
- > Consider options for future of Black Hill Industrial Estate Limited

4.

OBJECTIVE - TO ATTRACT NEW BUSINESSES AND ENSURE THE CONTINUED SATISFACTION OF EXISTING CUSTOMERS AND USERS, AND TO DEFEND THE PORT AGAINST UNFAIR COMPETITION AND ANTI-COMPETITIVE PRACTICES

METHODS

- > Decommissioning – maintain and promote Lerwick's identity as a decommissioning port
- > Engage with the decommissioning sector to determine demand for enhanced facilities
- > Marketing to oil & gas sector with emphasis on efficiency and cost effectiveness of port
- > Marketing of new facilities at Holmsgarth North and Dales Voe, including to the cruise industry
- > Consider findings of study into the pelagic processing sector at Lerwick
- > Tender for rebranding and a marketing push to coincide

5.

OBJECTIVE - TO MAINTAIN EXISTING BUILDINGS, PLANT AND EQUIPMENT AND HARBOUR FACILITIES IN A SAFE AND SERVICEABLE ORDER

METHODS

- > Develop Albert Building to provide a good working environment, reflecting the Authority's modern image
- > Develop specification and tender process for replacement pilot boat Kebister, maintaining current vessels meantime
- > Undertake planned maintenance and/or renewal of existing property and quay infrastructure

SECTOR HIGHLIGHTS

DECOMMISSIONING

- Strongest quayside in the UK
- Deep-water capacity
- Further major decommissioning projects for 2017
- Single-lift capability

Almost 20 years ago, the Authority joined other local partners to see what part Shetland could play in offshore decommissioning. For Lerwick, this is a natural progression to 50+ years of involvement with North Sea oil & gas. The focus on decommissioning has meant that Lerwick has become one of five ports around the North Sea with significant decommissioning yard capability and capacity matched with a track record. For the past decade, decommissioning has been happening at Lerwick's Greenhead Base by experienced contractors, Peterson and Veolia.

Lerwick's Dales Voe site now has the strongest quay in the UK, with the ability to accept the largest platform topsides using single-lift technology. It is recognised that on the east side of the UK, the port has the deep-water required to compete with yards overseas. Lerwick is therefore a strategic location of interest to Government for a UK solution to the ultra-deep quay to provide a comprehensive offering to the decommissioning sector.

Decommissioning, which is a good fit for Shetland in terms of size of workforce available locally matched with an efficient location, remains a key focus area for the Authority to provide continued activity in the oil & gas sector at the port.



Seasonal volumes of herring and mackerel landed are immense



FISHING



Fish processing is a key strategic activity at the port in particular pelagic processing.

1,853	£17m	2nd	£1.2m	47,140
-	-	-	-	-
FISHING VESSEL ARRIVALS	WHITEFISH LANDED	LARGEST LANDINGS PORT IN THE UK	SHELLFISH LANDED	TONNES PELAGIC FISH LANDED

Thirty years ago, the Authority was instrumental in the provision of a major pelagic processor at Lerwick, with Shetland Catch opening in 1989. The fortunes of the primary processor have been mixed in recent years and it was necessary to alter the ownership of the company which is now named Pelagia Shetland Limited in recognition of the 75% ownership by Norwegian parent, Pelagia. The Authority retains part-ownership of the company and is also one of the main owners, together with Pelagia Shetland, of SFP (Shetland Fish Products) Limited which operates the fishmeal plant on Bressay within the harbour.

The focus for Lerwick Port Authority with these processors is to maintain core port activity through the landing of fish and the onward export of fish products from Lerwick.

Pelagic quotas are stable and the seasonal volumes of herring and mackerel landed are immense. The support of the catching vessels that choose Lerwick as a landing port is greatly appreciated and Scottish Government's aim to secure at least 55% of Scotland's quota to be landed in Scotland is interesting.

White fish quotas are also very robust and the renewed confidence in this sector is heartening. New investment into the fleet is being rewarded by high prices at the market and the Authority intends to match this with a replacement fishmarket at Lerwick.

The replacement market is much larger than the current constrained market and will provide the platform to handle increased volumes of fish landed all year-round. As well as improved capacity, the new market will allow better facilities for market workers, improved onward transportation and energy efficiencies. News is awaited on European Maritime and Fisheries Fund assistance to ensure the project can get underway in the second half of 2017, for completion at the end of 2018.

The replacement market is to be built on Mair's Quay which will make that part of the harbour the fishing hub at the port. Local fishing agents and quota managers plan to move their offices to the new market location in a modern set of offices to be funded by themselves.

With the adjacent Mair's Pier development being a focal area for fishing vessels in the port, these modern developments cement Lerwick's status as one of the premier fishing ports in the UK.

While new infrastructure has provided welcome capacity improvements, attention is now being directed at some of the older assets such as Gremista Pier and at Heogan, Bressay. Substantial maintenance expenditure is required to maintain these assets, in particular at Gremista where the pier is used for landings to both pelagic and salmon processors. Such expenditure is partly-funded through the landing dues paid by vessels, this principle of a value-related dues payment best suits the business need.

In the longer term, a larger replacement quayside at Gremista is the aim of the Authority.



CRUISE & TOURISM

A growth area for the port is the marine tourism sector of cruise ships and yachts.

A cruise port for many years, Lerwick has enjoyed steady numbers of cruise ship calls. 2016 saw the start of a period of growth. This has continued for 2017 and the combination of more ships, an increase in the average size of vessels and a consequent increase in passenger numbers means that by 2018 a new benchmark will be set for this increasingly important sector, with record numbers expected.

Lerwick's capacity to handle more of the ships alongside, with Mair's Pier being used from 2017, has to be matched with the onshore capacity for a welcome and excursions. The Authority has increased its support for the cruise Meet & Greet service to suit the demand and also is providing additional infrastructure by support for coaches and a new mobile welcome station.

In the longer term, the Authority would wish to provide a deep-water quay at the town centre that would be ideal for cruise calls. There is natural deep water in this location and the quay is a future aspiration.

Seasonal visiting yachts are also a growth area, with more international yachts, again of increasing size, calling at Lerwick. The pontoons provided in the town centre each summer for visitors are very popular and an application was made to the Coastal Community Fund to help provide additional capacity to meet the demand. Unfortunately this funding application was unsuccessful and therefore it may be some time before this project can be delivered.

Lerwick is also a base for leisure dive boats during the summer and other pleasure trip vessels include a replica longship, as well as Shetland's own tall ship Swan.

Support the Authority provides for several of these non-commercial activities is part of the Stakeholder benefits for the wider community to enjoy.



50,723

CRUISE PASSENGERS

2,192,651

GROSS TONNES OF SHIPPING

79

CRUISE SHIPS

122,210

GROSS TONNES LARGEST CRUISE SHIP



FERRIES & FREIGHT: LIFELINE SERVICES

White fish landed at Lerwick, together with the significant volume of farmed salmon grown and processed in Shetland, are core exports from the islands.

These fresh products going by road are key customers for the nightly ro-ro freight service currently provided by Serco NorthLink.

The lifeline ferry service, with as much volume of freight going outwards as comes inwards, is of huge importance to the islands and consequently the Authority has a firm commitment to provide the terminal infrastructure that the service requires.

The sustained performance in ferry passenger numbers is a sign that the popularity of the service continues.

With Scottish Government's announcement in 2017 of a policy review on the provision of Scotland's ferry services, an eye is kept on developments to ensure that any required changes in terminal infrastructure can be timeously addressed.

Other shipping customers providing lo-lo cargo services to Lerwick and the fuel tankers delivering product to the islands, although out-with the subsidised lifeline service, are also important to the economy.



30,164

TONNES FISH FEED
THROUGH THE
HARBOUR

152,209

TONNES OF FUEL
IMPORTED

>953,000

TONNES CARGO
MOVED

133,764

RO/RO
PASSENGERS



MAIR'S PIER

2016 saw the completion of the port's largest single project to date, the construction of the £16.5 million quay at Holmsgarth North, now named Mair's Pier.

The 800-metres-plus L-shaped jetty provides deeper berthing, designed to allow future dredging of the outer arm to a minimum 10m. The jetty is 60m wide at the root and 30m wide on the arm, providing a large working area for the fishing fleet and others, with 15,500 square metres of deck area. There is also provision for shore power, water and fuel bunkering. The new industrial power supply is created specifically to service the large pelagic vessels that wish to lay-by.

DESIGN AND CONSTRUCTION

The quay was constructed under Lerwick Harbour Revision Order 2010. After securing funding, work on the quay began in 2014, with plans being drawn up by consultant engineers, Arch Henderson LLP. Following the tender process, the work was awarded to local firm, Tulloch Developments Limited. The company had previously carried out the construction of the adjacent Mair's Quay development and has extensive experience of marine construction projects. It also understood the difficulties working through the Shetland winter, which assisted delivery of the project.

Construction on the project began in April 2015 and at the end of 2016, Tulloch Developments handed over the final phase of the project on budget, providing the Authority with a first-class facility to be used to support the fishing and oil & gas industries, and the increasing demand from cruise ships.

The main jetty is constructed from steel sheet piling driven into pre-treated hard rock seabed with upper tie rod support. The quay was in-filled using rock. The sheet piles are topped with a concrete capping beam with a concrete deck slab.

The programme included removal of the former Shell Jetty from the 1970's which had served the port well, but was now outgrown. The creation of a net mending ramp at the point this jetty had joined the quayside improves the ease with which vessels can load and unload their gear.

New
-
INDUSTRIAL POWER
POINTS FOR PELAGIC
VESSEL SHORE POWER

3,550
-
TONNES OF
SHEET PILES

400
-
TIE
RODS

350,000
-
TONNES
OF INFILL

14,000
-
TONNES OF
CONCRETE



>800m
-
OF NEW
BERTHING

15,500m²
-
OF DECK
WORKING AREA

275m
-
LONG QUAY
FACE



60t

PER SQUARE
METRE UNIQUE
QUAY LOADING



DALES VOE SOUTH EXTENSION

Summer 2016 saw the completion of the Authority's £11.95M expansion of the quay at Dales Voe.

The new quay is able to accommodate the largest heavy loads and provides a decommissioning capability unmatched in the UK. The facility is complemented by the adjacent 40,000 square metres of laydown area completed in the year.

While the quay is primarily aimed at the oil & gas sector, like all quaysides at Lerwick, it is multi-user and is of interest to the cruise ship sector.

The project was supported by £2.39M funding from Highlands and Islands Enterprise and the Scottish Government who recognise the strategic importance of this facility in the emerging decommissioning marketplace.

DESIGN AND CONSTRUCTION

The original 12.5 metre-deep Dales Voe quay has been extended by 75 metres to 127 metres, with a load bearing capacity of 60 tonnes per square metre. The water depth alongside is significant and the very deep water in the Voe makes the site versatile for a number of operations.

The very high load bearing capacity made the construction of the quay technically challenging. With design by Arch Henderson LLP, the quay was built using steel combi wall and load bearing piles drilled into seabed rock and concreted rock sockets tied back to a rear ground anchor block. The quay is topped with a precast cope, concrete transition slab and the main concrete deck slab, giving the required strength

Construction began in April 2015 by contractor BAM Nuttall, with the handover of the completed quay in July 2016. BAM Nuttall's expertise proved invaluable, in providing a very high quality asset that will serve Lerwick Harbour for many years to come.

40,000m²

-
ADJACENT
WORKING AREA

12.5m

-
WATER DEPTH
ALONGSIDE

127m

-
NEWLY EXTENDED
BERTH

Strength, depth
and capacity
unmatched in
the UK

-
Ready for single
lift projects

-
Potential future
UK solution
providing ultra-
deep quay
facilities for heavy
lift vessels



2017 CAPITAL PROJECTS

NEW FISHMARKET

A replacement market on Mair's Quay at Lerwick has been designed and tendered. Construction is due to commence in 2017, dependent on sourcing European Maritime and Fisheries fund assistance for the significant project.

With a capacity doubling fish boxes landed daily, the market will allow white fish landings at the port to increase, as well as meeting the requirements of the Landings Obligation. The replacement market is better located to suit vessels landing at all states of tide and has much improved road access for the uplift of fish.

Key benefits include more space for palletising fish for onward transport, improved welfare facilities, more efficient chilling and environmental improvements, all leading to enhanced quality of fish landed.

The market floor has been designed with input from all stakeholders and will be the catalyst for a new fishing hub at Lerwick. Offices for companies in the catching sector plan to relocate to the site. Work is also underway on rationalising untidy fishing equipment storage to dedicated yards.



DREDGING

To complement the new quay developments recently completed, plans for deepening parts of the approach channels and new berths are proposed for 2017. This will enhance the versatility of the port to berth increasing sizes of vessels, particularly in the cruise and oil & gas sectors.

REPLACEMENT KEBISTER

Planning for the replacement harbour vessel, Kebister, is underway and detailed design is expected to begin later in 2017.

**lerwick:
britain's
top port**

COMMUNITY

Engagement

As a Trust Port, the Authority carefully manages its assets for the benefit of all its stakeholders and actively supports local community activities. Throughout the year, the Authority hosted a number of engagements with interested groups including customers from various sectors, politicians and the local community. This provided a framework to gain valuable feedback and the strength of these ongoing relationships is key to the future success of the Authority.

The Authority takes an active role in the community through relevant events or consultations on key issues. An example is hosting school visits and work experience students that happen annually. The Authority's website is regularly updated with news and media relations are maintained to ensure the profile of the harbour and its part in the local economy is well communicated.

Involvement

Providing stakeholder benefits is an integral part of the business. As a Trust Port, the Authority has a responsibility to support the community that it is proud to be a part of. Support goes beyond financial donations or sponsorship and often involves benefits in kind, such as staff time and other resources to support many maritime causes. Some examples of charitable and community activities supported in 2016 include:

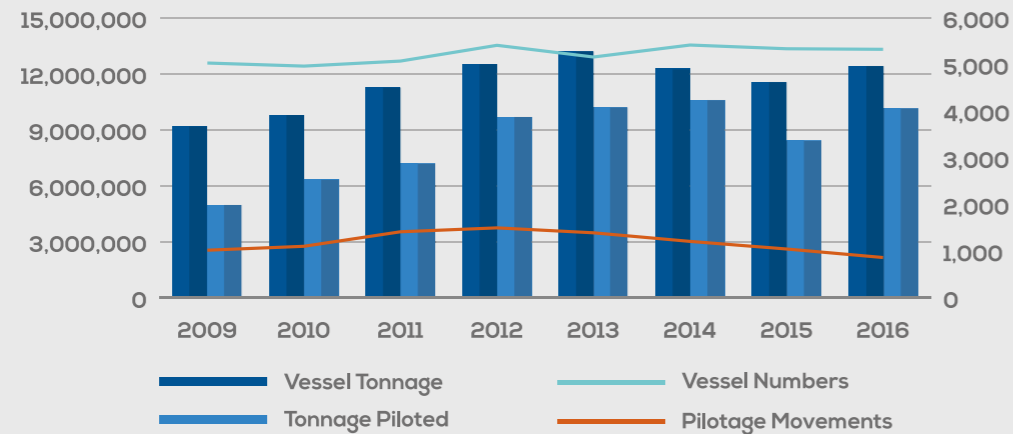
- > Free berthing for tall ships
- > Lerwick Lifeboat Open Day at Victoria Pier
- > Cruise Ship Meet-and-Greet service
- > Shetland Race
- > Shetland Fiddlers Royal Edinburgh Military Tattoo
- > 'Hjaltibonhoga'
- > Annual donations to marine charities: Shipwrecked Mariners; RNLi and RNMDSF
- > Jarl Squad appearances for cruise calls
- > Free berthing for Lerwick Lifeboat
- > Charitable donations for calendar photography
- > BBC Radio Shetland Children in Need Appeal
- > Bressay History Group, Da Voar Redd Up
- > RNMDSF Shetland Fish Trades Golf Cup
- > Shetland Inter Club Yachting Association, Inter Club Regatta
- > Assisted new crane for Lerwick Boating Club
- > Juvenile Diabetes Shetland
- > Herring and Whitefish Trades Golf Alliance
- > Lerwick Sea Scouts, Lerwick Gala
- > Sail Training Shetland
- > Cancer Research UK Relay for Life
- > The Swan Trust
- > Pelagic Sculpture Project
- > Up Helly Aa
- > Staff charity fundraising efforts



£9,939.50
-
TOTAL CHARITABLE
DONATIONS FOR 2016

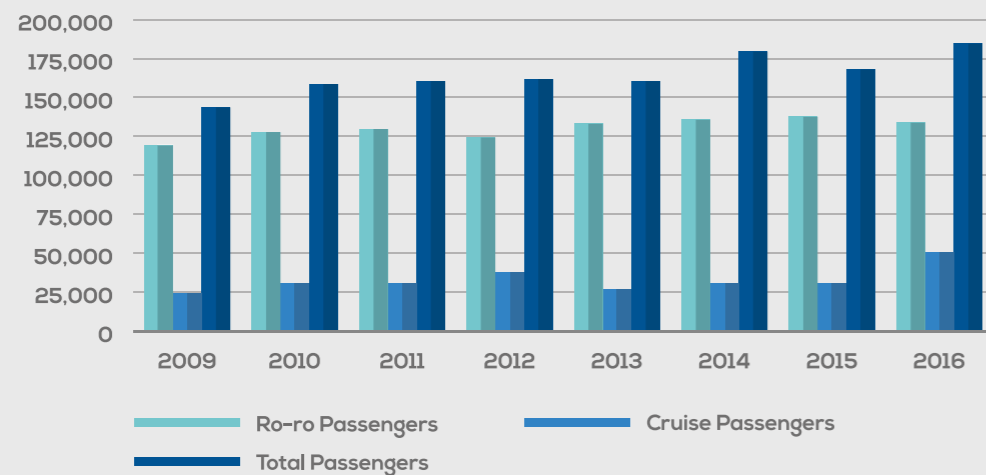
KEY HARBOUR INFORMATION 2016

VESSELS



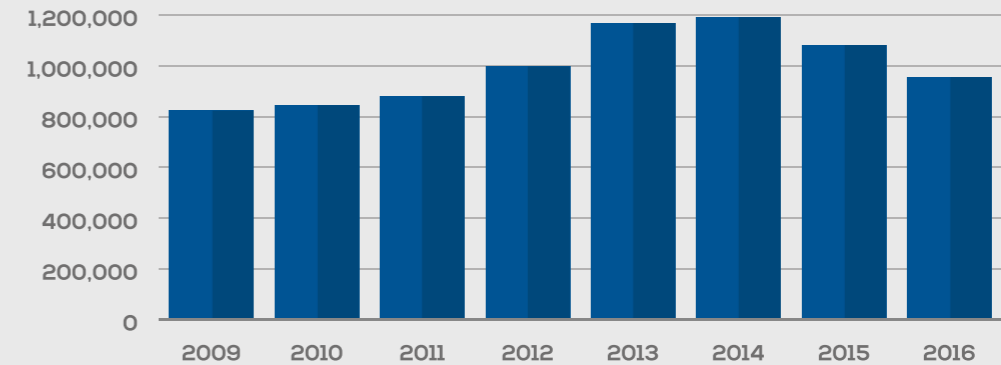
The number of vessels visiting in 2016 was fairly steady compared with 2015, but the average size was up. This is also reflected in the pilotage statistics with a 21% rise, despite a 7.5% fall in the number of vessels piloted between 2015 and 2016.

PASSENGERS



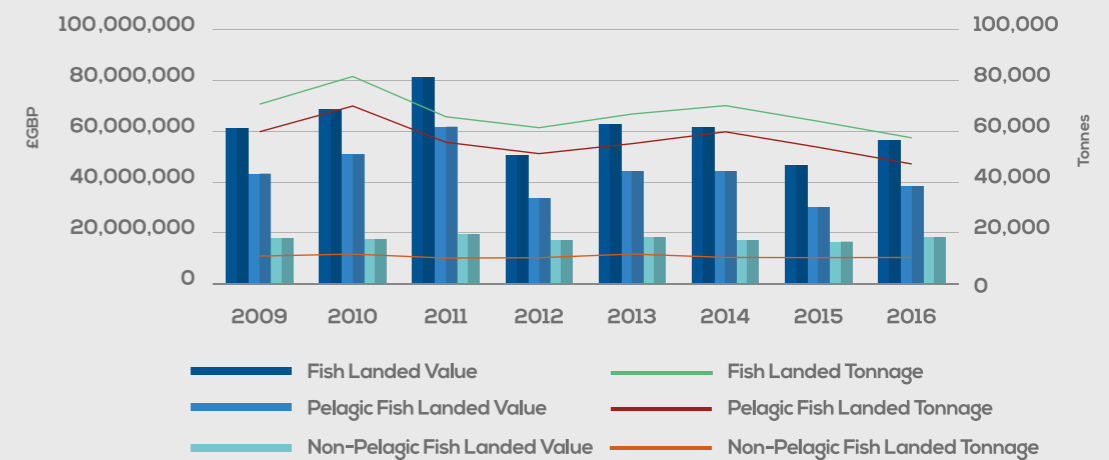
Passenger numbers using the ro-ro ferry service have held up well, despite the reduction in travelling workers using the service following the substantial completion of the Shetland Gas Plant in 2015. The strong year from the cruise sector in 2016 has helped achieve a big overall increase in numbers.

CARGO MOVEMENTS



While the completion of the construction phase of the Shetland Gas Plant in 2015 meant less freight coming through Lerwick, cargo figures compare well to the years prior to the construction.

FISH LANDINGS



In 2016, white fish landings at Lerwick have shown another strong year, with tonnage slightly ahead of the previous period and healthy prices at the market. The pelagic sector has also shown strong prices and this has more than offset the reduction in the tonnage landed.

FINANCIAL PERFORMANCE AND ANALYSIS

Turnover

Turnover held up well in 2016 and, despite the significant reduction in oil & gas related activity in the year leading to a 25% drop in income from the sector, this shows the strength of the diversity of the port's business. In 2015, the oil & gas sector accounted for 33% of turnover, down from 39% in 2014. By 2016, it accounted for only 25%. Other sectors have held up well, with income from the fishing sector increasing by 16%, while lifeline ferry services income was up slightly. A big area of growth for turnover in the year came from the cruise ship sector, with turnover up by 79%. Although starting from a lower share of overall turnover, it is beginning to become a more important sector and in 2016 it accounted for over 5% of total turnover. Overall turnover was down 2% at £11.1M.

Profit

The Authority was expecting a reduction in income in 2016 and has continued to work hard to keep costs under control which has meant profit for 2016 has also held up well, with profit-before-tax of just over £3M. This is despite an increase in interest costs on the new borrowing facilities and increased depreciation costs associated with the new quays, both of which are unavoidable following the new investments.

Bank facilities

In 2014, the Authority was pleased to agree a £25 million borrowing facility with Bank of Scotland to finance a major programme of capital investment in the harbour. The Authority has had a close working relationship with the Bank for a number of years. It understood what was required from the new borrowing facility and was able to tailor the lending to suit the planned investment.

Interest rate risk

The Authority decided to take advantage of the low interest rates available and "lock in" to a low rate using an interest rate swap. This has allowed the business to take advantage of the historically low interest rates and also given certainty over the cost of repayment of borrowings, hedging against the risk of future interest rate increases.

Pensions

Lerwick Port Authority currently provides two pension schemes for employees. In 2016, the employees from the old Merchant Navy Officers Pension Fund (MNOFP) defined benefit scheme moved to a new defined contribution scheme, the Ensign Retirement Plan (for the MNOFP). This move has been very successful and has resulted in a move away from the uncertainty over the cost of future provision while providing an attractive alternative pension for employees who are members of the scheme.

The Authority is also an admitted body to the Shetland Islands Council Local Government Pension Scheme (LGPS), also a defined benefit scheme. In recent years, the level of contributions has increased

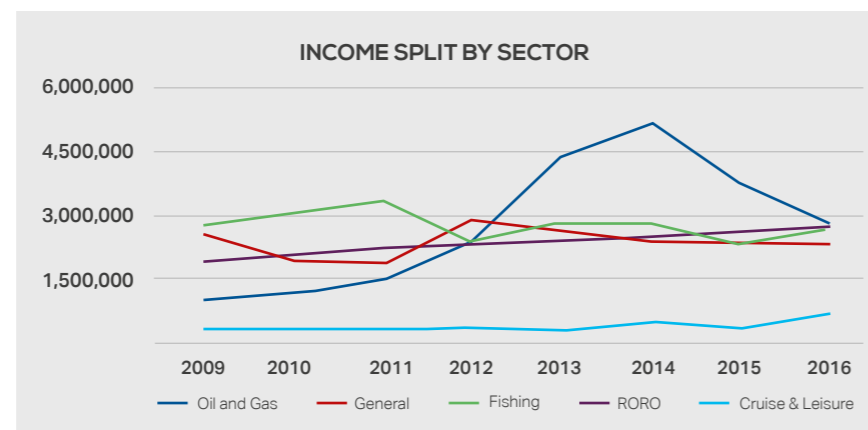
significantly and the continuing uncertainty over the size of the deficit accruing in the scheme has led to the Authority engaging professional advisors to look at the options available for future participation. The continuing low interest rates and the uncertainty following the Brexit vote have led to a significant increase in the present value of the funded obligation for the pension plan. This has resulted in a £4.2M increase in the Authority's overall pension deficit to £9.4M.

Other financial risks

PORT COMPETITIVENESS

The Authority works hard to provide a competitive, cost effective harbour with as high a capacity as possible. It is the aim of the Authority to keep harbour charges as competitive as possible and we are pleased to say that, once again, for 2017 the core harbour charges increases have been limited to inflation.

The Authority will continue to market the port as a cost-effective solution for users who are able to make significant savings due to the strategic location in the heart of the northern North Sea and West of Shetland oil & gas fields and rich fishing grounds.



FINANCIAL STATEMENTS

INCOME STATEMENT

For the year ended 31 December 2016

	2016	2015
	£000	£000
GROUP TURNOVER	11,145	11,424
Cost of sales	(6,226)	(6,084)
GROSS PROFIT	4,919	5,340
Administrative expenses	(1,024)	(901)
OPERATING PROFIT	3,895	4,439
Interest receivable and similar income	1	1
Interest payable	(859)	(619)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	3,037	3,821
Taxation	(871)	(986)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	2,166	2,835
Profit for the year attributable to:		
Owner of the parent	2,156	2,817
Non-controlling interest	10	18
PROFIT FOR THE YEAR	2,166	2,835

The operating profit for the year arises from the Group's continuing operations.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	2016	2015
	£000	£000
FIXED ASSETS		
Tangible assets	78,192	69,659
Investments	1,824	1,824
	80,016	71,483
CURRENT ASSETS		
Debtors falling due within one year	2,848	2,205
Debtors falling due after more than one year	398	1,652
Cash at bank in hand	724	1,855
	3,970	5,712
CREDITORS		
Amounts falling due within 1 year	(3,287)	(4,326)
NET CURRENT ASSETS	683	1,386
TOTAL ASSETS LESS CURRENT LIABILITIES	80,699	72,869
CREDITORS		
Amounts falling due after more than one year	(21,093)	(16,081)
PROVISIONS FOR LIABILITIES	-	(1,195)
DEFERRED INCOME	(8,412)	(7,989)
NET ASSETS EXCLUDING PENSION LIABILITY	51,194	47,604
Pension liability	(9,440)	(4,331)
NET ASSETS INCLUDING PENSION LIABILITY	41,754	43,273
CAPITAL AND RESERVES		
Sinking fund	-	2
Savings fund	70	70
Profit and loss account	49,519	47,317
Pension reserve	(7,835)	(4,331)
ATTRIBUTABLE TO OWNERS OF PARENT	41,754	43,058
ATTRIBUTABLE TO NON CONTROLLING INTEREST	-	215
TOTAL EQUITY	41,754	43,273

LERWICK PORT AUTHORITY
www.lerwick-harbour.co.uk



LERWICK PORT AUTHORITY

