
LERWICK PORT AUTHORITY ANNUAL REVIEW 2017-18



BRITAIN'S 'TOP' PORT



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MISSION AND VALUES



MISSION

- ~ The Port Authority is entrusted to manage, maintain and regulate the port and harbour of Lerwick, in an efficient and safe way for the benefit of all stakeholders.
- ~ To satisfy customers' needs in the delivery of competitive port services and be proactive in identifying new opportunities which will sustain and grow the Shetland community.
- ~ With 140 years of experience, to ensure the port and its infrastructure remains relevant to future shipping generations and plays a key role in the economic life of the islands.

VISION

What we work to deliver:

- ~ **Our Stakeholders** - we provide modern, self-funded, port services to international standards, and strive for excellence.
- ~ **Our Customers** - delivery of a quality service is innate; we create practical and innovative solutions to any challenge.
- ~ **Our People** - custodians of the Authority, our Board Members and staff are engaged and determined to succeed.
- ~ **Our Partners** - we have high expectations and continue to support partner organisations to grow.

CULTURE & VALUES

- ~ **Helpfulness** - delivery of quality services in a professional, friendly manner, our actions make a difference.
- ~ **Skill and dependability** - we are adept, experienced and versatile.
- ~ **Safety and Environmental awareness** - embedded into our way of working.
- ~ **Engagement** - listening and recognising when action is required, we do the right things for the right reasons.
- ~ **Commitment** - taking pride in our service and investing for the future to sustain the Authority for coming generations.

STANDARDS TO CREATE THE CULTURE OF LERWICK PORT AUTHORITY

- ~ **Respect** - treat others as you like to be treated yourself.
- ~ **Integrity and trust** - be honest, trustworthy and fair in all that you do
- ~ **Ethical** - be non-discriminatory and even-handed to show equality.
- ~ **Commitment and Engagement** - do the right thing, be a team player and professional in your approach.
- ~ **Proactive** - be confident that it can be done and will be done, in a safe and efficient manner.
- ~ **Responsible** - take ownership and accountability of your actions.
- ~ **Communication** - a two-way process, be responsible for your communication and ask, listen and contribute.
- ~ **Attitude** - a positive attitude based on confidence and learned through gaining knowledge and understanding of yourself and others.

CHAIRMAN'S STATEMENT

This is my first year as Chairman of Lerwick Port Authority, having spent a number of years on the Board, including two as Deputy Chairman. I was very pleased to be appointed as Chairman in July 2017.

In 2017, we enjoyed two landmark events by inaugurating large capital projects completed. These were the opening of Mair's Pier and the Dales Voe quay extension where we were delighted to view the Buchan Alpha project being decommissioned at Lerwick.

These projects were significant milestones in terms of capital projects completed, but rather than sit back and relax, the team at the Port Authority continues to look to the future and what can be done next to improve the harbour for its users and stakeholders.

Work has continued throughout the year on the funding and procurement for the replacement fishmarket for Lerwick and I am pleased to say that the construction phase of the project has started in May 2018. This will be a significant benefit to the thriving white fish sector at the port.

It has become clear from discussions with stakeholders on offshore decommissioning that there is a strong desire for provision of an ultra-deep quay in the UK, as this is a gap in the market. It is my belief that Lerwick, with its natural deep

water and strong track record of decommissioning, has the ideal location for such infrastructure at Dales Voe.

As ever, Lerwick is in the fortunate position of having a diverse customer base and a highlight for the year is the strong performance by the leisure sector, especially cruise calls. Ferries and freight remains a vital component in port traffic, including increased exports of fresh fish from Shetland. Lerwick again showed its capabilities, with the largest transport ships berthing at the port with modules for offshore installation projects.

Governance of the Authority is the role of the Board and I am pleased that we have made good progress on various fronts throughout the year. Board Members have appreciated training days where they had the opportunity to interact with other Trust Port boards. Of note is our Health, Safety, Environment and Quality processes which have been upgraded and latest standards achieved.

Our part ownership of external companies is kept under review and the decision has been made to take a property company in-house. Discussions continue on a resolution to the expensive defined benefit pension scheme currently in place at the Authority. A new constitutional Harbour Revision Order is being promoted in 2018 to modernise the appointment of Board

Members in line with standard guidance. These and many other topics discussed at our monthly Board meetings keep us abreast of all developments and allow us to steer the strategic direction of the Authority.

It is an honour to chair the Board of the Authority. The port is an abiding interest of mine and a key part of the economic life of the islands. I wish to thank my Board colleagues, executive management team and all staff members of the Authority for their efforts and support throughout the year.



RONALD GAIR
Chairman / June 2018

£28.5M

QUAY PROJECTS INAUGURATED IN 2017



CHIEF EXECUTIVE'S STATEMENT

2017 has seen a period of consolidation, with two new major quay projects now enhancing the capability and capacity of the port.

Activity levels were slightly down, as expected, due to the continuing low oil price which has meant that investment in new offshore field development has remained at a low level, impacting on project support from the port. However, Veolia Environmental Services and Peterson UK winning the Buchan Alpha decommissioning project for Lerwick has been heartening and, we hope, the first of a number of significant awards in the coming period.

Financially, LPA remains strong in terms of turnover and Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) is £4.6m for 2017 versus £5.7m in the previous year. These figures also exclude adjustments for Fair Valuations of Pensions and Financial Instruments, some of which are new features impacting on our published accounts for 2017. Significant depreciation charges for the two major quay projects have commenced in 2017, as well as the accounting adjustments for year-end valuations of hedging instruments (interest rate cap and swap) and defined benefit pension liabilities, all of which has affected the year end position. These adjustments calculated in accordance with UK Financial Reporting Standards, do not have a cashflow impact, they are a snapshot of the position at the year-end, which will vary from year to year. These adjustments are shown on Page 42 of this Report and result in a net overall increase in reserves of £631k

for the year. The Financial Position at the year-end has improved resulting in a figure of £42.4m for 2017 compared to £41.8m at 2016. The Authority continues to invest in its key infrastructure which now stands at £76.5m at the year end. The Authority's participation in a defined benefit pension scheme is a challenge and an alternative is being explored.

The Authority is continuing with its capital programme established in 2014, with the funding then secured from Bank of Scotland for four investments. Two quay projects have been successfully delivered and the timeline for the replacement fishmarket and replacement harbour vessel, *Kebister*, is now firming to reach the end of the capital spend by early 2020. At a time where no overall growth is predicted, a period of consolidation is expected, with further new investments having to wait until the Authority's borrowings are reduced.

As ever, the diverse range of sectors using the port at Lerwick has provided resilience in the face of some challenges:

- ~ Shrinkages in the oil sector since the oil price fell in 2014 have been well documented.
- ~ Offshore decommissioning is a growing industry, with a number of significant platform removals scheduled from 2020 onwards.
- ~ The white fish sector is enjoying a period of robust health, with plentiful stocks, good prices and new fleet investment.

~ The pelagic fleet is also undergoing a period of renewal, with a number of local vessels sold and new builds due to replace them. However, pelagic processing remains squeezed in a weak international marketplace and throughput at the local fishmeal plant is low.

~ The lifeline ferry service contract has been extended until October 2019 and the Authority is pleased that the Scottish Government is to tender the ferry contract, rather than bring it in-house. The proposed reduction on ferry fares should make a positive impact in the second half of 2018.

~ Cruise ship calls are on an upward trend, with strong bookings for 2018 onwards by large ships. Ideally, dredging of parts of the harbour will allow more of these ships to berth, reducing risk of weather cancellations and making Lerwick an even more attractive destination.

~ Seasonal yacht and tall ship calls are always popular and good for the town. Efforts will continue to provide additional capacity for this sector, mindful of the community benefit.

I hope you enjoy a look through our Annual Review, which we are pleased to publish.

 **SANDRA LAURENSEN**
Chief Executive / June 2018

2017 HARBOUR STATISTICS

4,896
-
VESSEL ARRIVALS

178,392
-
PASSENGERS

£50.3M
-
VALUE OF FISH LANDED

978
-
PILOTAGE MOVEMENTS

133
-
TENANTS

£10.5M
-
GROSS ANNUAL TURNOVER

4,574
-
METRES OF QUAYS

926,827
-
TONNES CARGO

50,649
-
TONNES FISH LANDED

54
-
MEMBERS OF STAFF

201
-
PROPERTIES RENTED

130,000m²
-
OF LAYDOWN

12.5 metres
-
MAXIMUM WATER DEPTH ALONGSIDE

9 nautical miles
-
SIZE OF HARBOUR (NORTH TO SOUTH LIMITS)

£2M
-
RENTAL INCOME

11.6M
-
GROSS TONNES OF SHIPPING

127,624
-
RO-RO PASSENGERS

93,558
-
LARGEST VESSEL GROSS TONNES

50,768
-
CRUISE PASSENGERS

3 nautical miles
-
SIZE OF HARBOUR (INNER HARBOUR)

OUR BUSINESS

2017 was the port's 140th year, Lerwick Port Authority having been established in 1877 as Lerwick Harbour Trust by an Act of Parliament. This act constituted the Trust Port to manage, maintain and regulate the Port of Lerwick. The promotion of the Act was funded by the merchants of the town who established a Board of Trustees. The first task of the newly created Trust was to build Victoria Pier, opened in 1886.

As a Trust Port, the harbour is operated commercially by the Port 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 £115 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 from the local community and harbour users. The Chief Executive and Deputy Chief Executive 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 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.

It is planned in 2018 to promote a Harbour Revision Order to update the Authority's Acts and Orders to change the constitution in regard to appointing Board Members. This new system of appointments will broaden the catchment for potential Board Members by removing sectoral appointments and closely follows Modern Trust Ports for Scotland guidance for good governance.

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 Assessment is the identification of risks to the business.

MEMBERS

The current Board Members of the Authority are:



Ronald Gair
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 Ltd. Ronnie also serves as a Port Authority-nominated director on the board of Black Hill Industrial Estate Limited and Kebister Agricultural Limited.

~
TERM OF APPOINTMENT TO JULY 2020



John Henderson
DEPUTY CHAIRMAN

John was re-appointed to the Board in July 2017, having joined in 2015. He is managing director of Ocean Kinetics Limited, a Shetland company now operating throughout the UK and internationally in oil & gas, marine works and engineering.

~
TERM OF APPOINTMENT TO JULY 2020



Sandra Laurenson
CHIEF EXECUTIVE

An executive Board Member with a long career at the Port Authority, Sandra is a past chairman of the Scottish Ports Committee of the British Ports Association. Directorships nominated by the Authority include 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 a Port Authority-nominated Director to Pelagia Shetland Limited and Black Hill Industrial Estate 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 white fish 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



Robert Polson

Bobby is skipper of pelagic trawler, *Serene*, 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



Steven Hutton

Steven was appointed to the Board in July 2017. A shareholder and director of local property development company, Hutton Property Developments Ltd, he also has interests in J.R. Hutton Consulting Ltd

~
TERM OF APPOINTMENT TO JULY 2020

54

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, 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

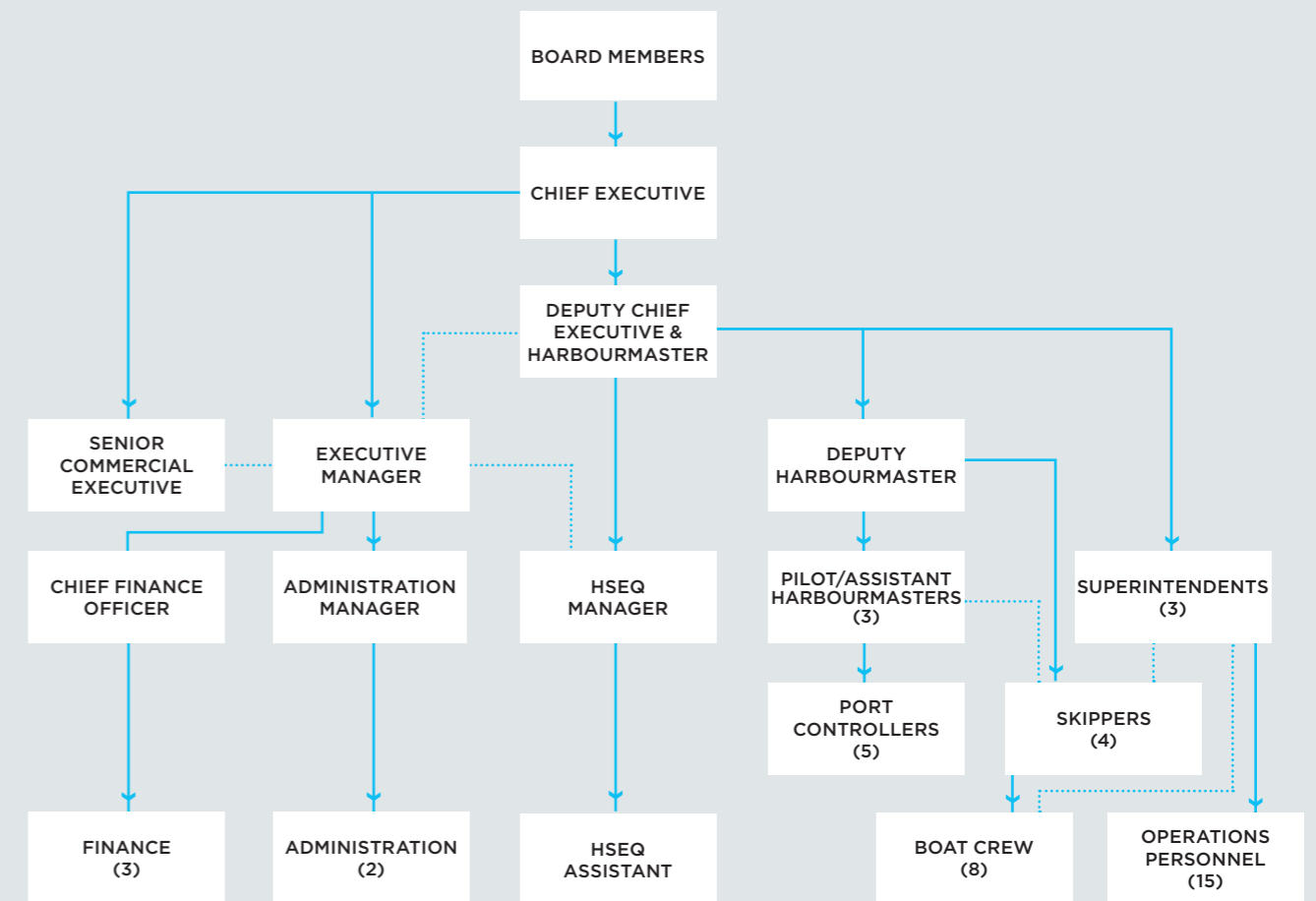
STAFF

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.

2017 saw the Authority roll-out the first stage of a performance management system to assist in reaching the 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.

During the year, the Authority updated certification to BS EN ISO 14001:2015 Environmental Standard. 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. This updated certification is further verification of the work the Authority does to ensure these goals are met.

The Authority also achieved certification to the BSI standard on quality, BS EN ISO 9001:2015. Port user requirements are constantly monitored and the services are improved appropriately. Processes are also monitored and updated to improve efficiency of operations.

The Authority has been updating systems throughout the year to comply with the

new health and safety standard ISO 45001. This standard is set to replace the current OHSAS 18001 in 2018 and the Authority aims to be one of the first to achieve accreditation when it is rolled out.

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

~
LOST-TIME INCIDENTS

No
Accidents

~
REPORTED TO
CHIEF INSPECTOR
MAIB

Zero

~
ENVIRONMENTAL
INCIDENTS
REPORTED

128,580kg

~
OF SHIPS' WASTE
DISPOSED FROM
PIERS

21,660
litres

~
OF WASTE OIL
RECYCLED

Planting
trees

~
TO REPLACE THE
PAPER USED BY
THE AUTHORITY



OBJECTIVES UPDATE

Targets from Annual Review 2016

TARGET	OUTCOME
Management, maintenance and regulation of Lerwick Harbour	
- Development and implementation of performance management system	> Roll-out of the performance management system is underway
- Deliver updated Health, Safety, Environmental and Quality Management System	> System implemented and continual monitoring and upgrading to be carried out
- Complete the review of pension provision	> Review of pension provision is ongoing
- Prepare a new style annual report	> 2016 annual review was published in the new style
To conduct all business activities in a responsible manner, which assures the prevention of injury and ill-health to employees, port users and others, preservation of the environment and quality of service and to promote the development of an efficient, cost-effective sustainable port	
- Achieve certification to new standards BS ENO ISO 9001:2015 and BS EN ISO 14001:2015	> Certification to the new standards was achieved in the year
- Adopt a new Health and Safety Policy	> New policy adopted by the Board
- Review and improve Risk Assessments including Strategic Marine Risk Assessments	> Risk assessments including Strategic Marine Risk Assessments reviewed and improved with a programme for future review implemented
- Plan route to achieving accreditation to OHSAS 18001	> Awaiting implementation of replacement standard ISO 45001
To invest in new port facilities where a need is identified. To diversify the portfolio of investments and sources of income, especially where this also supports and strengthens core harbour activity	
- Secure grant funding for the delivery of the replacement fishmarket and award the contract for the construction project	> Grant funding secured in 2017, with contract awarded in May 2018
- Monitor market requirements for future infrastructure projects on capital projects list	> Continued monitoring of requirements for all sectors using the harbour
- Continue investing in Shetland Seafood Auctions Ltd	> Further investments made as planned
- Review shareholding in Shetland Fish Products (SFP) Limited	> Shareholding in SFP continues to be monitored to find best future for the company
- Consider options for future of Black Hill Industrial Estate Limited	> Board made decision to bring Black Hill Industrial Estate Limited's business into its property portfolio

TARGET	OUTCOME
To attract new business and ensure the continued satisfaction of existing customers and users, and to defend the port against unfair competition and anti-competitive practices	
- Decommissioning - maintain and promote Lerwick's identity as a decommissioning port	> Significant promotion of the port following the award of the Buchan Alpha decommissioning project
- Engage with the decommissioning sector to determine demand for enhanced facilities	> Positive engagement throughout the year with industry and Government on requirements for enhanced facilities
- Marketing to oil & gas sector, with emphasis on efficiency and cost-effectiveness of the port	> Engagement with clients and attendance at trade shows and events throughout the year
- Marketing of new facilities at Holmsgarth North and Dales Voe, including to the cruise industry	> Direct engagement with the cruise sector and attendance at cruise shows to discuss facilities on offer
- Consider findings of study into the pelagic processing sector at Lerwick	> Information gathering stage of study completed with phase two to be carried out in 2018
- Tender for rebranding and a marketing push to coincide	> Rebrand launched in September 2017, with very positive feedback
To maintain existing buildings, plant and equipment and harbour facilities in a safe and serviceable order	
- Develop Albert Building to provide a good working environment reflecting the Authority's modern image	> Phase 1 and phase 2 completed, providing a modern fit-for-purpose office space. Phase 3 is currently on hold
- Develop specification and tender process for replacement harbour vessel, Kebister, maintaining current vessels meantime	> Procurement has begun, with design and construction expected to start in 2018
- Undertake planned maintenance and/or renewal of existing property and quay infrastructure	> Repairs and renewals of property and quay infrastructure has followed programme

2018 OBJECTIVES & TARGETS

The key strategic objectives of Lerwick Port Authority and the methods to be used to achieve them in 2018 are:

1.

OBJECTIVE - THE MANAGEMENT, MAINTENANCE AND REGULATION OF LERWICK HARBOUR

METHODS

- > Promotion of a Constitutional Harbour Revision Order to update the system of appointment of Board Members
- > Further implementation of performance management system
- > Complete the review of pension provision
- > Register the Authority's estate on the Land Register of Scotland

2.

OBJECTIVE - TO CONDUCT ALL BUSINESS ACTIVITIES IN A RESPONSIBLE MANNER, WHICH ENSURES THE PREVENTION OF INJURY AND ILL-HEALTH TO EMPLOYEES, PORT USERS AND OTHERS; 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 ISO 45001
- > Maintain accreditation of ISO 9001 & ISO 14001
- > Develop business contingency plan
- > Review and improve Risk Assessments, including Strategic Marine Risk Assessments

3.

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

METHODS

- > To award contract for construction of replacement fishmarket
- > To continue to explore the opportunity for an ultra-deep water quay at Lerwick
- > Monitor market requirements for future infrastructure projects on capital projects list
- > Continue programme of investing in Shetland Seafood Auctions Ltd
- > Review shareholding in Shetland Fish Products (SFP) Limited
- > To bring the activities of Black Hill Industrial Estate Limited into those of the Authority

4.

OBJECTIVE - TO ATTRACT NEW BUSINESS 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 leading 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
- > To complete the roll-out of the rebranding of the Authority
- > To redesign and relaunch the Authority's website
- > Continued marketing of new facilities at Mair's Pier and Dales Voe, including to the cruise industry
- > Consider findings of study into the pelagic processing sector at Lerwick

5.

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

METHODS

- > Award a contract to build a replacement for the Authority's harbour vessel Kebister
- > Undertake planned maintenance and/or renewal of existing property and quay infrastructure
- > To replace the Authority's current computerised Port Management and Information System with an updated system

SECTOR HIGHLIGHTS

DECOMMISSIONING

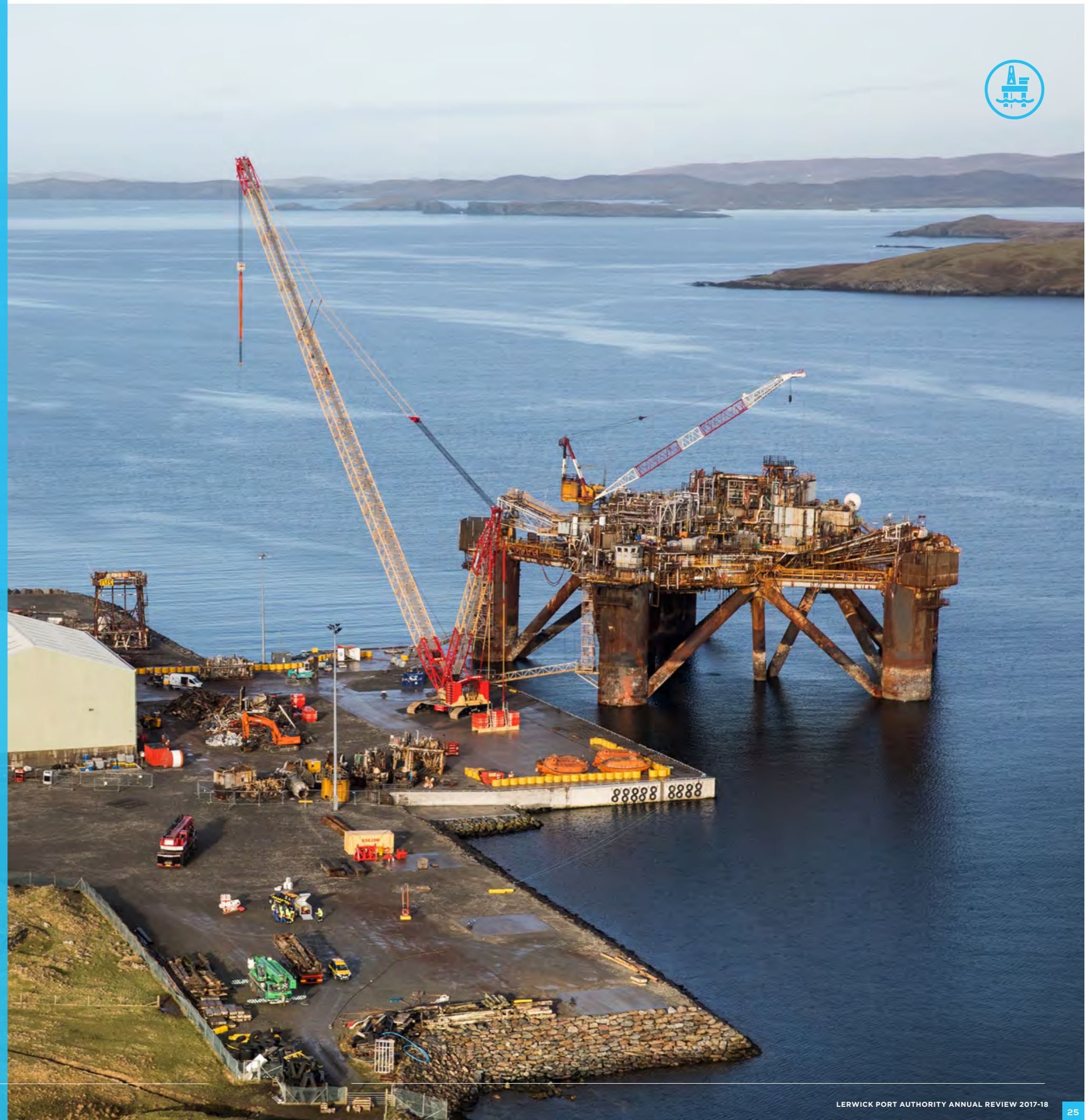
- ~ Fully-licenced decommissioning yard
- ~ Deep water capacity
- ~ Arrival of Buchan Alpha floating production unit
- ~ Single lift capability

2017 saw the largest decommissioning project to date come to Lerwick with the arrival of the former floating production unit, Buchan Alpha, at Dales Voe Base at the end of summer. It sits alongside the newly-expanded quayside where it is being dismantled for recycling. The first decommissioning project to use the new facilities at Dales Voe, the work is expected to take around 14 months to complete.

The project is also taking advantage of the recently-expanded laydown and reclamation at the site for working and storage areas. Items requiring further processing are transported by road the short distance to a fully-licenced decommissioning facility at Greenhead Base.

Plans are at an advanced stage to turn a significant area of the Dales Voe laydown site into a licenced decommissioning yard, with the capacity to dismantle multiple offshore topsides and jackets at the same time. The platforms can come ashore over the adjacent quay using single-lift technology, taking advantage of the very high strength capacity of the quay.

The port continues to attract a number of "piece small" decommissioning projects into Greenhead base, as it has for a number of years. This has allowed Lerwick to build up a great deal of experience and a strong supply chain network for the industry. 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



Management of white fish stocks in recent years has resulted in increased quotas.

1,948

FISHING VESSEL ARRIVALS

£21.1M

WHITE FISH LANDED

2nd

LARGEST LANDINGS PORT IN UK

Significant

PELAGIC PROCESSING PORT IN THE UK

The outlook for these remains very robust and the renewed confidence in this sector is heartening. New investment by the industry 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. The Authority has been successful in securing grant funding from European Maritime and Fisheries Fund and Highlands and Islands Enterprise towards the cost of the project. A contract for the project was awarded in May 2018, with a completion date in early 2020.

The replacement market to be built on Mair's Quay will be the final piece of the jigsaw to transform the area into the port's new fishing hub. 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. An upper storey at the new fishmarket will accommodate offices for Shetland Fish Producers Organisation and LHD Ltd. This part of the project will be funded and owned by them.

While new infrastructure has provided welcome capacity improvements, attention has also been required at some of the older assets, such as Gremista Pier. Substantial maintenance was required to maintain these assets, in particular the replacement of the fendering on a pier used for landings to both pelagic and salmon processors and for frozen fish export.

A number of the local pelagic fishing vessels are currently being replaced. On arrival, they will be able to enjoy the facilities provided at Mair's Pier where the capacity, including shore power, is suitable for the increased size of the new vessels.



CRUISE & TOURISM

Marine tourism, including cruise ships and yachts, is a significant growth area for the port.

A cruise port for many years, Lerwick has enjoyed steady numbers of cruise ship calls to record levels. 2016 & 2017 saw the start of another period of growth, set to continue into 2018 and beyond. A combination of more ships, an increase in the average size of ships and a consequent increase in passenger numbers is leading to a new benchmark being set for this increasingly important sector. Numbers for 2019 are likely to once again eclipse the new records expected in 2018.

Lerwick's capacity for cruise ships would be further enhanced by a targeted programme of dredging in the area around Mair's Pier and the North Ness Channel, giving greater flexibility in allowing larger cruise ships alongside. Plans have been drawn up to gain the maximum benefit from a programme of dredging, in terms of increased safety and capacity, in the most efficient manner. A timeline will be decided once finance is available.

As the number of vessels and passengers continues to grow, it is important to provide the onshore capacity for this increase in visitors. The Authority has further expanded its support for the cruise Meet & Greet service to suit the demand and also is providing additional infrastructure with support for coaches. A new mobile welcome station came into service in 2017.

In the longer term, the Authority's ambitions include a deep-water quay at the town centre which 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, including a number of international yachts, again of increasing size, calling at Lerwick. The pontoons provided in the town centre each summer for visitors are very popular and there is a desire to provide additional capacity, if suitable external funding can be sourced.

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

50,768

~
CRUISE PASSENGERS

2,193,903

~
GROSS TONNES OF SHIPPING

71

~
CRUISE SHIPS

9

~
MAIDEN CALLS



FERRIES & FREIGHT: LIFELINE SERVICES

The Authority provides the onshore infrastructure for the lifeline ferry service connecting Shetland to the Scottish mainland which exports as much as it imports.

As well as providing the islands with essential goods, the regular, nightly roll-on/roll-off service is vital for the transport of the increasing volume of white fish landed at Shetland and the significant volume of farmed salmon grown and processed.

The load-on/load-off containerised cargo services previously servicing Lerwick ceased in the second half of 2017, with the transfer of the cargo now competing for space on the main ro/ro service.

Passenger numbers using the nightly ferry have been increasing for a number of years and, although there was a dip in footfall in the last quarter of 2017, caused by temporary competition from low-cost flights to-and-from Shetland, it is expected these will pick up again in 2018 following the withdrawal of one airline from the route. The introduction of a version of a new Road Equivalent Tariff fares structure later in 2018 is expected to increase the number of passengers using the ferry service.

The Scottish Government's announcement of a policy review on the provision of Scotland's ferry services in 2017 has been delayed and is now expected to conclude later in 2018. The current ro/ro service provider contract has been extended to October 2019. The Authority is pleased that the route remains subject to a competitive tender process. An eye is being kept on developments to ensure that any future required changes in terminal infrastructure can be timeously addressed.

Other shipping customers, such as fuel tankers providing product to the islands, although out-with the subsidised lifeline service, are also important to the islands' economy.



45,546

~
TONNES OF FISH
FEED THROUGH THE
HARBOUR

927K

~
TONNES OF CARGO
MOVEMENTS

146,708

~
TONNES OF FUEL
IMPORTED



SPOTLIGHT ON: FENDERING SYSTEM

The Port Authority was pleased to be awarded a Shetland Environmental Award for the design and construction of a fendering system on Mair's Pier. The design involved hanging a grid of recycled tyres, sourced locally and from mainland UK, and secured to the quay wall using steel chains and brackets.

The fendering solution helped divert 86.4 tonnes of tyres from landfill and also removed the requirement for traditional fenders being fabricated and then shipped from China. The end-result is a practical, low cost fendering solution that is easy to maintain and significantly reduces the impact on the environment.

DESIGN IDEAS

Having decided to try a bespoke fendering system, a trial version using old tyres was installed at Mair's Quay. Proving successful, the same tyre system was then used on the inner two berths (north and west) at Mair's Pier. The outer two berths (south and east) were less straight forward due to significantly higher loadings of the larger vessels using the berths. Here a system of different sized tyres and fixings was trialled successfully and was then rolled out for the remainder of the pier. The design of the new Mair's Pier included a bespoke fixing system by the contractor as part of the capital works.

MANUFACTURE

North and West Faces

- ~ One tyre above another configuration.
- ~ All tyres were drilled to the same specification.
- ~ All chain lengths were the same.

This allowed the creation of a production line which facilitated the efficient manufacture of the tyre sets. It also enabled the tyres to be hung faster.

South and East Faces

- ~ Individual large tyres.
- ~ Hung in a zig zag configuration.
- ~ Higher impact resistance.

A safety feature of the design is that should one of the lengths of chain break, then the other will still hold the tyres in position preventing a fall into the sea. This reduces the requirement for divers to recover lost fenders. Replacement is quick and minimises any time the berth may be out of use.

580

~
60KG TRUCK
TYRES

215

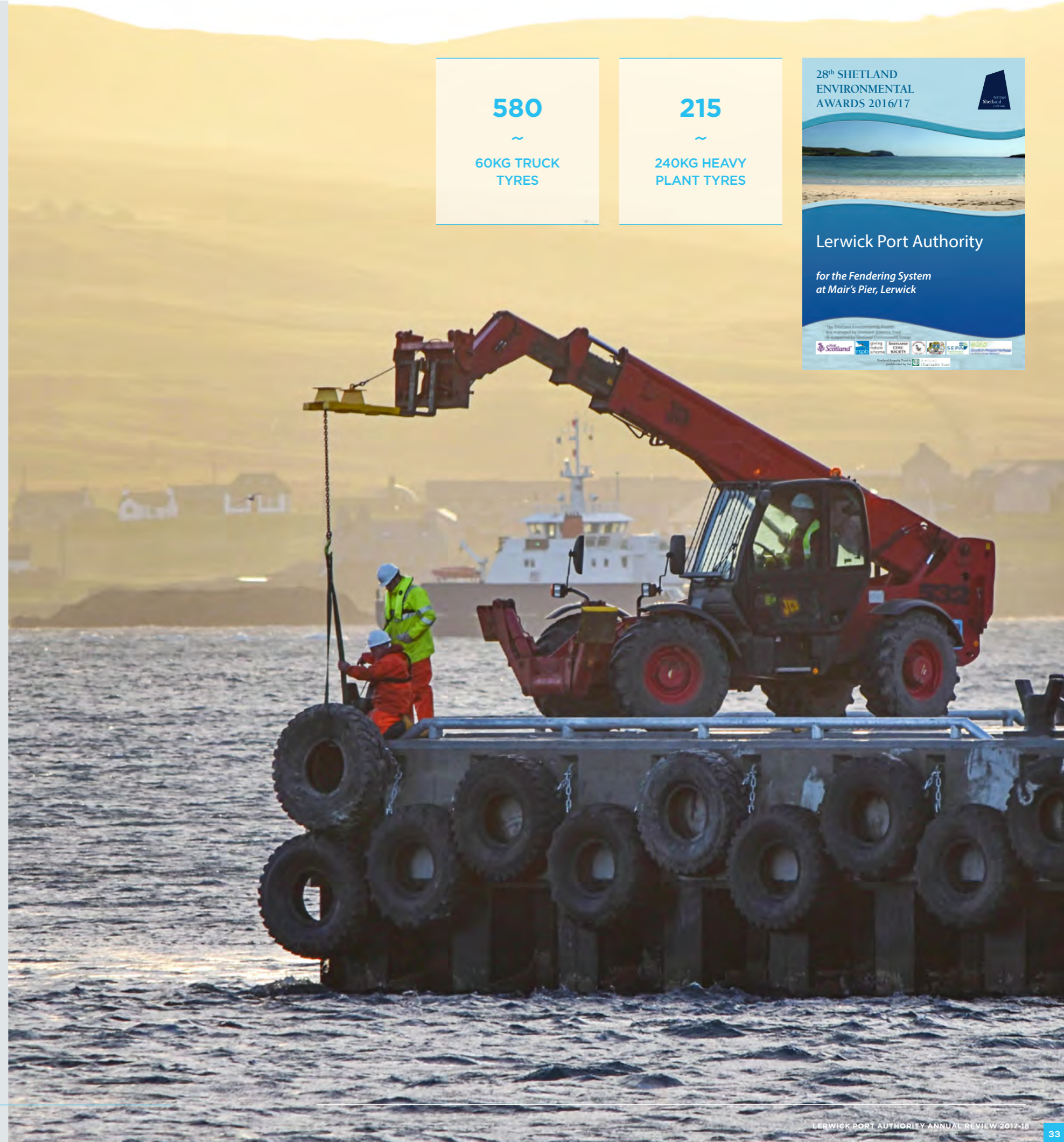
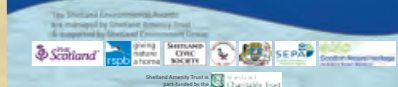
~
240KG HEAVY
PLANT TYRES

28th SHETLAND
ENVIRONMENTAL
AWARDS 2016/17



Lerwick Port Authority

for the Fendering System
at Mair's Pier, Lerwick



SPOTLIGHT ON: ORGANISATIONAL REBRAND

2017 saw the Authority undertake an organisational rebrand, with the aim to create a contemporary identity with images and communication style to reflect the Authority's modern approach.

Following a competitive tendering process, Left Design was engaged to help create the brand. They designed a forward-looking and enduring brand to convey this modern outlook and the unchanging element linking everything together – the sea. The new logo and style are very versatile, and have been well-received in the market-place and across all kinds of media, from print items and advertisements to clothing and vehicles.

The Authority's website will have a major update in 2018 and is the main gateway to access port information.



2018 CAPITAL PROJECTS

REPLACEMENT FISHMARKET

A replacement white fish market for Mair's Quay has been designed, with construction underway in May 2018 and anticipated completion in early 2020. Assistance from European Maritime & Fisheries Fund and Highlands and Islands Enterprise has been secured.

With a capacity doubling fish boxes landed daily, the market will allow white fish handled at the port to increase. It will be better located to suit vessels landing at all states of tide and have much improved road access for the uplift of fish.

Key benefits also 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.

The market has been designed with input from all stakeholders and will be the catalyst for a new fishing hub at Lerwick.

ULTRA DEEP-WATER QUAY

A gap in the UK decommissioning sector is the capacity for large crane vessels to land big modules directly to a quayside, as they do in Norway. The water depth required for the largest crane vessels is significant and Dales Voe can provide a UK solution for such infrastructure. Currently Lerwick is the only UK port receiving calls from these vessels, using the harbour's anchorages.

There is Government support for such an ultra-deep quay and the Authority has preliminary plans drawn to show how this could be situated at Dales Voe, complementing the heavy load-bearing quay recently opened.

Lerwick already has the ability to accept the largest platform topsides ashore by single-lift technology. When modular deconstruction of a platform by a large crane vessel is the chosen technique, currently Norway is winning most of this work, due to the quay depth available there.

As the decommissioning market matures, and project awards come to fruition, the chosen technique of decommissioning by single-lift or modular methods will decide on the timeline for such additional ultra-deep quay infrastructure at Lerwick.

In addition to the strong Dales Voe quay currently available, the site is capable of accommodating multiple decommissioning projects at one time and is complemented by the Greenhead decommissioning yard.

REPLACEMENT KEBISTER

Plans for the replacement harbour vessel, *Kebister* are being developed and construction is expected to begin later in 2018, with delivery anticipated by 2020.

The vessel will be a sister to *Knab*, with a greater bollard pull.

DREDGING

To complement the new quay developments recently completed, plans for deepening parts of the approach channels and new berths are proposed, environmental assessment work has been commissioned and it is hoped work can commence after other capital expenditure commitments have been realised.

This will enhance the versatility of the port to berth increasing sizes of vessels, particularly in the cruise and oil & gas sectors.

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, engagements were hosted 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 active role in the community includes relevant events and consultations on key issues. An example is hosting school visits and work experience students which happens 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, we have a responsibility to support the community that we are 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. Examples of charitable and community activities we supported in 2017 include:

- > Free berthing for tall ships
- > Lerwick Lifeboat Open Day at Victoria Pier
- > Cruise Ship Meet-and-Greet service
- > Bergen-Shetland Race
- > Shetland Fiddlers Royal Edinburgh Military Tattoo
- > 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
- > Shetland Amateur Athletics Club, Island Games
- > Herring and Whitefish Trades Golf Alliance
- > Sail Training Shetland
- > Shetland Swimming Association, Island Games
- > The Swan Trust
- > Pelagic Sculpture Project
- > Up Helly Aa

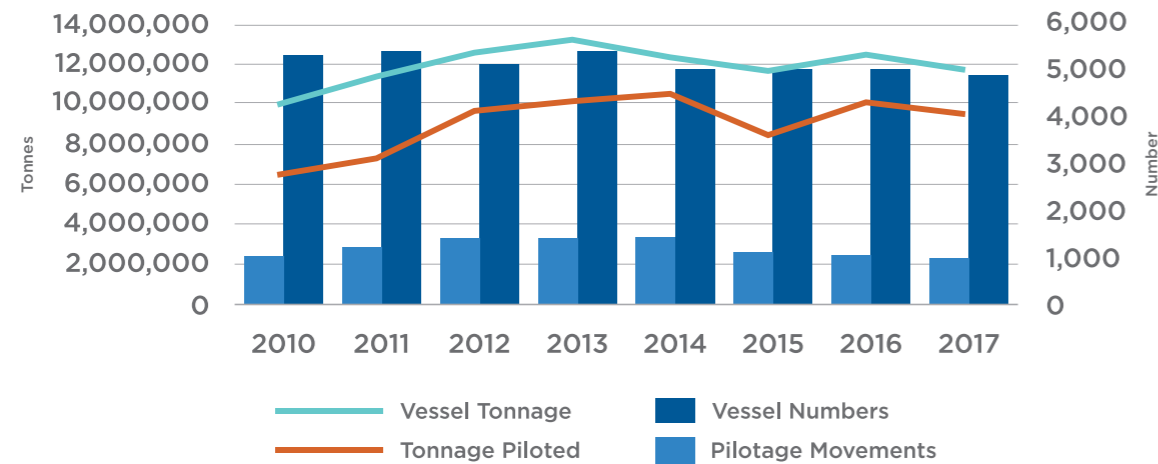


£13,634

TOTAL CHARITABLE DONATIONS FOR 2017

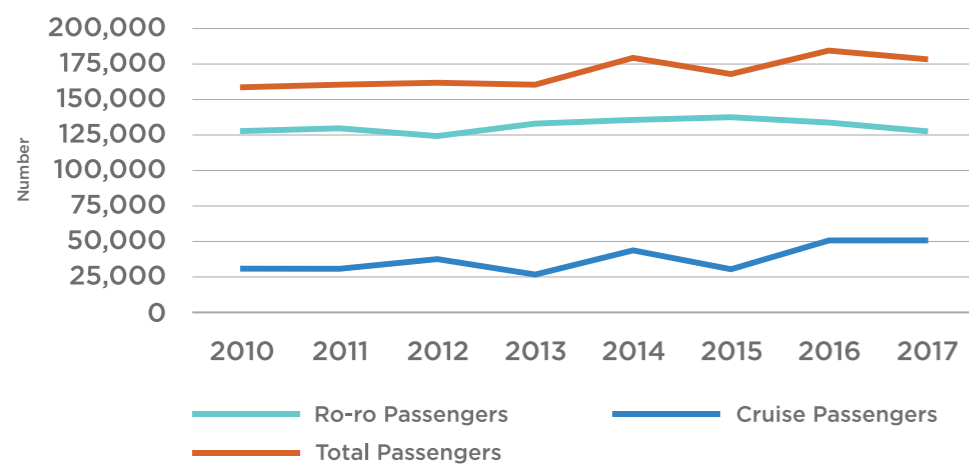
KEY HARBOUR INFORMATION 2017

VESSELS



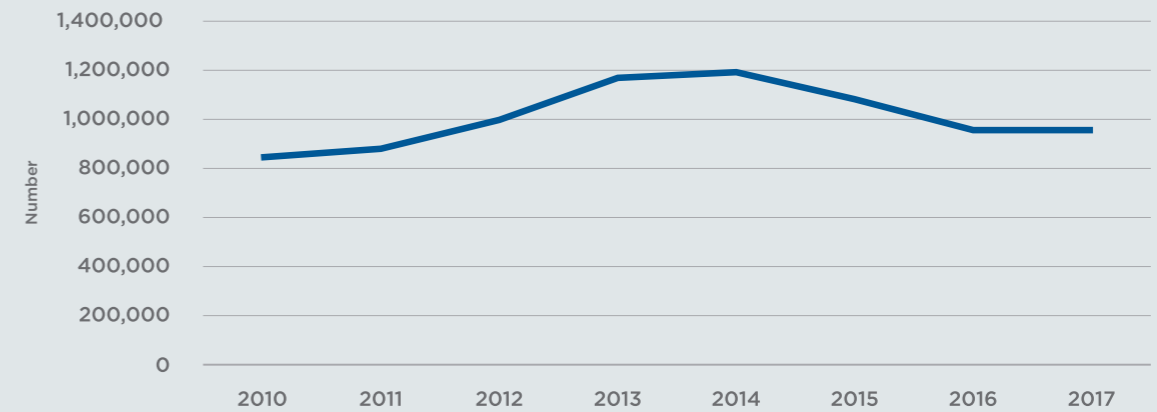
The number of vessels visiting in 2017 was down 2.8% on 2016, with 11.6M gross tonnes of shipping down 6.4%, due to both ro/ro ferries being dry docked for scheduled maintenance, less oil-related vessels in the current downturn and fewer cargo ships.

PASSENGERS



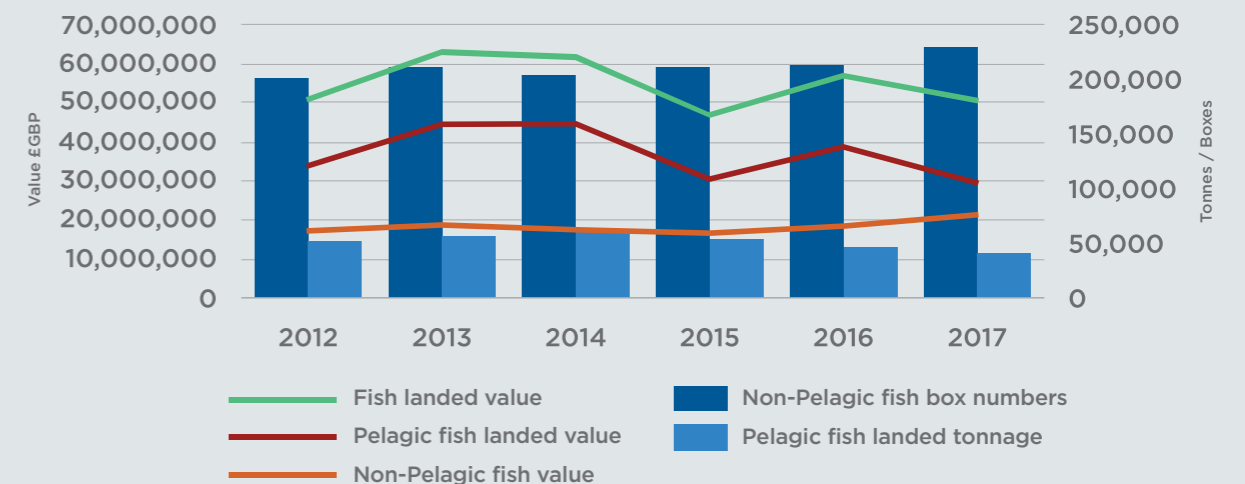
Passenger numbers using the roll-on/roll-off ferry service have held up well, despite competition from low fares flights, now ended. It is anticipated passenger numbers may increase in the second half of 2018 following the introduction of lower ferry fares. Another strong year from the cruise sector in 2017 has helped maintain numbers at a high level.

CARGO MOVEMENTS



The completion of the construction phase of the Shetland Gas Plant in 2015 and no significant large scale projects in 2017 meant less cargo coming through Lerwick. Cargo figures compare well to the years prior to the construction, with overall figures, excluding oil and gas cargo, similar to 2016.

FISH LANDINGS



2017 white fish landings at Lerwick have shown another strong year, with box numbers ahead of the previous year and increased prices at the market. The tonnage from the pelagic sector has reduced in the year and prices have also fallen back from the high levels the previous year.

FINANCIAL PERFORMANCE AND ANALYSIS

TURNOVER

Turnover held up well in 2017 - down 6% - despite the continuing slowdown in oil-and-gas-related activity in the year, leading to a 14% drop in income from the sector. This underlines the strength of the diversity of the port's business. In 2017, the oil & gas sector accounted for 23% of turnover, down from a high of 39% in 2014. Other sectors have held up well, with income from fishing remaining steady, while lifeline ferry services income was up slightly. Overall turnover was £10.5 million.

An area of growth for turnover in the year came from the cruise ship sector, up 3% and consolidating a big increase the previous year. The cruise industry is becoming increasingly important to the port, and now accounts for over 5% of total turnover, with this expected to rise in future years.

PROFIT

Operating profit for the year (before fair value adjustments), was still healthy, despite being down on the previous year. As well as the reduced turnover, there were a number of significant repairs to harbour infrastructure in the year that impacted profitability. There was also an increased depreciation charge, with the two large capital projects that were completed in 2016 being depreciated for a full year also having a negative effect on profit.

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 is pleased 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.

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 Bank of Scotland for a number of years and they understood what was required from the new borrowing facility and were able to tailor the lending to suit the planned investment.

The development period for this facility ended in January 2018. However, due to the later-than-expected start to the replacement fishmarket and Kebister projects, a portion of the facility is adjusted to a new timeline.

PENSIONS

The 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.

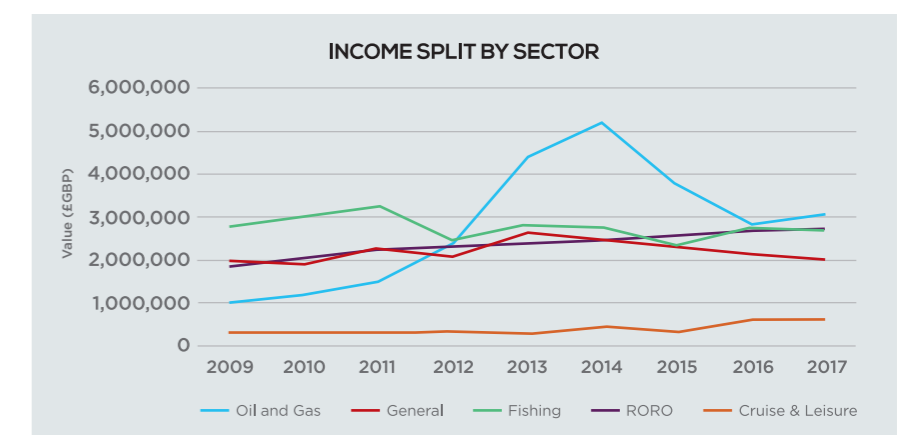
The Authority is also an admitted body to the Shetland Islands Council Local Government Pension Scheme (LGPS), also a defined benefit scheme. In line with many defined benefit schemes in recent years, the contribution levels have been increasing significantly and the level of the deficit accruing in the scheme continues to be uncertain. The Authority has continued throughout the year to work with professional advisors and continues a dialogue with the scheme managers around the Authority's future participation in the scheme. The pension scheme deficit in the Authority's accounts currently is £9.5 million.

There is also an adjustment for FRS 102 accounting standards for the pension scheme liability that is included in the income statement. This has had a negative impact of £498,000 on profit-before-tax.

INTEREST RATE RISK

The Authority decided to take advantage of the low interest rates available and "lock in" a significant portion of its borrowings 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 any future interest rate increases.

The FRS 102 accounting standards that the Authority's accounts are prepared under require an adjustment to be included to take account of the "fair value" of the hedge at the year-end. For 2017, the adjustment to valuation is a reduction of £357,000, which is unfortunate. The adjustment will balance out over the lifetime of the hedge.



FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For illustrative purposes
For the year ended 31 December 2017

	2017	2016
	£000	£000
GROUP TURNOVER	10,489	11,145
Cost of sales (excluding pension adjustment)	(7,252)	(6,231)
GROSS PROFIT	3,237	4,914
Administrative expenses	(1,013)	(1,024)
OPERATING PROFIT	2,224	3,890
Net interest payable (excluding pension adjustment)	(597)	(652)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	1,627	3,238
Taxation (excluding pension adjustment)	(642)	(905)
PROFIT FOR THE YEAR (prior to pension adjustments and FV loss on derivative)	985	2,333
Net adjustments relating to pension adjustments and FV loss on derivative within income statement	(701)	(167)
RETAINED PROFIT FOR THE YEAR	284	2,166
Actuarial gains/(losses) on defined benefit pension scheme	418	(3,957)
Tax relating to other comprehensive income	(71)	654
	347	(3,303)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	631	(1,137)

The Consolidated Statement of Comprehensive Income shown above includes fair value adjustments made for pension and the interest rate hedge to illustrate the impact on the Authority's accounts. The result is a reflection of the financial performance of the Authority for the period.



FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2017

	2017	2016
	£000	£000
GROUP TURNOVER	10,489	11,145
Cost of sales	(7,492)	(6,226)
GROSS PROFIT	2,997	4,919
Administrative expenses	(1,013)	(1,024)
OPERATING PROFIT	1,984	3,895
Fair value losses on financial instruments	(357)	-
Interest receivable and similar income	2	1
Interest payable	(857)	(859)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	772	3,037
Taxation	(488)	(871)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION AND PROFIT FOR THE YEAR	284	2,166
Profit for the year attributable to:		
Owner of the parent	284	2,156
Non-controlling interest	-	10
PROFIT FOR THE YEAR	284	2,166

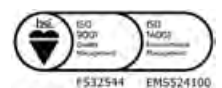
The operating profit for the year arises from the Group's continuing operations.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	2017		2016	
	£000	£000	£000	£000
FIXED ASSETS				
Tangible assets		76,918		78,192
Investments		1,828		1,824
		78,746		80,016
CURRENT ASSETS				
Debtors falling due within one year	2,068		2,848	
Debtors falling due after more than one year	407		398	
Cash at bank in hand	2,032		724	
	4,507		3,970	
CREDITORS				
Amounts falling due within 1 year	(19,976)		(3,287)	
NET CURRENT (LIABILITIES) / ASSETS		(15,469)		683
TOTAL ASSETS LESS CURRENT LIABILITIES		63,277		80,699
CREDITORS				
Amounts falling due after more than one year		(3,310)		(21,093)
PROVISIONS FOR LIABILITIES		-		-
DEFERRED INCOME		(8,062)		(8,412)
NET ASSETS EXCLUDING PENSION LIABILITY		51,905		51,194
Pension liability		(9,520)		(9,440)
NET ASSETS INCLUDING PENSION LIABILITY		42,385		41,754
CAPITAL AND RESERVES				
Sinking fund		-		-
Savings fund		70		70
Profit and loss account		50,217		49,519
Pension reserve		(7,902)		(7,835)
ATTRIBUTABLE TO OWNERS OF PARENT		42,385		41,754
ATTRIBUTABLE TO NON CONTROLLING INTEREST		-		-
TOTAL EQUITY		42,385		41,754

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



#532544 EMS524100

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