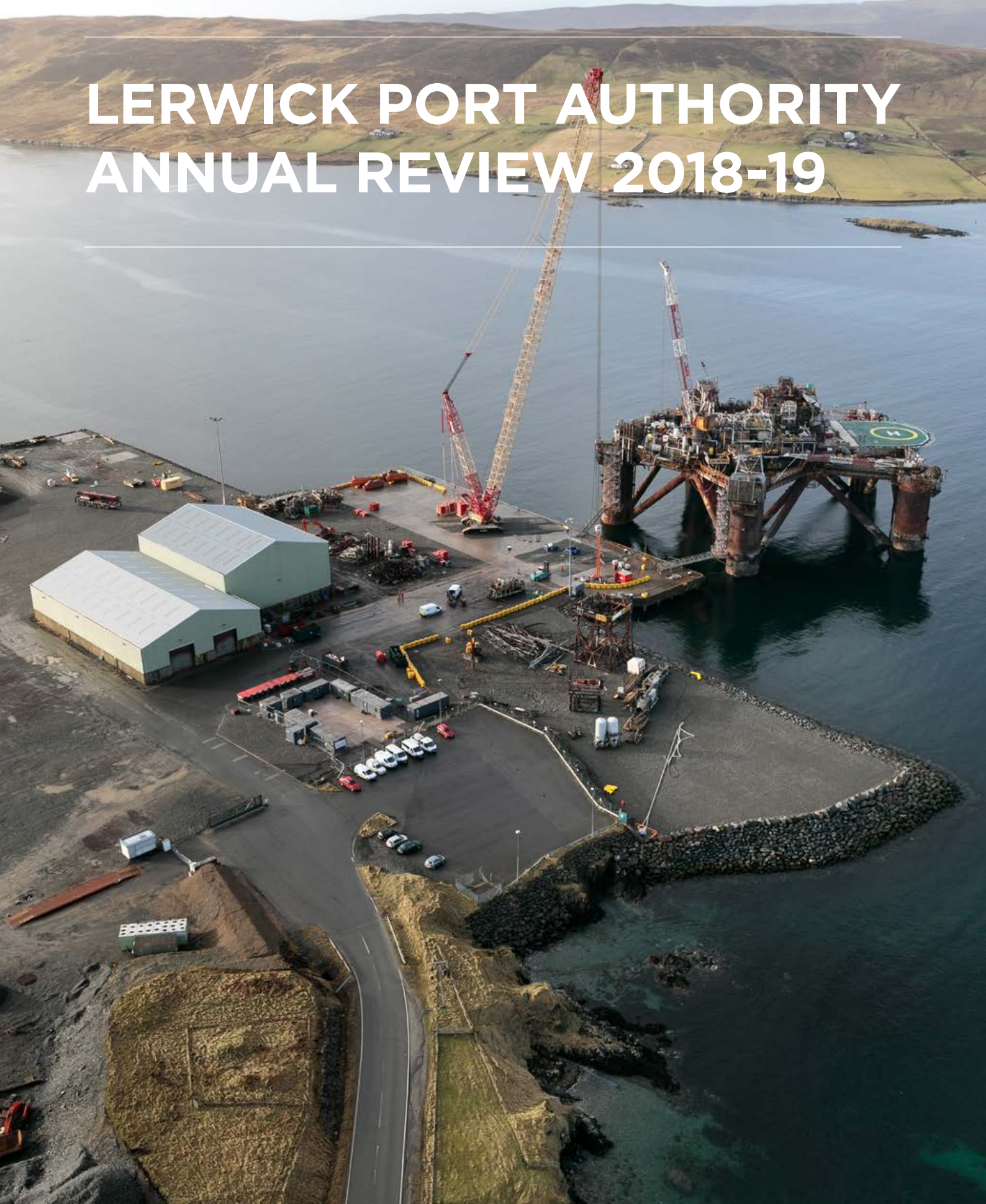


LERWICK PORT AUTHORITY ANNUAL REVIEW 2018-19



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

I am delighted to present my second Annual Report as Chairman of Lerwick Port Authority.

Lerwick's strong position of having a diverse customer base from different sectors operating to-and-from the port has again paid dividends through 2018, with increased landings of whitefish, ongoing decommissioning projects and continued growth in the cruise sector.

The award of contract and start of construction on our new whitefish market has been a personal highlight during the year. The development, which is to be completed in early 2020, will bring significant benefits to the growing sector at the port. With doubled landing capacity and a design based on efficiency and a reduced environmental impact, this investment will maintain the port at the forefront of the fishing industry.

Continued financial support from Bank of Scotland, European Maritime and Fisheries Fund and Highland and Islands Enterprise has all been crucial to the project's success.

Health, safety and environmental management has remained at the centre of all port activities. Our safety culture is a key focus for the Board, and we continue to be satisfied that the harbour meets the requirements of the Port Marine Safety Code.

Lerwick being one of the first UK ports to achieve the international standard ISO 45001 during 2018, is a testament to the dedication, management and implementation of our safety culture throughout the organisation.

I am pleased we have made progress on a new constitutional Harbour Revision Order, which will modernise the appointment of Board members in line with standard Trust Port guidance.

Lerwick Port Authority continues to develop, transition and change to meet the needs of our customers, and a particular transition in 2018 warrants highlighting. Sandra Laursen retired from the role of Chief Executive after more than 40 years' service in a series of roles. We all continue to benefit from the tremendous impact Sandra had on the port and we wish her a long and happy retirement.

Captain Calum Grains has taken over as Chief Executive. His many years of technical and operational experience already at the port includes being Harbourmaster for the past decade and helping to deliver the most recent capital developments. I am looking forward to continue working with Calum in the exciting years ahead.



RONNIE GAIR
Chairman / July 2019



CHIEF EXECUTIVE'S STATEMENT

I am pleased to have the opportunity to write my first Annual Report for Lerwick Port Authority.

With continued support from our wide range of customers, 2018 has resulted in an improved financial result for the Authority, with turnover increasing to £10.97m from £10.48m in 2017. Profit-after-tax for 2018 rose to £1.72m from £0.3m in 2017. A portion of this is attributed to an adjustment in depreciation of our dock structures, which has been brought more into line with their projected lifespan.

We are continuing with the capital programme established in 2014, with funding from Bank of Scotland. We are focused on delivering a new whitefish market and construction progress has remained good throughout the contract being delivered by local contractor, Tulloch Developments Ltd. This significant investment is undertaken at a time of record whitefish landings in the port, up a further 9.4% on the 2017 record, with 250,246 boxes.

Overall gross tonnage of shipping has shown an increase following a lower period, up by 10% to 12.8m gross tonnes, with total vessel arrivals, at 5,226, higher by 6.7% on 2017.

The cruise sector at Lerwick continues to grow, with a record 90,336 cruise passengers arriving. Market trends are showing that this sector will remain buoyant and we anticipate topping 100 vessels annually in the near future.


We continue to plan for our next investments, including considering further enhancements to allow more larger cruise ships to berth alongside. However, with overall growth expected to be slight over the next number of years, any developments will be weighed against reducing the current level of borrowing.

Ensuring the competitiveness of the port is a hallmark of our strategy.

2018 has seen a continued period of subdued activity in the oil and gas sector. Vessel numbers and tonnage have both reduced in comparison with 2017. There is more optimism in the sector going forward and we believe that the facilities in Lerwick will allow the port to offer an efficient and competitive offering as the sector recovers from the downturn.

Decommissioning, however, continues to be a growth part of the oil and gas sector at Lerwick. The decommissioning of Buchan Alpha continued throughout 2018. We are extremely pleased that the contractors, Veolia/Peterson, have also been awarded the onshore disposal contract for the Ninian Northern topsides, due to arrive during spring, 2020. Preparations onshore for this project will continue throughout 2019. The recently-extended quayside at Dales Voe, designed to take the very large loadings associated with a single piece platform being transferred to shore, is a catalyst for the success of this contract award.

The tender of the Northern Isles ferry contract process has commenced during 2018, with an award expected later in 2019. This very important contract is vital for the lifeline link between Shetland and the Scottish mainland, both for passengers and the freight requirements of the islands.

 **CAPTAIN CALUM GRAINS**
Chief Executive / July 2019

2018 HARBOUR STATISTICS

5,226

VESSEL ARRIVALS

832,443

TONNES CARGO

£10.9M

GROSS ANNUAL TURNOVER

225,479

PASSENGERS

55,576

TONNES FISH LANDED

12.8M

GROSS TONNES OF SHIPPING

£42.8M

VALUE OF FISH LANDED

54

MEMBERS OF STAFF

135,143

RO-RO PASSENGERS

937

PILOTAGE MOVEMENTS

207

PROPERTIES RENTED

171,598

LARGEST VESSEL GROSS TONNES

115

TENANTS

130,000m²

OF LAYDOWN

90,336

CRUISE PASSENGERS

4,574

METRES OF QUAYS

12.5 metres

MAXIMUM WATER DEPTH ALONGSIDE

3 nautical miles

SIZE OF HARBOUR (INNER HARBOUR)

9 nautical miles

SIZE OF HARBOUR (NORTH TO SOUTH LIMITS)

TRUST PORT

Lerwick Port Authority was 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.

**Modern Trust Ports For Scotland – Guidance for Good Governance.*



OUR 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.

During 2018, a new Harbour Revision Order was promoted to update the Authority's Acts and Orders and change its 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:



Ronnie Gair
CHAIRMAN

A non-executive board member with many years' experience in the motor industry, Ronnie is a former Justice of the Peace and a Director of local charity, Moving on Employment Project Limited. Ronnie also serves as a 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 (RETIRED NOVEMBER 2018)

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 (TO NOVEMBER 2018)
CHIEF EXECUTIVE

A Harbour Pilot at Lerwick from 1997-2000 before leaving to gain his Master's ticket, Captain Grains returned to the Authority as Deputy Harbourmaster in 2003. Promoted Harbourmaster in 2007, he became an Executive Board Member on appointment as Deputy Chief Executive in 2014, then Chief Executive in November 2018. He is a professional member of The Nautical Institute, Council Member of UK Harbour Masters' Association and a director of Pelagia Shetland Ltd.

~
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 2021



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 2021



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 whitefish vessel interests. *Serene* is a member vessel of Shetland Fish Producers' Organisation and Shetland Fishermen's Association.

~
TERM OF APPOINTMENT TO JULY 2021



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

MANAGEMENT

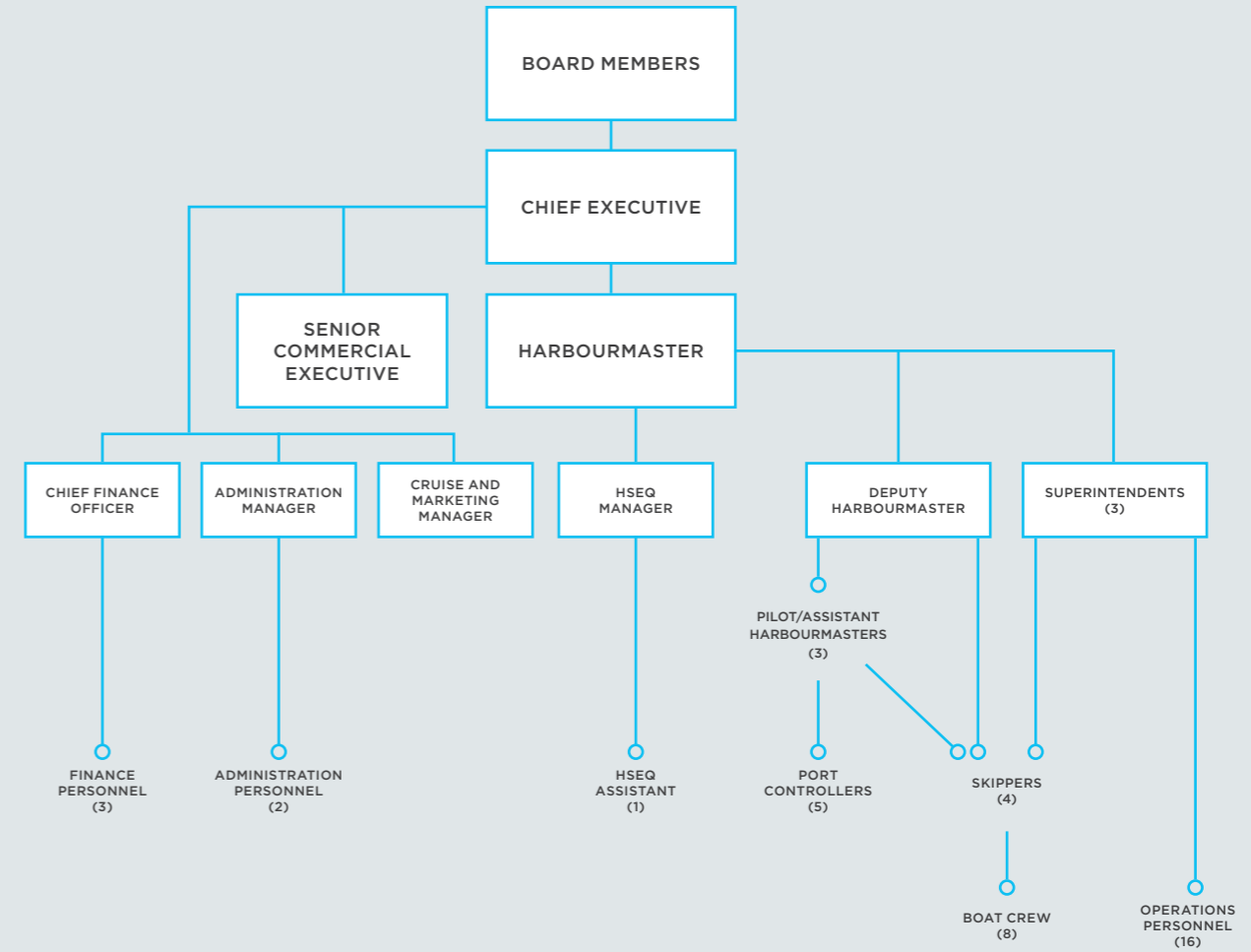
The Management Team is responsible for providing strong leadership; visible and active support to staff members and demonstrating commitment to the Board's strategic objectives. The Board regularly receives updates from the management team, who oversee day-to-day services on the implementation of strategic objectives, financial and administrative processes and business development.

Captain Calum Grains was appointed as Chief Executive in November 2018, which cascaded new appointments and changes within the management team which now comprises:

- Captain Alexander Simpson**
HARBOURMASTER
- Victor Sandison**
SENIOR COMMERCIAL EXECUTIVE
- Kristen Jeromson**
CHIEF FINANCE OFFICER
- Stuart Wadley**
HSEQ MANAGER
- Melanie Henderson**
CRUISE & MARKETING MANAGER
- Jolene Robertson**
ADMINISTRATION MANAGER

STAFF

The Authority has a dedicated and long-serving workforce with a wealth of experience. Staff training continues, with a high standard of health, safety and environmental compliance in all departments. The Authority has a performance management system in place to reach its strategic objectives, maximising productivity and efficiency in use of employees' skills.



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 has a commitment to implementing the good practice of the Port Marine Safety Code which is designed to improve safety and manage operations to nationally-agreed standards. This makes sure that significant safety risks are identified and evaluated and that suitable control measures are in place to manage them. An external audit against the Port Marine Safety Code, undertaken in 2018, endorsed a high level of compliance.

The Authority ensures the safe provision of services and the efficient discharge of its duties are not undermined by commercial pressures.

Maintaining certification to both the Environmental Standard BS EN ISO 14001:2015 and Quality

Assurance Standard BS EN ISO 9001:2015, confirms that all aspects of harbour activities which have the potential to impact on environment and quality of service are identified and those impacts are controlled as far as reasonably possible. Port user requirements are constantly monitored and services are improved appropriately. Processes are also monitored and updated to improve efficiency of operations.

Throughout the year, a significant amount of work went into updating the port's systems to comply with the new health and safety standard ISO 45001 which is set to replace the current OHSAS 18001 in 2018.

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 standards certification. External audit on the Authority's HSEQ system is conducted to comply with the Port Marine Safety Code and other requirements placed upon it, with a report provided to the Board bi-annually.

173,380kg

OF SHIPS' WASTE DISPOSED

25,090 litres

OF WASTE OIL RECYCLED

Tree Planting

TO OFFSET PAPER USAGE

Zero

LOST-TIME INCIDENTS

No Accidents

REPORTED TO CHIEF INSPECTOR MAIB

Zero

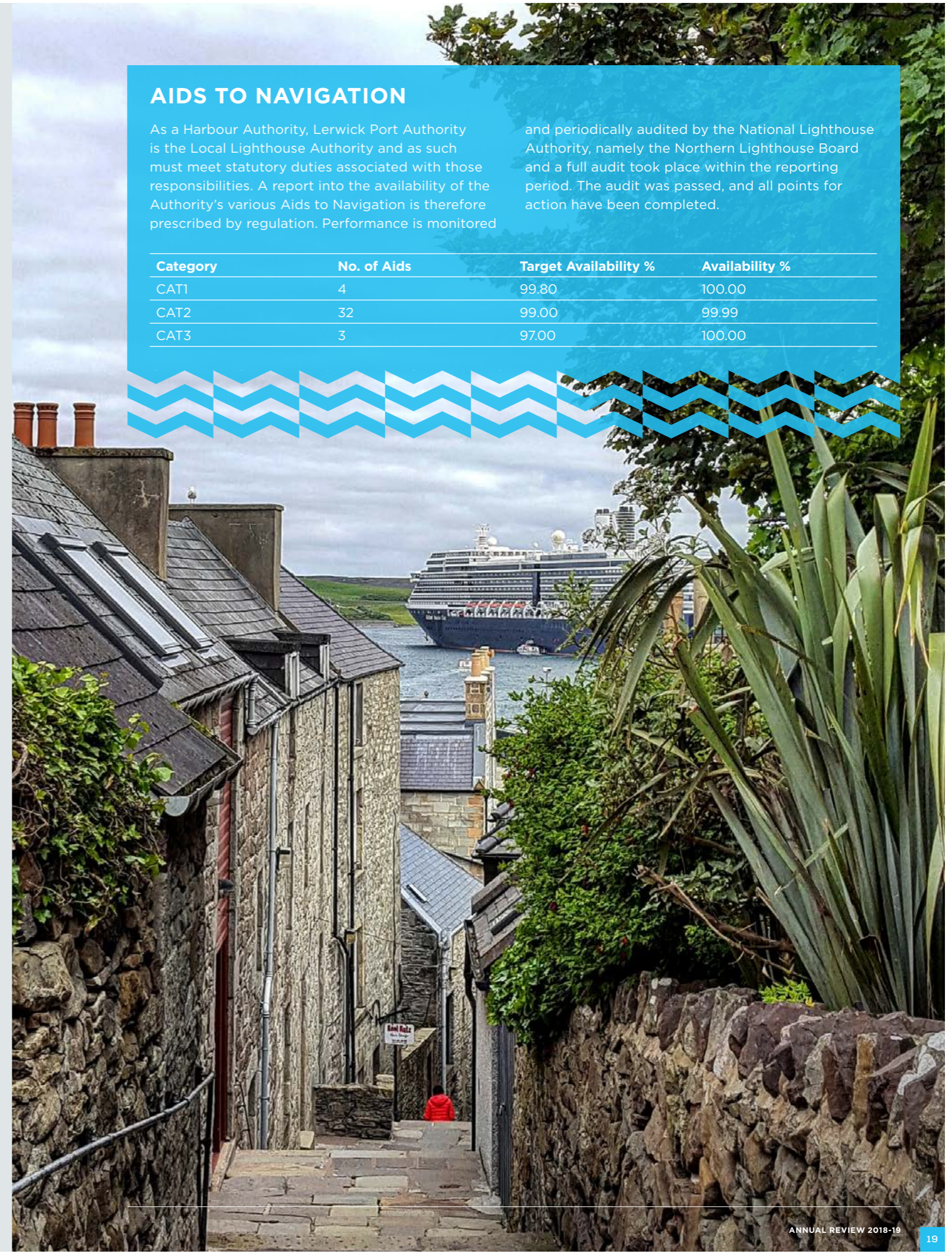
ENVIRONMENTAL INCIDENTS REPORTED

AIDS TO NAVIGATION

As a Harbour Authority, Lerwick Port Authority is the Local Lighthouse Authority and as such must meet statutory duties associated with those responsibilities. A report into the availability of the Authority's various Aids to Navigation is therefore prescribed by regulation. Performance is monitored

and periodically audited by the National Lighthouse Authority, namely the Northern Lighthouse Board and a full audit took place within the reporting period. The audit was passed, and all points for action have been completed.

Category	No. of Aids	Target Availability %	Availability %
CAT1	4	99.80	100.00
CAT2	32	99.00	99.99
CAT3	3	97.00	100.00



OBJECTIVES UPDATE

Targets from Annual Review 2017

TARGET	OUTCOME
Management, maintenance and regulation of Lerwick Harbour	
- Promotion of a Constitutional Harbour Revision Order to update the system of appointment of Board Members	> Order in progress with Transport Scotland
- Further implementation of performance management system	> Secondary process for system implementation being appraised
- Complete the review of pension provision	> Local Government Pension Scheme option closed to new entrants and new defined contribution scheme introduced
- Register the Authority's estate on the Land Registers of Scotland	> Authority titles submitted to Registers of Scotland for processing and registration
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 accreditation to new standards ISO 45001	> New systems implemented and certification achieved December 2018, one of the first UK ports to achieve this.
- Maintain accreditation of ISO 9001 & ISO 14001	> Successful external audits completed by BSI and accreditation
- Develop business contingency plan	> Plan completed and implemented
- Review and improve Risk Assessments, including Strategic Marine Risk Assessments	> All reviews completed and new marine risk assessments introduced
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	
- To award contract for construction of replacement fishmarket	> Tulloch Developments Ltd awarded a 20-month contract in May 2018
- To continue to explore the opportunity for an ultra-deep water quay at Lerwick	> Input into various Scottish and UK Government studies on Dales Voe capabilities
- Monitor market requirements for future infrastructure projects on capital projects list	> Development of future plans subject to consolidation of finance
- Review shareholding in Shetland Fish Products (SFP) Limited	> Shareholding sold to Pelagia (Bressay) Ltd
- To bring the activities of Black Hill Industrial Estate Limited into those of the Authority	> Assets transferred to Lerwick Port Authority

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 leading decommissioning port	> Scottish Government announced Lerwick is the optimal location for the UK's ultra-deep water decommissioning facility
- Engage with the decommissioning sector to determine demand for enhanced facilities	> Plans for a new Veolia/Peterson-operated decommissioning pad at Dales Voe drawn up
- Marketing to oil & gas sector, with emphasis on efficiency and cost-effectiveness of port	> Hosted visits and attended various oil & gas trade events
- To complete the roll-out of the rebranding of the Authority	> New branding applied across media, buildings, fleet and signage
- To redesign and relaunch the Authority's website	> Design work and integration with new port management system ongoing
- Continued marketing of new facilities at Mair's Pier and Dales Voe, including to the cruise industry	> Facilities marketed at various cruise trade industry events and direct email marketing
- Consider findings of study into the pelagic processing sector at Lerwick	> Phase 1 of the study complete
To maintain existing buildings, plant and equipment and harbour facilities in a safe and serviceable order	
- Award a contract to build a replacement for the Authority's harbour vessel <i>Kebister</i>	> Procurement delayed pending consolidation of financial position
- Undertake planned maintenance and/or renewal of existing property and quay infrastructure	> Quay infrastructure repairs completed and ongoing programme of repairs
- To replace the Authority's current computerised Port Management and Information System with an updated system	> Hardware for new system installed and software programming started

2019 OBJECTIVES & TARGETS

The key strategic objectives of Lerwick Port Authority and the methods to be used to achieve them in 2019 are:

1.

OBJECTIVE - MANAGEMENT, MAINTENANCE AND REGULATION OF LERWICK HARBOUR

METHODS

- > Review implementation of performance management system
- > Finalise implementation of the constitutional Harbour Revision Order to update appointments process for Board Members
- > Monitor regulatory developments in the ports sector, particularly any Brexit impacts
- > Professional development of existing and new Board Members
- > Complete review of pensions provision
- > Complete registration of the Authority's estate on Land Register of Scotland

2.

OBJECTIVE - 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 AND SUSTAINABLE PORT

METHODS

- > Maintain accreditation to ISO standards 9001, 14001 and 45001
- > Successful external audit completed by BSI accreditation maintained
- > Carry out Health and Safety inspections
- > Review Mental Health first aid provision

3.

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

METHODS

- > Continue to explore opportunities relating to ultra-deep water quay and support for the project
- > Monitor fishmarket construction project
- > Investigate applying for any available external funding that can assist in the delivery of capital projects
- > Monitor market requirements for future infrastructure projects on the Authority's capital projects list
- > Install electric vehicle charge points at strategic locations on port estate
- > Construct new decommissioning pad at Dales Voe

4.

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

METHODS

- > Maintain and promote Lerwick's identity as a decommissioning port
- > Marketing to the oil & gas sector, with emphasis on efficiency and cost-effectiveness of port
- > Promotion of new fishmarket facilities to the fishing sector
- > Engagement with and marketing of facilities to cruise sector
- > Input to consultations and forums on any new port infrastructure required to service new ferry contract
- > Launch the Authority's new website

5.

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

METHODS

- > Explore options for replacement of *Kebister* harbour vessel
- > Undertake planned maintenance and/or renewal of existing property and quay infrastructure
- > Carry out repairs required to Heogan piers
- > Roll-out of new port management system

SECTOR HIGHLIGHTS

DALES VOE IDENTIFIED AS OPTIMAL UK LOCATION FOR AN ULTRA-DEEP WATER QUAY

An ambitious industrial and energy vision for the wider Shetland area was presented at a two-day showcase event hosted at Lerwick in September 2018, delivering an announcement that a Scottish Government-commissioned independent study had identified Dales Voe as the preferred location for the UK's first ultra-deep water port. It will provide a national asset in a highly-competitive international market.

SIGNIFICANT DECOMMISSIONING PROJECT AWARDED

Veolia/Peterson Joint Venture signed a contract with Allseas to dismantle and decommission platform topsides from the Ninian Northern installation, with an option to add the jacket removal. This project will see the platform's accommodation, drilling and production topsides removed and delivered from the northern North Sea to Dales Voe Base as a single lift by the world's largest construction vessel, *Pioneering Spirit*, in Spring, 2020. Dismantling and disposal of this 12,600 tonne structure will be the port's largest decommissioning project yet, taking advantage of deep-water, the high strength and capacity of the quay, and experienced contractors.

NEW DECOMMISSIONING INFRASTRUCTURE PLANNED

The Authority received funding via the Scottish Government's Decommissioning Challenge Fund towards the engineering and feasibility required to take forward plans for a new licensed decommissioning pad at Dales Voe.

RECORD-BREAKING CRUISE FIGURES ALL ROUND

The port smashed all its previous cruise records by handling a total of 91 ships carrying 90,336 passengers (78% up on 2017) with a gross tonnage exceeding 3.8 million tonnes. *MSC Meraviglia* was the largest cruise ship to visit yet. On its busiest day, the port's Meet and Greet team welcomed 7,500 passengers and crew ashore to visit the isles' attractions.

REPLACEMENT FISHMARKET UNDER CONSTRUCTION

Construction started on a £6.9m whitefish market by local contractor, Tulloch Developments Ltd, at Mair's Quay. It will double capacity to 1,600 square metres and provide a range of benefits when operational in early-2020. Arch Henderson LLP is responsible for design and project management. The project is backed by the European Maritime and Fisheries Fund and Highlands and Islands Enterprise and finance from Bank of Scotland.



SPOTLIGHT ON: ISO 45001, THE OCCUPATIONAL HEALTH & SAFETY STANDARD

In 2018, Lerwick Port Authority achieved a new standard in Occupational Health and Safety within nine months of it being introduced, making it one of the first British ports to be accredited.

The health and safety of the Authority's employees and harbour users is a priority. Following an extensive overhaul of its management system, there was a desire from the Board to complete the tripartite of new standards. Achieving the accreditation to ISO 45001, demonstrates the Authority's commitment to health and safety across all its operations.

The new standard places occupational health and safety at the heart of the Authority's business processes, assisting with hazard identification and risk management, facilitates continual improvement, exposes the business to external audit and improves senior management and Board oversight. It encourages a particular emphasis on risk-based thinking – requiring management to integrate occupational health and safety policy with organisational strategy – and on the key themes of leadership and worker engagement. It has led the Authority to ensure it has a systematic process for consultation and participation with workers.

Looking to the future, BSI certification to ISO 45001 is an investment that will help sustain the Authority for coming generations, differentiating it from competitor ports, and strengthening its resilience and reputation.

The accreditation complements the matching standards achieved by Peterson, a leading energy logistics company with major operations at Lerwick, at a time of further developments involving the decommissioning market.

Certification benefits:

- ~ Consistent, robust processes for managing occupational health and safety
- ~ Improved employee awareness and engagement
- ~ A culture of continuous improvement
- ~ Potentially fewer accidents and illnesses
- ~ Reassurance to employees, harbour users and stakeholders
- ~ Rigorous approach to regulatory compliance
- ~ Competitive differentiation and advantage
- ~ Enhanced organisational resilience and reputation



COMMUNITY & STAKEHOLDERS

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 Shetland community. For example, the Authority hosted a thank-you event for all service providers engaged in delivering cruise ship requirements. These occasions provide a framework to gain valuable feedback and the strength of ongoing relationships is key to the Authority's future success.

The active role in the community includes relevant events and consultations on key issues, including hosting school visits and work experience students annually. The Authority's website is regularly updated with news and media relations are maintained to ensure the profile of the harbour. The contribution to the local economy is well-communicated.

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. Charitable and community activities supported in 2018 include:

- ~ Free berthing for tall ships
- ~ Lerwick Lifeboat Open Day at Victoria Pier
- ~ Cruise ship Meet and Greet service
- ~ Bergen-Shetland yacht 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
- ~ Herring and Whitefish Trades Golf Alliance
- ~ Shetland Inter Club Yachting Association, Inter Club Regatta
- ~ Sail Training Shetland
- ~ The Swan Trust
- ~ Up Helly Aa
- ~ Trees for Schools
- ~ Shetland Boat Week
- ~ Shetland Festival of Remembrance



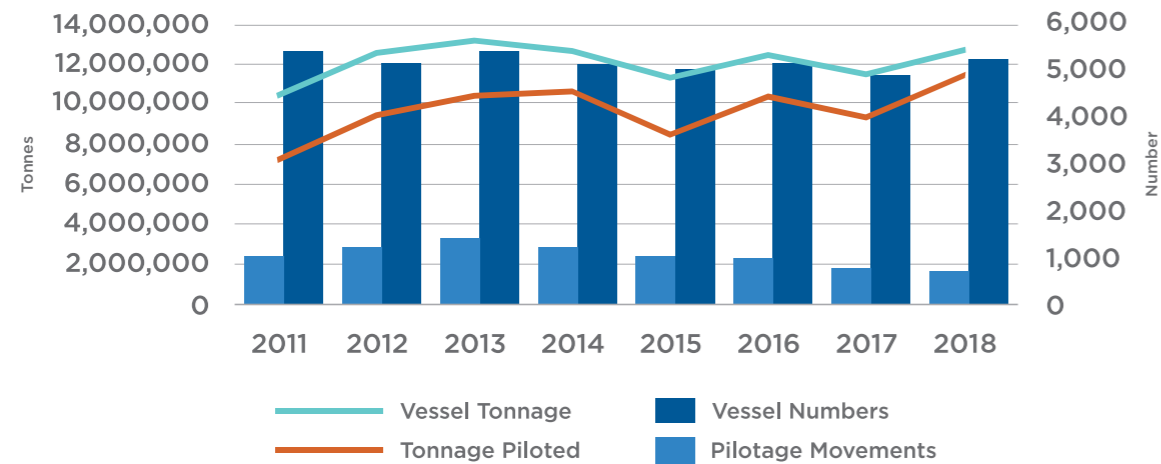
£9,792

~

TOTAL CHARITABLE DONATIONS FOR 2018

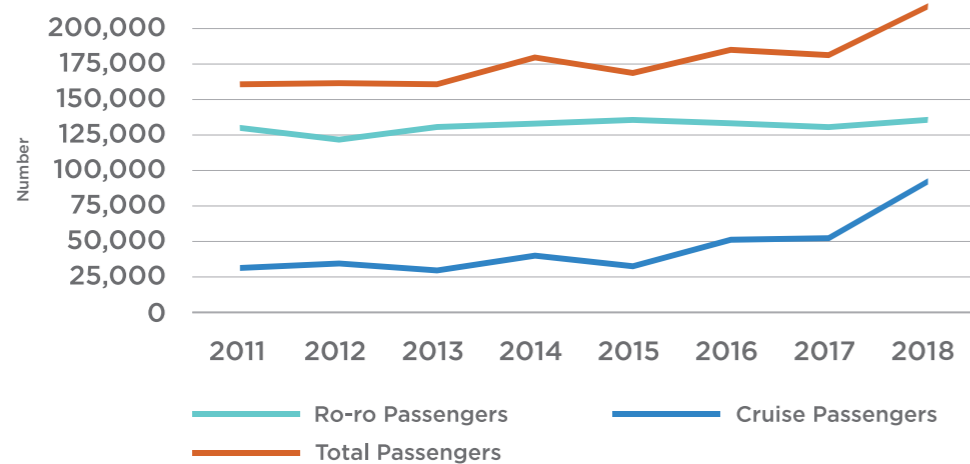
KEY HARBOUR INFORMATION 2018

VESSELS



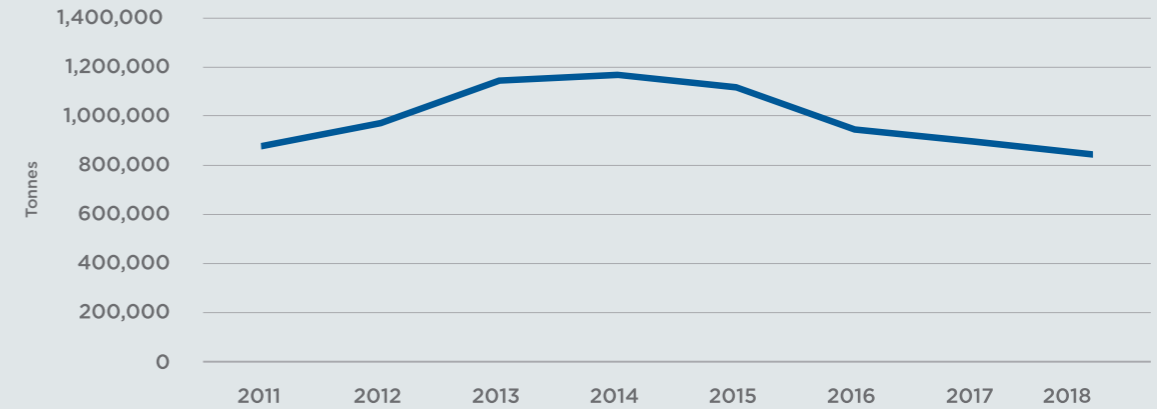
The number of vessels visiting in 2018 was up 6.7% on 2017, with 12.8m gross tonnes of shipping. Increase in tonnage was due to additional roll-on/roll-off ferries being chartered to cover the peak livestock export period, an increase in fishing vessels using the port and more cruise ships visits.

PASSENGERS



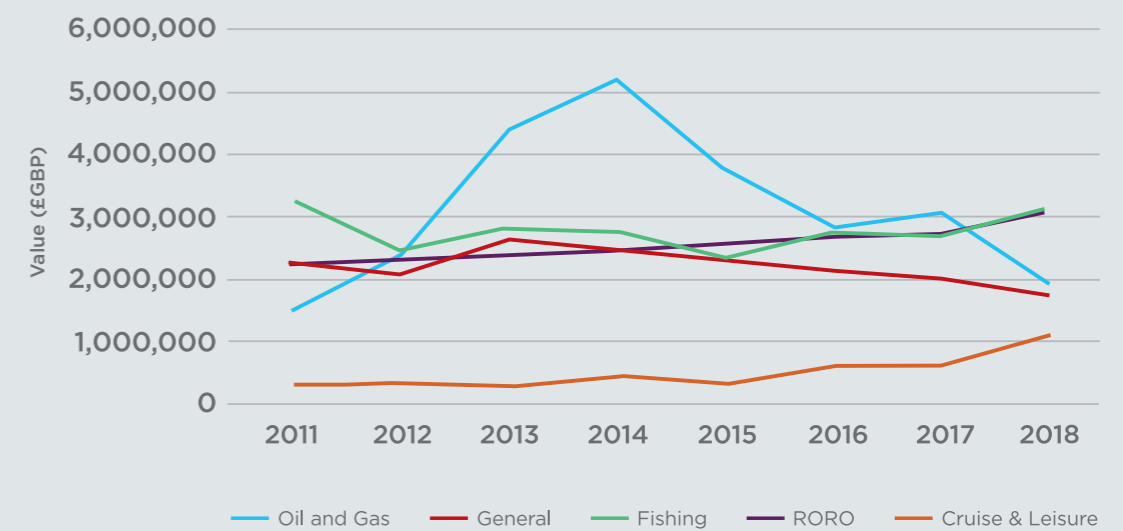
Passenger numbers using the roll-on/roll-off ferry service have increased, as expected, due to the introduction of lower ferry fares during 2018. A record year from the cruise sector in 2018 has significantly increased overall footfall.

CARGO MOVEMENTS



The cargo movement through Lerwick in 2018 has fallen for another year. Despite encouraging signs from the oil & gas industry, the port had no new, significant large-scale projects during the year. The roll-on/roll-off ferry service is now the main carrier of domestic cargo overall and levels for 2018 have increased.

INCOME SPLIT BY SECTOR



FINANCIAL PERFORMANCE AND ANALYSIS

TURNOVER

Turnover for 2018 was £10.9 million, up 4.6%. The continuing slowdown in oil & gas related activity in the year led to a 23% drop in income from the sector. In 2018, the oil & gas sector accounted for 18% of turnover, down from a high of 39% in 2014.

Areas of significant growth for turnover in the year came from the cruise ship sector, with income up 83%. The cruise industry is becoming increasingly important to the port, and now accounts for over 10% of total turnover, with this expected to rise in future years.

Other sectors have held up well, with income from fishing and the lifeline ferry services both up slightly. This underlines the strength of the diversity of the port's business.

PROFIT

Operating profit for the year was a healthy £3.1 million up on the previous year. The main factor for the increased operating profit was the adjustment to the useful life of the port buildings and dock structures during the year, reducing the depreciation charge in the accounts.

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 2018 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. This is enabled due to the strategic location in the heart of the northern North Sea, west of Shetland oil & gas fields and rich fishing grounds.

BANK FACILITIES

With the support of Bank of Scotland, the Authority has invested significantly in quayside infrastructure in recent years. Construction of the replacement fishmarket is the final project in the harbour's current programme of capital investment.

Lerwick Port Authority has a long term and close working relationship with Bank of Scotland and the facility provided was tailored to suit the planned investments. The development phase of the bank facility ended during 2018 and was converted into a term loan.

PENSIONS

The Authority provides two pension schemes for employees, a defined contribution scheme through the Ensign Retirement Plan, and a defined benefit scheme as an admitted body to the Shetland Islands Council's Local Government Pension Scheme (LGPS). 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 its future participation in the scheme. The pension scheme deficit in the Authority's accounts currently is £5.1 million.

The FRS 102 accounting standards that the Authority's accounts are prepared under require an adjustment to be included to take account of the movement in the pension scheme liability at the year end. This has had a negative impact of £493,000 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 in 2017. 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.

There is also an adjustment for FRS 102 accounting standards to take account of the fair value of the hedge at the year end. The movement in valuation since 2017 has further decreased having a positive impact on the profit and loss account of £186,000.

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For illustrative purposes
For the year ended 31 December 2018

	2018	2017
	£000	£000
GROUP TURNOVER	10,969	10,489
Cost of sales (excluding pension adjustment)	(6,436)	(7,252)
GROSS PROFIT	4,533	3,237
Administrative expenses	(1,129)	(1,013)
OPERATING PROFIT	3,404	2,224
Net interest payable (excluding pension adjustment)	(675)	(597)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2,729	1,627
Taxation (excluding pension adjustment)	(620)	(642)
PROFIT FOR THE YEAR (prior to pension adjustments and FV loss on derivative)	2,109	985
Net adjustments relating to pension adjustments and FV loss on derivative within income statement	(391)	(701)
RETAINED PROFIT FOR THE YEAR	1,718	284
Actuarial gains on defined benefit pension scheme	4,827	418
Tax relating to other comprehensive income	(820)	(71)
	4,007	347
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	5,725	631

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 2018

	2018	2017
	£000	£000
GROUP TURNOVER	10,969	10,489
Cost of sales	(6,688)	(7,492)
GROSS PROFIT	4,281	2,997
Administrative expenses	(1,129)	(1,013)
OPERATING PROFIT	3,152	1,984
Fair value losses on financial instruments	186	(357)
Interest receivable and similar income	52	2
Interest payable	(968)	(857)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2,422	772
Taxation	(704)	(488)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION AND PROFIT FOR THE YEAR	1,718	284

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	2018		2017	
	£000	£000	£000	£000
FIXED ASSETS				
Tangible assets		77,889		76,918
Investments		1,656		1,828
		79,545		78,746
CURRENT ASSETS				
Debtors falling due within one year	2,325		2,068	
Debtors falling due after more than one year	135		407	
Cash at bank in hand	1,464		2,032	
	3,924		4,507	
CREDITORS				
Amounts falling due within 1 year	(4,512)		(19,976)	
NET CURRENT (LIABILITIES) / ASSETS		(588)		(15,469)
TOTAL ASSETS LESS CURRENT LIABILITIES		78,957		63,277
CREDITORS				
Amounts falling due after more than one year		(16,700)		(3,310)
PROVISIONS FOR LIABILITIES		(565)		-
DEFERRED INCOME		(8,396)		(8,062)
NET ASSETS EXCLUDING PENSION LIABILITY		53,296		51,905
Pension liability		(5,186)		(9,520)
NET ASSETS INCLUDING PENSION LIABILITY		48,110		42,385
CAPITAL AND RESERVES				
Savings fund		70		70
Profit and loss account		52,344		50,217
Pension reserve		(4,304)		(7,902)
TOTAL EQUITY		48,110		42,385

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



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