

# Shetland Islands Council



## The Council Budget Book 2016/17

Corporate Plan Vision:  
By the end of this plan (2020), we want to be known as an excellent organisation that works well with our partners to deliver sustainable services for the people of Shetland.

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## Executive Summary

- 1.01 Shetland Islands Council's 2016/17 budget will ensure that public services in Shetland continue to be better funded than any other local authority in Scotland. This is because the Council will top up its Council Tax income and core Scottish Government grant with an additional £19.134m, which is affordable as a result of the budgeted Harbour Account surplus, budgeted income from the Shetland Gas Plant and drawing from expected long-term investment returns.
- 1.02 The Council is setting a sustainable budget that requires a draw from investment returns (underpinned by Council reserves) of £8.106m which is an affordable amount, and will protect the capital value of reserves. This enables the Council to offset the anticipated significant reductions in government funding and rising costs that will impact in 2016/17.
- 1.03 This budget seeks to ensure that the real value of the reserves is protected during 2016/17, by ensuring that only an affordable draw from reserves is included in the proposals.
- 1.04 It is important that the Council continues its responsible budgeting approach into the future as this represents the greatest benefit over the long-term for the delivery of Council services in Shetland.
- 1.05 The 2016/17 budget adheres to the Medium Term Financial Plan, by delivering the required savings of £2.985m and contributing towards the strategic aim of realigning more available resources towards corporate priorities.
- 1.06 Financial sustainability needs to be reviewed in light of the latest data and forecasts available, therefore Elected Members will need to continue to receive updates to the Medium Term Financial Plan annually and set future budgets in line with it to ensure that the responsible and positive approach taken in recent years continues into the future.

### Progress to Date & Future Challenges

- 1.07 The Council can take comfort with regard to the deliverability of the 2016/17 Budget. At present it is currently on course to deliver its 2015/16 Budget which included £2.145m of savings. When added to the £12.7m of savings delivered in 2014/15, the £12.5m in 2013/14, the £15m in 2012/13 and £11.5m in 2011/12, the Council is demonstrating a track record of budget delivery.
- 1.08 However, it is anticipated that there will be further significant cash reductions in the general revenue grant from the Scottish Government over the forthcoming years, and simultaneously the Council will have to manage an ever increasing demand for Council services, such as in Community Care, and manage cost pressures that apply to the models of service delivery, such as pay awards and national policy changes.
- 1.09 This budget will keep the Council on track to manage the financial situation forecast for 2016/17 as well as prepare for the significant challenges that it faces in the medium term.

## Building Budgets Engagement

- 1.10 In August this year the Council undertook a building budgets engagement exercise, which included a series of public meetings throughout Shetland and the use of an interactive on-line budget planning model, to gauge the views of the public on where the 2016/17 budget savings should be made. There were 244 people who participated in this exercise which is approximately 1% of the Shetland public. The response was good relative to that achieved last year but, the Council recognises that the exercise resulted in a proportionately low response, however the results do provide an idea of what the respondents felt was important. It was those services which are visible to the public which were most widely supported while those less visible, such as support and corporate services were identified for higher savings. Mental Health Services stood out as particularly important to respondents.
- 1.11 The Directors have reviewed the results of the building budgets exercise and have taken the views submitted into consideration when creating their 2016/17 budgets.
- 1.12 It is important that this feedback and the valuable comments contained therein are used by directors and services to add to the wealth of information available to help plan the future of Council services. The Council, in addition, continues to look at the way in which it can engage with the Shetland public in order to help understand the services and outcomes that are important and as such inform the prioritisation of service delivery and resources into the future. Continuing the dialogue and engagement will ensure that a better understanding is gained from a wider and more significant proportion of the population.
- 1.13 A full report on the outcomes of the exercise is attached as Appendix 3.

## Draw on Reserves

- 1.14 The Council is asked to approve an affordable draw on reserves to balance the 2016/17 budget, shown in the table below:

<b>Draw on Reserves</b>	<b>Budgeted Draw Contribution from/ (to) Reserves £m</b>
General Fund	19.134
Spend to Save Improvement Fund	1.000
Asset Investment Plan	0.151
Harbour Account Surplus	(10.530)
Shetland Gas Plant	(0.693)
Housing Revenue Account	(0.956)
<b>TOTAL NET BUDGETED DRAW ON RESERVES 2016/17</b>	<b>8.106</b>

- 1.15 The total net budgeted draw on reserves for 2016/17 is £8.106m. This is affordable due to investment returns not having been included in the table and increased income being applied from

the Harbour Account surplus. The Medium Term Financial Plan outlines the challenges that the Council faces in relation to the next 5 years in terms of delivering a balanced and affordable budget.

### Key Budget Messages

1.16 The most significant budget proposals are as follows:

- The Council is freezing Council Tax for the ninth consecutive year so a Band D property continues to incur an annual charge of £1,053.00. This means that Shetland Islands Council is expected to continue to charge the 4<sup>th</sup> lowest level of Council Tax out of the 32 local authorities in Scotland whilst providing the best funded services.
- The budget contains total savings of £3.672m, exceeding the General Fund savings target of £2.985m as set out in the Medium Term Financial Plan. The over-achievement of budget reductions by directorates of £0.687m this year will be used to adjust their savings targets for 2017/18 in the Medium Term Financial Plan.
- The cost pressures and contingencies budget totalling £3.678m is lower than last year due to the cost pressure for pay inflation and associated employer costs i.e. national insurance and pensions contributions already allocated to service budgets. This budget ensures that there is a corporate budget to absorb any unplanned expenditure, as services were asked not to carry risk/contingency budgets in their budget proposals.
- The Shetland Gas Plant is expected to be operational by 2016/17 and it has been estimated that there will be income of £0.693m during the year. This income stream is welcome for the Council, albeit lower than originally anticipated due to current low gas and oil prices. It is anticipated that this, and future income, will be utilised to supplement current expenditure on Council services.
- The Harbour Charges at Sullom Voe are due to increase by 83%. This will enable the Council to continue to generate the surplus it requires (subject to actual tanker numbers), in line with the Medium Term Financial Plan, to support Council service expenditure. The remainder is required to address under-investment in Port infrastructure which requires urgent life extension works. The charges will also enable the Council to re-coup the projected loss on harbour activity in the current year, in line with Council policy. This projected loss relates to updated projections on tanker numbers from the Sullom Voe Terminal operators of a 26% reduction in tanker traffic in 2015/16.
- The Housing Revenue Account budget has been prepared in line with the proposed HRA 30 Year Business Plan and seeks to increase rents in 2016/17 by an inflationary sum of 2%, plus an additional £1 per week on all one and two bedroom properties.
- The Asset Investment Plan budget provides significant investment in the Council's infrastructure and will require borrowing of £2.262m in 2016/17 to meet the funding shortfall. This borrowing is required to finance the new Eric Gray Resource Centre.

# Introduction to the Budget Report

## Medium Term Financial Plan

2.01 The Medium Term Financial Plan is the Council's strategic finance document which focuses on the next five year period. The financial strategy included within the plan is:

- To take a prudent approach to core Scottish Government funding projections for the next five years; to take a cautious approach to the benefits that may be generated from rising oil and gas prices; and to take a measured approach to the long-term investment returns that will be generated, to determine the overall value of Council income;
- To treat all non-specific grants received as a corporate resource despite the implied treatment described in funding award letters / Scottish Government circulars;
- To take action on costs over the life of this Plan on the basis that Scottish Government funding will not increase for years to come and that it is likely to never return to the funding level (in real terms) that it has now to deliver services;
- To structure services in a way that maximises productivity and operates as efficiently and effectively as is possible;
- To prioritise service delivery that is identified as being most likely to successfully achieve the Corporate Plan objectives and outcomes in the long term or is required to fulfil the Council's statutory duties, and to agree to stop discretionary services that do not contribute to that achievement;
- To build upon the financial management improvements that have already been made, and continue to base decision making on evidence based reporting, following the building better business cases methodology, demanding fully costed options and recognition that the use of Council resources all come with a cost;
- To capture savings from improved and robust procurement and commissioning processes, including the re-negotiation of contracts;
- To improve the consistency and application of charging policies to take account of the principles outlined in the Plan;
- To focus investment returns on supporting revenue expenditure;
- To limit capital expenditure to a programme that is deliverable and affordable based on the estimated level of Scottish Government Capital Grant, supplemented by capital receipts;
- To borrow in specific circumstances for capital investment, that cannot be funded from Capital Grant or capital receipts, the cost of which will be borne by the service that the investment benefits. Borrowing will be carried out under the Prudential Code framework of prudence, sustainability and affordability in line with the Council's Borrowing Policy;

- To seek all opportunities to enter into dialogue with the Scottish Government in relation to services for which the Council does not receive its fair share of funding, or where inconsistency exists between Shetland and other local authorities;
- To commit resources to ensure that the Island Proofing provisions within the current Consultation on Provisions for a Future Islands Bill<sup>1</sup> adequately reflect funding and financial aspects. The consultation refers to the concept of placing a duty on Scottish Ministers and other relevant public bodies to 'island proof'

### **The 2016/17 Budget**

- 2.02 The 2016/17 Council budget is a tactical financial plan that complements the strategic Medium Term Financial Plan and will ensure that the Council moves towards delivering its strategic financial objectives.
- 2.03 The Budget encapsulates all aspects of the Council's business; the General Fund, the Housing Revenue Account, the Harbour Account and the Capital Programme. This means it is clearer for Elected Members to see the full impact that the spending proposals will have on the Council's reserves during the financial year. This is important because the Council relies upon drawing an affordable sum from its invested reserves to fund the delivery of services.

### **The Approach to Setting the Budget**

- 2.04 The Council has a rolling programme for selecting one directorate to use a zero-based budgeting approach each year while the remainder of directorates use traditional incremental budgeting. This year the directorate chosen to do zero-based budgeting was Infrastructure Services.
- 2.05 The outcome of this budgeting exercise is that the aggregated budget proposals put forward by directorates are under the budget reduction targets that were set within the Medium Term Financial Plan, and those proposals are aligned to the Council's priorities and outcomes as set out in the Corporate Plan.
- 2.06 The Policy & Resources Committee on the 25 November 2015 approved the 2016/17 Budget subject to any further recommendations as a result of the local authority settlement for 2016/17. The impact of the settlement was an additional £2.6m gap in funding. Since December 2015 Directors have met with the Chairs and Vice-chairs of the relevant committee/body with support from the Finance Service to discuss ideas for any further budget reductions that were required in 2016/17 and also began to discuss longer term plans for savings to meet the challenges over the following 3 years.

### **Other Aspects of the Budget Report**

- 2.06 The objective of the Shetland Islands Council Budget Book 2016/17 is to provide a high level summary of the proposals and their contribution towards delivering the Medium Term Financial Plan, and their impacts on the Council's reserves.

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<sup>1</sup> Consultation on Provisions for a Future Islands Bill, Scottish Government, September 2015

2.07 The detailed budget proposals for each area of the Council are set out in separate reports which were presented to Service Committees during November 2015. This report guides Elected Members to those other reports where more detailed information can be found on the General Fund services, the Harbour Account, the Housing Revenue Account and the Asset Investment Plan.

### **Spend to Save and Improvement Fund**

2.08 A target of £1m is proposed to fund Spend to Save and Improvement projects in 2016/17.

2.09 The Council has in place a Spend to Save scheme. The purpose of the scheme is to provide up front funding to a service in order to effect a change that will result in recurring savings in the future. It is expected to work in conjunction with the funding for change included in the revenue budget contingency.

2.10 Due to the requirement for savings now and into the future the scheme has been reviewed to take a longer term view of how quickly the savings achieved from the use of the scheme are recouped. The underlying principle of the scheme therefore is that any funding awarded has to have a payback period no greater than 5 years.

2.11 The Executive Manager – Finance has the authority to increase this payback period to 7 years in exceptional circumstances, which may exist where additional resource benefits beyond financial savings or where the evidence of the impact on priority outcomes is compelling.

2.12 It is possible to apply for Spend to Save funding to undertake specific feasibility and option identification work if the revenue 'Funding for Change' is fully committed. In this circumstance any expenditure will be included in any subsequent request for Spend to Save funding and factored into the payback calculation.

2.13 The Spend to Save funding can be used to support Revenue or Capital expenditure.

2.14 Due to the requirement for the Council to deliver actual savings in the revenue budget the Spend to Save funding will be provided on the following basis

- That no interest will apply when repaying the sum invested by the Spend to Save fund;
- Where payback is calculated as 2 years or less, 100% of the sum invested will be repaid to the Spend to Save fund; and
- Where payback is calculated as more than 2 years, 50% of the sum invested will be repaid to the Spend to Save fund.

2.15 An example would be £0.5 million Spend to Save application for investment will generate £0.125 million of savings per annum. Payback period 4 years. If the full value of the investment has to be repaid into the fund then the saving that has been generated will only impact in year 5. By repaying half of the investment into the fund the service will be able to impact on the revenue budget in year 3. This enables the timescales for generating an impact on the revenue budget to be substantially improved, providing an incentive to apply the savings more quickly.

2.16 The other impact is that the Spend to Save fund will reduce and not be self sustaining meaning that fewer future opportunities will be able to be funded.

## Linking the 2016/17 Budget to the Council’s Corporate Plan

3.01 The 2016/17 General Fund budget proposes to incur net expenditure of £110.278m on services to the people of Shetland during the next financial year.

3.02 Although budgets have reduced in recent years to move the Council to a position where it is closer to a sustainable footing, Shetland Islands Council is still able to provide some of the highest funded services to the public of any local authority in Scotland.

3.03 During that time the Council has sought to maximise the potential impact of the available funding for services by targeting resources towards the key priorities of the Council as set out in its Corporate Plan. In line with the new Medium Term Financial Plan the opportunity should be taken by Directors to prioritise the delivery of services that contribute most effectively to the successful delivery of the Corporate Plan objectives and outcomes in the long term or are required to fulfil the Council’s statutory duties. This should be taken forward by Directors in planning for the future beyond 2016/17.

3.04 Further detail on how these priorities will be delivered in the 2016/17 financial year can be found in the five Directorate Plans. These set out how the budgets of each directorate will be used to contribute towards the delivery of the Corporate Plan. These reports were presented to the Special Service Committee meetings. These can be found on the Council’s website.

Community Health & Social Care Directorate	<b>CC-056-F</b> Community Health & Social Care Directorate Plan 2016/17 <a href="http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=4974">http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=4974</a>
Development Services Directorate	<b>DV-063-F</b> Development Services Directorate Plan 2016/17 <a href="http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=4746">http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=4746</a>
Children’s Services Directorate	<b>CS-035-F</b> Children’s Services Directorate Plan 2016/17 <a href="http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=4716">http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=4716</a>
Infrastructure Services Directorate	<b>ISD-027-F</b> Infrastructure Services Directorate Plan 2016/17 <a href="http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=4736">http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=4736</a>
Corporate & Chief Executive Directorates	<b>CRP-025-F</b> Corporate and Chief Executive’s Directorate Plan 2016/17 <a href="http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=4755">http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=4755</a>

## The 2016/17 General Fund Budget

4.01 The 2016/17 General Fund budget is set out in the table below:

Line No.	Description	2016/17 £000	2016/17 £000
1	Chief Executive & Cost of Democracy	1,919	
2	Children's Services	41,178	
3	Community Health & Social Care Services	20,432	
4	Development Services	15,267	
5	Infrastructure Services	20,351	
6	Corporate Services	8,419	
7	Corporate Services (Fund Manager Fees)	875	
<b>8</b>	<b>GENERAL FUND SERVICES NET EXPENDITURE (equals lines 1-7)</b>		<b>108,441</b>
9	Allocation to the Integrated Joint Board (IJB)	19,920	
10	Contribution from the Integrated Joint Board (IJB)	(20,432)	
<b>11</b>	<b>NET CONTRIBUTION FROM THE IJB (equals lines 9 - 10)</b>		<b>(512)</b>
12	Contingencies and Budget Pressures	3,678	
13	Borrowing Support Costs funded corporately for AHS Replacement	1,256	
14	Support Recharges to Harbour Account , HRA and Capital	(1,758)	
15	Interest on Revenue Balances	(27)	
16	Economic Development Investment Income	(800)	
<b>17</b>	<b>TOTAL NET GENERAL FUND EXPENDITURE (equals line 8 plus lines 11-16)</b>		<b>110,278</b>
	<b>Funded by -</b>		
18	General Revenue Grant/NNDR (Scottish Government Allocation)	(82,639)	
19	Council Tax	(8,505)	
<b>20</b>	<b>TOTAL CORE FUNDING (equals lines 18-19)</b>		<b>(91,144)</b>
	<b>Deficit to be funded from Reserves</b>		
21	Draw on Reserves – 2015/16 Underspend Carry Forward	(1,000)	
22	Draw on Reserves – Core Expenditure General Fund	(12,024)	
23	Draw on Reserves – Equivalent to Harbour Account Surplus	(5,417)	
24	Shetland Gas Plant Contribution	(693)	
<b>25</b>	<b>TOTAL FUNDING FROM RESERVES (equals lines 21-24)</b>		<b>(19,134)</b>
<b>26</b>	<b>TOTAL FUNDING (equals line 20 plus line 25)</b>		<b>(110,278)</b>
<b>27</b>	<b>BALANCED BUDGET (line 17 plus line 26)</b>		<b>0</b>

4.02 The proposals in the 2016/17 General Fund budget fall within the agreed Directorate Target Operating Budgets as set out in the Medium Term Financial Plan 2015-2020.

4.03 The table below shows Directorate proposals compared to revised Target Operating Budgets:

	2016/17 Target £000	Cost Pressures £000	2016/17 Revised Target £000	2016/17 Actual Budget £000	Variance £000
Corporate & Chief Executive Services	9,833	609	10,442	10,338	104
Children's Services	38,599	2,573	41,172	41,178	(6)
Community Health & Social Care Services	19,359	1,300	20,659	20,432	227
Development Services	14,781	555	15,336	15,267	69
Infrastructure Services	19,826	818	20,644	20,351	293
<b>Total Directorate budgets</b>	<b>102,398</b>	<b>5,855</b>	<b>108,253</b>	<b>107,566</b>	<b>687</b>

The main cost pressures applied in 2016/17 have been for nationally agree pay inflation, UK Government changes to employer national insurance contributions and pension rate changes amounting to £5.109m. This cost pressure takes account of the pay award for 2015/16 and for 2016/17. The remaining items were for cost pressures identified in the 2015/16 budget exercise which have been realised i.e. free school meals for primary 1-3, ICT licences etc.

### Expenditure

4.04 The General Fund services net expenditure is budgeted to be £108.441m in 2016/17 (as shown at Line 8 in the table at 4.01) which represents the spending on day to day Council services. The table below shows how the Directorate Target Operating Budgets reconcile to the detailed budget proposal reports that have been through the five Special Committee meetings in November 2015:

Directorate	Develop- ment Committee £000	Social Services Committee £000	Education & Families Committee £000	Environment & Transport Committee £000	Policy & Resources Committee £000	College Board £000	Total £000
Executive & Corporate					10,338		<b>10,338</b>
Children's			41,178				<b>41,178</b>
Community Health & Social Care		20,432					<b>20,432</b>
Development	8,844		536	5,892		(5)	<b>15,267</b>
Infrastructure				20,351			<b>20,351</b>
<b>TOTAL</b>	<b>8,844</b>	<b>20,432</b>	<b>41,714</b>	<b>26,243</b>	<b>10,338</b>	<b>(5)</b>	<b>107,566</b>

4.05 The detailed General Fund budgetary information which underpins this section of the budget report can be found in the following Budget Proposals Reports (including appendices) which were presented to Special Service Committee Meetings. Note that there have been subsequent adjustments to these to take account of vacancies to be factored into the Directorate budgets totalling £0.325m and a transfer to contingency of £0.250m from Infrastructure for disabled adaptations, these are set out in the tables in the covering report:

Development Committee 23 November 2015	<b>F-074-F</b> 2016/17 Budget and Charging Proposals Development Committee <a href="http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=4746">http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=4746</a>
Education & Families Committee 23 November 2015	<b>F-079-F</b> 2016/17 Budget & Charging Proposals Education and Families Committee <a href="http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=4716">http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=4716</a>
Policy and Resources Committee 25 November 2015	<b>F-077-F</b> 2016/17 Budget and Charging Proposals Community Health and Social Care Partnership <a href="http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=4755">http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=4755</a>
Environment & Transport Committee 24 November 2015	<b>F-071-F</b> 2016/17 Budget and Charging Proposals Environment and Transport Committee <a href="http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=4736">http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=4736</a>
Shetland College Board 25 November 2015	<b>F-076-F</b> 2016/17 Budget Proposals for Shetland College <a href="http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=4773">http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=4773</a>
Policy & Resources Committee 25 November 2015	<b>F-075-F</b> 2016/17 Budget and Charging Proposals Policy & Resources Committee <a href="http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=4755">http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=4755</a>

### Contingencies and Cost Pressures

4.06 A figure of £3.678m has been included in the General Fund budget to cover contingencies and cost pressures (as set out in Line 12 of the table at 5.01). This figure has been calculated based on the best information known as at January 2016.

4.07 This budget line generally covers Council-wide issues and therefore will be held centrally by the Executive Manager – Finance. It will only be released when the Executive Manager – Finance is satisfied that the cost pressure has materialised or the conditions exist to legitimately release contingency monies.

4.08 The following tables show how the figure of £3.678m (£1.113m for cost pressures and £2.565m for contingencies) has been calculated:

<b>Cost Pressures</b>	<b>Description</b>	<b>Allowance in 2016/17 budget (£000)</b>
Living Wage	This is to meet the additional cost of the 2016/17 living wage hourly rate.	74
Holiday Pay	This is to meet the estimated cost of holiday pay relating to overtime and additional hours.	300
Sleep-Over Payments	ICJ ruling has resulted in increased cost of providing sleep-overs.	365
Health & Social Care Integration	To take account of any additional costs as a result of the new Health and Social Care Integration Board.	15
Free School Meals	Increased take-up of free school meals for primary 1-3.	32
Free Nursery Meals	Government policy to provide meals where children are in full day nursery.	13
Fee Paid Carers	Estimate for fee paid carers to address a shortage in voluntary foster carers.	94
Kinship Allowances	To support potential for new kinship placements.	31
Windybrae	To provide for 2 social care workers in order to meet Care Inspectorate regulations to fully utilise Windybrae.	88
External Audit Fees	The estimated additional cost of external audit fees.	20
Air/Bus/School Transport Inflation	To cover the cost of inflationary increases in contracts for air, bus and school transport services.	81
<b>TOTAL COST PRESSURES</b>		<b>1,113</b>

<b>Contingencies</b>	<b>Description</b>	<b>Allowance in 2016/17 budget (£000)</b>
Off-Island Placements (Community Health & Social Care & Children's Services)	The need for off-island placements varies significantly from year to year. It is an unpredictable demand led activity.	1,052
Children's Resources	To meet contingent demand across Children's Resources as requested by the service which cannot be met from within budget.	292
Schools/Quality Improvement	To meet contingent demand across Schools/QI as requested by the service which cannot be met from within budget.	354
Supply Teachers/Reliefs in Schools	The need for supply teachers/reliefs varies year to year. This is to meet potential additional demand which cannot be met from within budget.	258
Disabled Adaptions	The need for disabled adaptions varies year on year. This is to meet potential demand for adaptions to disabled, terminally ill and elderly individuals.	250

<b>Contingencies</b>	<b>Description</b>	<b>Allowance in 2016/17 budget (£000)</b>
Ferry Vessel & Other Fuel	Cost pressure arising from anticipated increases in the price of fuel.	274
Ferry Staffing Shortages	There may be a need to use agency electrical engineers to do essential ferry maintenance.	210
Ferry Staff Revalidation Cover	To meet the potential cost of ferry cover to carry out MCA training.	115
Infrastructure Equipment Failure	To meet unexpected high cost equipment failure throughout Infrastructure Services.	350
Winter Maintenance	Contingency to meet any unforeseen costs due to a severe winter.	110
Bitumen Supplies	To meet an increase in the cost of bitumen.	102
Extreme Weather Events	To meet the cost of extreme weather events such as storms, flash floods, landslides and coastal damage.	100
CIPFA Trainee Programme	The programme has been put into contingency to use only that required.	70
Valuation Joint Board	The Board has increasing IER costs and a Best Value review is to take place to ensure that the current delivery is the most efficient and effective method of delivery.	50
Funding for Change	In line with the MTFP there is a commitment to including funding to facilitate the change of services to address the medium term forecast position of the Council. This provides capacity to deliver that change.	500
External Recruitment for Senior Officers	To meet the estimated cost of a number of senior posts for which recruitment is anticipated to be required in 2016/17.	124
Payroll Officer	To meet the potential cost of implementing the change from Webroster to timesheets.	27
Homeless Accommodation Costs Inflation	The price of accommodation for homelessness is currently inflated and may require additional resources until prices return to normal levels.	60
Foula Ferry – Contract Increase	To meet the cost of the one-off uplift on the Foula Ferry contract.	60
<b>TOTAL CONTINGENCIES</b>		<b>4,358</b>
	Reduction based on risk of events occurring - 41%	(1,793)
<b>REVISED TOTAL CONTINGENCIES</b>		<b>2,565</b>
<b>TOTAL FUNDING IN BUDGET</b>	<b>COST PRESSURES AND CONTINGENCY</b>	<b>(3,678)</b>

## Funding

- 4.09 The Scottish Government is providing £82.639m of funding for General Fund services to Shetland Islands Council in 2016/17. This funding represents the Council's General Revenue Grant and includes the level of income that the Council will receive from the National Non-Domestic Rates Pool.
- 4.10 The Council is freezing Council Tax for the ninth consecutive year so a Band D property will incur an annual charge of £1,053.00. This means that Shetland Islands Council is expected to continue to charge the 4<sup>th</sup> lowest level of Council tax out of the 32 local authorities in Scotland whilst providing the best funded services. At this rate of taxation it is expected that the Council will generate £8.505m from Council Tax during 2016/17. It has been assumed that a 1% increase in the property base will occur.
- 4.11 The remainder of the funding required to balance the General Fund will come from the Council's reserves. This is budgeted to total £19.134m in 2016/17 (Line 25 in the table at 4.01).

## The 2016/17 Harbour Account Budget

5.01 The proposed budget for the Harbour Account is as follows:

Line No.	Description	2016/17 £000
	<b>Expenditure</b>	
1	Ports Management	64
2	Sullom Voe	13,188
3	Scalloway	890
4	Other Piers	817
5	Jetties & Spur Booms	2,083
6	Terminals	1,090
<b>7</b>	<b>TOTAL EXPENDITURE (equals lines 1-6)</b>	<b>18,132</b>
	<b>Income</b>	
8	Harbour Fees & Charges	(23,534)
9	Jetties & Spur Booms	(2,083)
<b>10</b>	<b>TOTAL INCOME (equals lines 8-9)</b>	<b>(25,617)</b>
<b>11</b>	<b>HARBOUR ACTIVITY NET SURPLUS (equals lines 7-10)</b>	<b>(7,485)</b>
12	Internal contribution from the General Fund for terminal berthing charges	(3,045)
<b>13</b>	<b>TOTAL SURPLUS (equals line 11 plus line 12)</b>	<b>(10,530)</b>
	<b>Contributions to/(from) Reserves</b>	
14	Contribution from the Marine Fund	(144)
15	Contribution to the Reserve Fund	10,674
<b>16</b>	<b>BALANCED HARBOUR ACCOUNT (line 13 plus lines 14 and 15)</b>	<b>0</b>

5.02 The Sullom Voe Terminal operator requires a 24 hour, 7 day per week Harbour operation to facilitate tanker movements. From the point of view of the Council, this means that there is a requirement to continue to incur a high level of expenditure to maintain this level of service against reducing tanker numbers. Charges have required to be increased by 83%. This takes account of a reduction in tanker numbers but will generate the surplus required, in line with the proposed Medium Term Financial Plan, to support Council service expenditure. This level of increase is also required to address under-investment in Port infrastructure which require urgent life extension works and to re-coup the projected loss on harbour activity in the current year, in line with Council policy. This projected loss relates to updated projections on tanker numbers from the Sullom Voe Terminal operators of a 26% reduction in tanker traffic in 2015/16.

5.03 This has allowed the Council to budget for the surplus on Harbour activities that it required in the Medium Term Financial Plan. It is proposed to increase all other charges by 3%. The increase on other charges has been raised by 3% to increase the contribution to the maintenance and future investment in piers/equipment.

- 5.04 The net income for the berthing charge for the inter-island ferry use of shore-based ferry terminal assets results in net income of £3.045m.
- 5.05 Income from the Shetland Gas Plant throughput activity is anticipated to be £0.683m which is in addition to the surplus identified in the Harbour Account budget for 2016/17. This is lower than originally anticipated but reflects the current gas and oil prices.
- 5.06 The detailed Harbour Account budgetary information which underpins this section of the budget report can be found in the following budget proposals report (including appendices) which was presented to the Harbour Board on 25 November 2015:

**Harbour Board  
25 November  
2015**

**F-072-F**  
2016/17 Budget and Charging Proposals Harbour Board  
<http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=4765>

## The 2016/17 Housing Revenue Account Budget

6.01 The 2016/17 Housing Revenue Account budget is set out in the table below:

Line No.	Description	2016/17 £000
	<b>Expenditure</b>	
1	Supervision & Management	725
2	Repairs & Maintenance	1,821
3	Void Rents & Charges	168
4	Garages	25
5	Capital Funded from Current Revenue	1,630
6	Capital Charges - Dwellings	1,621
<b>7</b>	<b>TOTAL EXPENDITURE (equals lines 1-6)</b>	<b>5,990</b>
	<b>Income</b>	
8	Interest on Revenue Balances	(2)
9	Rents - Dwellings	(6,763)
10	Rents - Other i.e. garages/sites etc	(181)
<b>11</b>	<b>TOTAL INCOME (equals lines 8-10)</b>	<b>(6,946)</b>
<b>12</b>	<b>TOTAL SURPLUS (line 7 plus line 11)</b>	<b>(956)</b>
	<b>Surplus to contribute to Reserves</b>	
13	Contribution to Housing Repairs & Renewals Fund (Reserves)	956
<b>14</b>	<b>BALANCED HOUSING REVENUE ACCOUNT BUDGET (line 12 plus line 13)</b>	<b>0</b>

6.02 The objective of the 2016/17 Housing Revenue Account (HRA) budget is to deliver a sustainable position and minimise rent increases for the year in line with the proposed HRA 30 Year Business Plan.

6.03 The proposal on rents is to remove the disparity in rents between smaller and larger properties as the distinction is no longer reasonable, and this is in line with tenant feedback. Rents are due to increase by 2%, with an additional £1 per week being added to rents for one and two bedroom properties for 2016/17.

6.04 The capital expenditure in the Asset Investment Plan is set at £2.242m in 2016/17. This is in line with the HRA 30 Year Business Plan.

6.05 The detailed HRA budgetary information which underpins this section of the budget report can be found in the following budget proposals report (including appendices) which was presented to the Policy and Resources Committee on 25 November 2015:

<b>Policy &amp; Resources Committee 25 November 2015</b>	<p style="text-align: center;"><b>F-080-F</b></p> <p style="text-align: center;">2016/17 Housing Revenue Account Budget and Charging Proposals  <a href="http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=4755">http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=4755</a></p>
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## The 2016/17 Asset Investment Plan (Capital Programme)

7.01 The 2016/17 Asset Investment Plan is set out in the table below:

Line No.	Description	2016/17 Budget £000
1	New Developments	3,523
2	Maintenance of Existing Assets	8,114
3	Spend to Save Projects	91
4	Housing Revenue Account Projects	2,242
<b>5</b>	<b>TOTAL EXPENDITURE (equals lines 1-4)</b>	<b>13,970</b>
6	Scottish Government General Capital Grant	(5,535)
7	Scottish Government General Capital Grant (reprofiled 2016/17 to 2017/2020)	(465)
8	Other Capital Grants	(500)
9	Capital Receipts (General Fund and HRA)	(962)
10	Capital Funded from Current Revenue (Harbour and HRA)	(4,095)
11	Draw on Reserves – Spend to Save	(91)
12	Draw on Reserves – Second Homes Council Tax	(60)
<b>13</b>	<b>TOTAL FUNDING (equals lines 6-12)</b>	<b>(11,708)</b>
<b>14</b>	<b>FUNDING SHORTFALL (equals line 5 plus line 13)</b>	<b>2,262</b>
15	Borrowing for the Eric Gray Replacement	(2,262)
<b>16</b>	<b>TOTAL BORROWING (equals lines 15)</b>	<b>(2,262)</b>
<b>17</b>	<b>TOTAL FUNDING AND FINANCING (equals line 13 plus line 16)</b>	<b>(13,970)</b>
<b>18</b>	<b>BALANCED ASSET INVESTMENT PLAN (equals line 5 plus line 17)</b>	<b>0</b>

7.02 There are 13 key criteria for capital investment planning included within the Medium Term Financial Plan. These are:

- No growth in the asset base;
- All capital expenditure is to be focused on the maintenance of existing assets (exception new Anderson High School and digital connectivity);
- A gateway process will ensure strategic fit is demonstrated early and decisions are taken at key stages. This will be supported by a full business case, including projected future demand, and options and investment appraisal process before a project can be considered for inclusion on the Asset Investment Plan;
- No project will be considered for inclusion on the Asset Investment Plan, and existing projects will be removed, unless they have a robust financial estimate of cost. The Executive Manager – Finance will determine whether the financial estimates of cost is robust;
- All capital projects must clearly demonstrate the revenue consequences arising from a capital spending decision to assist Elected Members in understanding the full financial impact;

- The focus will be on effective asset management, driven forward through the Asset Strategy and Implementation Plan. This will ensure that the Council occupies a reduced number of properties in the future.
- Scottish Government Capital Grant will be applied initially to short life assets (e.g. vehicles, ICT, certain maintenance);
- Capital Receipts will be targeted at core capital maintenance costs.
- Capital Funded from Current Revenue (CFCR) will be used where appropriate to fund low value, shorter life capital expenditure.
- Where available and determined as appropriate by the Executive Manager – Finance, other assets may be funded from Capital Grants, Capital Receipts and CFCR;
- All other capital expenditure will be financed by borrowing. If interest rates are lower than the return on the long-term investments described in the Medium Term Financial Plan, external borrowing will be undertaken. If interest rates are higher than investment returns, internal borrowing will be undertaken;
- The service(s) that benefit from the capital asset will be required to make sufficient revenue savings to free up budget to pay for the cost of capital (interest charges and principal repayments of debt) based on the amount borrowed. This will be calculated on the amount borrowed. The only exception to this will be in relation to the New Anderson High School as the agreement to borrow pre-dates this Policy;
- Capital financing products are affected by external and financial market factors and can develop in a way that may enable the Council to achieve its Corporate Plan outcomes through alternative means. Where new capital financial opportunities arise, such as Scottish Government Initiatives like the National Housing Trust models, then the Executive Manger Finance will give consideration to such products, subjecting them to financial viability, affordability and risk tests, and make a recommendation prior to proceeding.

7.03 The level of borrowing required to finance the Asset Investment Plan is called the Capital Financing Requirement (CFR). The Council will be able to manage limits for borrowing based on what it thinks is prudent, affordable and sustainable through annually agreeing Prudential Indicators as part of the Annual Borrowing & Investment Strategy.

7.04 As part of the Scottish Government Settlement, £1.250m of general capital grant was reprofiled from 2016/17 to 2017/2020 (this is a mechanism they have used in the past to fund capital). Over the 5 year period the Council's Asset Investment Plan is in balance.

### **Asset Investment Plan 2016/2021**

7.05 The Asset Investment Plan proposes to spend £73.768m over the next five years which represents a significant investment in the Council's infrastructure and this will require borrowing of £22m to meet the funding shortfall. The borrowing is required to finance the new Anderson High School, the new Eric Gray Resource Centre, Terminal and Ferry Vessel Life extensions.

7.06 The focus of the Asset Investment Plan over the five years is on the maintenance of existing assets rather than the creation of new assets. The main exceptions to this rule are the building of a new Anderson High School and the new Eric Gray Resource Centre.

7.07 The detailed Capital Programme (Asset Investment Plan) budgetary information which underpins this section of the budget report can be found in the following budget proposals report (including

appendices) which was presented to the Policy & Resources Committee on 25 November 2015. Note the Plan has been adjusted in the covering report to take account of the revised General Revenue Grant:

<b>Policy &amp; Resources Committee 25 November 2015</b>	<b>F-081-F</b> Proposed 5 Year Asset Investment Plan 2016-21 <a href="http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=4755">http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=4755</a>
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