

# Shetland Islands Council



## The Council Budget Book 2018/19

**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

## Introduction

- 1.01 Shetland Islands Council's 2018/19 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 £17.947m, 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 budget that requires a draw from investment returns (underpinned by Council reserves) of £10.923m, this is an affordable amount and is under the estimated maximum usable return of £14.265m, whilst still protecting the capital value of reserves. This has enabled the Council to offset the trend of reducing government funding since 2010/11.
- 1.03 The budget proposes a 3% increase in the rate of Council Tax and is expected to continue to have one of the lowest Council Tax rates in Scotland.
- 1.04 The financial settlement for Shetland Islands Council, although only for a single year, does represent a shift in the resources it has available, with specific funding being allocated to it for the first time to support the revenue costs of inter-island ferry services. This provides the opportunity for the Council to take a period of time (the next six to nine months) to set out what and how it changes its services to target its priorities and outcome aspirations so they are sustainable and fits into the medium term financial planning framework. Crucial to this will be the continuing discussions on the long-term revenue funding for inter-island ferries and capital funding needed to replace vessels and terminals.
- 1.05 The Harbour Account is expected to operate with a surplus and has in general applied a 2.5% increase in fees and charges.
- 1.06 The Housing Revenue Account has a 5 year business plan on which the budget for 2018/19 has been based, and is underpinned by a 30 year financial model. A rent increase on dwellings of 2% has been applied with an additional £1 per week added to the rental of one and two bedroom properties. An average rent rise of 2.59%.
- 1.07 The 5 year Asset Investment Plan is balanced and affordable, with the relevant costs of borrowing and revenue impact of capital projects having been taken into account when preparing the 2018/19 budget.

## Progress to Date & Financial Outlook

- 1.08 At present the Council is on course to deliver it's 2017/18 Budget, with a small underspend currently forecast. This is in the context of a budget that has reduced substantially in the last six years, either avoiding cost increases or achieving savings in excess of £40m. It has successfully delivered on the budget for the last 3 consecutive

years and continues to prove that it is able to deliver robust service performance within the resources that it has approved.

- 1.09 This does not mean it is guaranteed for the future. The medium term is fundamental to how the Council goes about its business, the trend in core Scottish Government Grant remains downwards, despite a flat cash funding level for 2018/19, and costs are set to rise year on year, with greater risk of pay and price inflation being above previous expectations.
- 1.10 For this reason, the Corporate Management Team should be expected to produce a programme of proposals and options for service redesign. This exercise should be conducted over the next three months and be set out using the business case methodology that the Council has adopted – initially preparing Strategic Outline Cases for each option. The proposals and options will take account of the duty to continuously improve while achieving best value and be set in the context of local outcome aspirations, national policy and statutory obligations.
- 1.11 There is an absolute requirement for different ways of working to be identified that can work in Shetland and to move towards implementation of solutions that make better use of modern technology and digital improvements that are planned by 2020. The budget for 2018/19 includes £1.890m of redesign projects, £0.540m have already been approved. The remaining projects will require to be fully worked up before final decisions are made by the Council to implement.
- 1.12 The Council is extremely fortunate to be able to supplement its annual budget from funds generated by its own resources, but these are not limitless, and 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.
- 1.13 The one-off nature of the ferry funding and the unexpectedly positive Scottish Government Grant settlement will have to be taken into account when looking forward at the financial sustainability of the Council, which needs to be reviewed in light of the latest data and forecasts available. Therefore, Councillors 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.
- 1.14 The Community Empowerment (Scotland) Act 2015 places Community Planning on a statutory footing therefore it is more important than ever before for there to be a process to engage with communities and involve them in decision making.
- 1.15 Within Shetland Community Choices one of the workstreams remains to progress towards a more mainstream approach to participatory budgeting encouraging and facilitating idea generation, debate and discussion around ideas for improving the community and also in relation to different ways of delivering services efficiently and effectively.

1.16 A revised Medium Term Financial Plan will be presented to the Council in the first quarter of 2018/19.

### Draw on Reserves

1.17 The Council must consider whether its budget is affordable, and for Shetland it is fundamental to consider the extent to which it makes use of the resources it has – its Reserves. The Council is asked to approve a draw from reserves to balance the 2018/19 budget, shown in the table below:

<b>Draw from Reserves 2018/19</b>	<b>Budgeted Draw from / (Contribution to) Reserves £m</b>
General Fund	17.947
Harbour Account Surplus	(10.449)
Housing Revenue Account	1.052
Asset Investment Plan	3.184
<b>NET BUDGETED DRAW FROM RESERVES 2018/19</b>	<b>11.734</b>

1.18 The total net budgeted draw on reserves for 2018/19 is £11.734m. This is achievable on the basis of anticipated returns (from growth and income) from Council investments of over £300m, and an operational surplus being achieved on the Harbour Account.

1.19 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 and incorporates appropriate long-term assumptions about investment returns that can be achieved annually, while at the same time ensuring that the Council has funds to meet its financial commitments which are of a medium and long-term nature.

### Key Budget Messages

#### 1.20 General Fund

- The draft Financial Settlement for Local Government in published in December has been substantially improved for Shetland Islands Council following the introduction of the Budget Bill to the Scottish Parliament on 31 January 2018. The Council now anticipates receiving a sum of £80.5m that is essentially a flat-cash Scottish Government Grant, when compared to the revised settlement for 2017/18.
- In addition, a sum of £5m has been allocated to support the revenue funding of inter-island ferries. This will substantially reduce the net cost of current services that have to be funded from the Scottish Government Grant and Council Tax.

- In 2016/17 and 2017/18 funding for Social Care has been channelled through NHS Shetland to the Shetland Community Health and Social Care Integration Joint Board (IJB). This is to continue at the same level in 2018/19. It results in £1.3m being received by the Council from the IJB for the delivery of Social Care services.
- The Local Government Financial Settlement includes the distribution of £66m for Social Care in 2018/19 to fund the implications of, for example, the Carers Act. For Shetland Islands Council this amounts to a sum of £0.26m, and this has been included in the proposed allocation to the IJB for 2018/19. Additional funding is also proposed to cover the cost of pay and price inflation for which savings have not been identified, while a Service Redesign proposal for Mental Health Services is anticipated to create a saving of £0.2m.
- The total impact of Service Redesign projects in 2018/19 is expected to be £1.89m, with £0.54m implemented or in the process of implementation.
- The financial settlement for Local Government brings with it new costs, for example, pay award expectations, the 1% pay cap having been lifted. As such the proposed budget takes account of a settlement for 2018/19 of 3% (£30k salary and under), 2% (over £30k), £1,600 (over £80k) – in line with the settlement that the Cabinet Secretary for Finance and the Constitution announced for other public sector workers.
- The Medium Term Financial Plan had forecast growth in service costs from 2017/18 of £4.6m (4.2%) however, the actual growth that has been incorporated into the 2018/19 budget is £5.6m (5.1%). Growth of this value is unsustainable.
- The management of financial risk has a range of components, one of which is the budget has a contingency sum built in. In 2018/19 the value of that contingency is £0.45m, the same as in 2017/18.
- Budgets to fund Capital Financing Costs, change projects and a sum for the continuing cost of the apprenticeship levy are managed centrally. In total, this amounts to £2.647m.
- The budget recommends a 3% increase in the rate of Council Tax, which will generate £0.27m in 2018/19.

### 1.21 Harbour Account

- An operational surplus, excluding income from the Council and the Shetland Gas Plant, is projected to be £6.4m in 2018/19. The Council will use £6m of this to support General Fund Services in 2018/19. This is in line with the assumptions of the Medium Term Financial Plan.
- The Harbour Charges at Sullom Voe are to be increased by 2.5% and actual income is very much dependant on actual tanker traffic. Charges apply to all

other harbours and piers and these too have been reviewed and increased by 2.5%, with new charges introduced as appropriate.

- The Harbour Account generates an income from agreements in relation to the Shetland Gas Plant and this includes ground rent and throughput income. It is forecast that income will increase in 2018/19 to £1.024m.
- Capital investment to be funded by the Harbour Account in 2018/19 amounts to £2.583m, taking into account capital financing costs and investment paid for directly from fees and charges received.

### **1.22 Housing Revenue Account**

- The Housing Revenue Account (HRA) budget has been prepared in line with the approved HRA 5 Year Business Plan and underpinning 30 year financial model.
- Capital investment to be funded by the HRA in 2018/19 amounts to £4.827m, taking into account capital financing costs and investment paid for directly from rents received.
- The rent increase for 2018/19 is 2% across all dwellings, plus an extra £1 per week for one and two bedroom properties. The average rent increase is 2.59%.

### **1.23 Asset Investment Plan**

- The Asset Investment Plan (AIP) provides significant investment in the Council's asset infrastructure, focused on maintaining existing assets, in accordance with the capital investment policy.
- An outline ferry vessel and terminal replacement programme has been included in the AIP, with the funding being assumed as receivable from the Scottish Government/Transport Scotland by way of external capital grant. If this is not forthcoming under the Scottish Government's commitment to fair funding for inter-island ferry services then the Council will face costs that are not affordable.
- A number of specific projects are being prepared using the Council's adopted Business Case methodology that will result in decisions being taken during 2018/19 and provision has been made to ensure that a prudent, sustainable and affordable plan is in place.
- The borrowing levels proposed in the AIP are within the approved borrowing limits in the current Prudential Indicators and ensures that the Council's capital financing requirement is affordable at this time. A further review of the Prudential Indicators will be undertaken following approval of the budget.

# Introduction to the Budget Report

## Medium Term Financial Plan 2016/17 – 2021/22

2.01 The Medium Term Financial Plan (MTFP) is the Council's strategic finance document, which provides the framework for financial planning over the next five year period. The Financial Strategy includes:

- 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 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 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 fluctuating 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 apply the Charging Framework in considering, setting and applying charge for services, recognising the important place income has in addressing rising costs;
- To continue to adopt the Investment Returns Withdrawal Policy, which includes a long-term investment return rate of 7.3% and long-term inflation rate of 2.1%, resulting in an affordable draw from investment returns of 5.2% of the investment returns base;
- To maintain an investment returns base of £252.4m as at 1 April 2017;
- To focus investment returns on supporting revenue expenditure;
- To capture savings from improved and robust procurement and commissioning processes, including the re-negotiation of contracts;
- To maintain a revenue budget contingency and maintain an uncommitted General Fund Reserve to mitigate the risk of unplanned and one-off events that the Council may face;
- To acknowledge rising costs and falling income from the Scottish Government, and agree to respond to the gap that exists between income and expenditure in the future;

- 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 continue to set aside an annual sum of Funding for Change, alongside a scheme for Spend to Save and Improvement, earmarked within the Council's Usable Reserves;
- 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 Annual Investment and Treasury Strategy;

## **The 2018/19 Budget**

2.02 The 2018/19 Council budget is a financial plan that complements the strategic MTFP and maintains the Council's progress towards delivering its strategic financial objectives.

2.03 The Budget Book encapsulates all aspects of the Council's business; the General Fund, the Harbour Account, the Housing Revenue Account and the Capital Programme (Asset Investment Plan). 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 2018/19 Budget**

2.04 The MTFP is the basis for setting the budget. A number of assumptions were made which shaped the budget process, including rising costs of £4.6m (4.2%) and reducing income from the Scottish Government of £1.6m (2%).

2.05 The gap created by rising costs and falling grant funding had to be addressed and so both efficiencies and service redesign proposals were looked at. This resulted in efficiencies to the value of £1.1m (1%) being incorporated into the budget. A further

£1.89m (1.8%) has been identified under Service Redesign programme, with £0.54m already approved by the Council and a further opportunity for £1.35m to be achieved with further work still required for decisions then to be made. Together these do not compensate for the anticipated growth in costs.

- 2.06 Initial proposals were made more difficult by actual growth identified during the process and from the additional burdens that the Council now faces from, for example, the lifting of the public sector 1% pay cap. In total growth in the General Fund budget amounts to £5.6m (5.1%), which is unsustainable in the context of the trend for Scottish Government Grant funding to fall.
- 2.07 The assumption of reduced funding from the Scottish Government was reasonable as a cut of 1.8% was initially announced for Shetland Islands Council when the draft Financial Settlement was published in December 2017. This has now been superseded by revisions and most importantly by the funding package announced as part of the Stage 1 Budget Bill debate on 31 January 2018. The Council benefits to the value of £1.27m from additional funding of £159.5m for Local Government, plus a £5m specific grant to support the revenue costs of inter-island ferries.
- 2.08 The MTFP prudently did not include any funding for ferries, which means this one-off grant makes a substantial difference to the Council in preparing the budget for 2018/19. The ability to avoid using an unsustainable draw from reserves and reducing the use of Council resources in balancing the budget are all welcome in preparing for tackling the medium-term challenges.
- 2.09 The resulting outcome of this budgeting exercise is that the aggregated budget proposals put forward by directorates are less than the overall budget set within the MTFP. The proposals by Services are aligned to the Council's priorities and outcomes as set out in the Corporate Plan.

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

- 2.10 The objective of the Shetland Islands Council Budget Book 2018/19 is to provide a high level summary of the Budget proposals and their contribution towards delivering the MTFP and the impact on the Council's reserves.
- 2.11 The detailed budget proposals for each area of the Council are set out in separate reports, which were presented to Service Committees during February 2018. This report guides Councillors to those other reports where more detailed information can be found on General Fund services, the Harbour Account, the Housing Revenue Account and the Asset Investment Plan.

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

- 2.12 The Council has a Spend to Save and Improvement Fund. 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 budget included annually in the revenue budget. The Funding for Change

budget will initially be used to fund feasibility studies to bring a project forward to a stage where a decision can be made to implement. The Spend to Save and Improvement Fund would be used to fund project implementation for those which meet the necessary criteria. The scheme is outlined in the MTFP and more information is available from the Accounting team.

## Linking the 2018/19 Budget to the Council's Corporate Plan

- 3.01 The 2018/19 General Fund budget proposes to incur net expenditure of £107.761m on services to the people of Shetland during the next financial year, included redesign projects of £1.89m.
- 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 providing 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 MTFP, 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 2018/19.

## The 2018/19 General Fund Budget

4.01 The 2018/19 General Fund budget is set out in the table below:

Line No.	Description	2018/19 £000	2018/19 IJB Centrally Managed Costs £000	2018/19 £000
1	Chief Executive & Cost of Democracy	1,701		1,701
2	Children's Services	42,180		42,180
3	Community Health & Social Care Services	21,053	1,217	22,270
4	Development Services	14,143		14,143
5	Infrastructure Services	19,864	(1,056)	18,808
6	Corporate Services	10,750	(161)	10,589
7	Corporate Services (Fund Manager Fees)	895		895
<b>8</b>	<b>GENERAL FUND SERVICES NET EXPENDITURE (equals lines 1 - 7)</b>	<b>110,586</b>	<b>0</b>	<b>110,586</b>
9	Allocation to the Integration Joint Board (IJB)	19,775	1,217	20,992
10	Allocation to the Integration Joint Board (Audit Fee)	15		15
11	Contribution from the Integrated Joint Board (IJB)	(21,053)	(1,217)	(22,270)
<b>12</b>	<b>NET CONTRIBUTION FROM THE IJB (equals lines 9 - 11)</b>	<b>(1,263)</b>	<b>0</b>	<b>(1,263)</b>
13	Insurance Redesign (previously approved)	(500)		(500)
14	Accommodation Rationalisation	(750)		(750)
15	Mental Health Redesign	(200)		(200)
16	Tertiary Sector Redesign	(250)		(250)
17	Promote Shetland Redesign (previously approved)	(40)		(40)
18	Waste Recycling Redesign	(150)		(150)
19	Gritting Review	(50)	50	0
<b>20</b>	<b>REDESIGN PROJECTS (equals lines 13 – 19)</b>	<b>(1,940)</b>	<b>50</b>	<b>(1,890)</b>
21	Contingencies, Funding for Change and Budget Pressures	1,517		1,517
22	Capital Financing Costs	1,580		1,580
23	Support Recharges to Harbour Account , HRA and Capital	(1,675)		(1,675)
24	Interest on Revenue Balances	(14)		(14)
25	Economic Development Investment Income	(1,080)		(1,080)
<b>26</b>	<b>TOTAL NET GENERAL FUND EXPENDITURE (equals line 8 plus line 12 plus lines 20 - 25)</b>	<b>107,711</b>	<b>50</b>	<b>107,761</b>
	<b>FUNDED BY:</b>			
27	General Revenue Grant/NNDR (Scottish Government Allocation)	(80,451)		(80,451)
28	Council Tax	(9,363)		(9,363)
<b>29</b>	<b>TOTAL CORE FUNDING (equals lines 27 - 28)</b>	<b>(89,814)</b>	<b>0</b>	<b>(89,814)</b>
	<b>Deficit to be funded from Reserves</b>			
30	Draw on Reserves – Core Expenditure General Fund	(10,873)	(50)	(10,923)
31	Draw on Reserves – Equivalent to Harbour Account Surplus	(6,000)		(6,000)
32	Shetland Gas Plant Contribution	(1,024)		(1,024)
<b>33</b>	<b>TOTAL FUNDING FROM RESERVES</b>	<b>(17,897)</b>	<b>(50)</b>	<b>(17,947)</b>

	(equals lines 30 - 32)			
34	<b>TOTAL FUNDING</b> (equals line 29 plus line 33)	(107,711)	(50)	(107,761)
35	<b>BALANCED BUDGET</b> (line 26 plus line 34)	0	0	0

## Expenditure

4.04 The General Fund services net expenditure is budgeted to be £109.323m in 2018/19 (as shown at Line 8 plus line 12 in the table at 4.01) which represents the spending on day-to-day Council services. The table below shows how the Directorate budgets reconcile to the detailed budget proposal reports that have been through the Service Committee meetings in February 2018:

Directorate	Development Committee £000	Education & Families Committee £000	Environment & Transport Committee £000	Policy & Resources Committee £000	College Board £000	Total £000
Executive & Corporate				13,346		<b>13,346</b>
Children's		42,180				<b>42,180</b>
Community Health & Social Care				21,053		<b>21,053</b>
Integration Joint Board				(1,263)		<b>(1,263)</b>
Development	7,787	329	5,949		78	<b>14,143</b>
Infrastructure *			19,864			<b>19,864</b>
<b>TOTAL</b>	<b>7,787</b>	<b>42,509</b>	<b>25,813</b>	<b>33,136</b>	<b>78</b>	<b>109,323</b>

\* In this table the Infrastructure budget proposals have been revised down by £5m to reflect the receipt of the specific grant for inter-island ferry services, which was announced after Environment and Transport Committee papers were prepared.

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 Service Committee Meetings.

Education & Families Committee 5 February 2018	<b>F-009-F</b> 2018/19 Budget & Charging Proposals Education and Families Committee <a href="http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=">http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=</a>
Environment & Transport Committee 6 February 2018	<b>F-010-F</b> 2018/19 Budget and Charging Proposals Environment and Transport Committee <a href="http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=">http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=</a>

Development Committee 5 February 2018	<b>F-011-F</b> 2018/19 Budget and Charging Proposals Development Committee <a href="http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=">http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=</a>
Shetland College Board 8 February 2018	<b>F-006-F</b> 2018/19 Budget Proposals for Shetland College <a href="http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=">http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=</a>
Policy and Resources Committee 12 February 2018	<b>F-008-F</b> 2018/19 Budget and Charging Proposals Community Health and Social Care Integration Joint Board <a href="http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=">http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=</a>
Policy & Resources Committee 12 February 2018	<b>F-012-F</b> 2018/19 Budget and Charging Proposals Policy & Resources Committee <a href="http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=">http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=</a>

### Council-wide Budgets and Contingency

4.06 A figure of £3.097m has been included in the General Fund budget to cover aspects of Council business that are of a Council-wide nature. These include capital financing costs, funding for change projects, a very limited number of budget pressures and a contingency, (as set out in Lines 21 and 22 of the table at 4.01).

4.07 As this budget line covers Council-wide issues they are held centrally by the Executive Manager – Finance. Funds 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 £3.097m has been calculated:

Category	Description	Allowance in 2018/19 Budget (£000)
Budget Pressure	<b>Pension Auto-Enrolment:</b> In line with legislation all staff not in a pension scheme requires to be auto-enrolled in the Council's pension scheme.	93
Budget Pressure	<b>Apprenticeship Levy:</b> This is to meet the apprenticeship levy being applied by the Government. (0.5% of the pay bill)	474
<b>Budget Pressures</b>		<b>567</b>
<b>Capital Financing Costs</b>	This is to meet the financing charges for external borrowing in relation to the Asset Investment Plan.	<b>1,580</b>
<b>Funding for Change</b>	To provide funding for transformational change across the organisation to be able to meet the budget reductions expected by 2020.	<b>500</b>
<b>Contingency</b>	This will provide a contingency budget for a range of possible contingencies, which services have identified, may arise in 2018/19.	<b>450</b>
<b>TOTAL COUNCIL-WIDE BUDGETS AND CONTINGENCY</b>		<b>3,097</b>

## Funding

- 4.09 The Scottish Government is providing £80.451m of funding for General Fund services to Shetland Islands Council in 2018/19. 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. This is £0.189m more than last year's revised settlement of £80.262m.
- 4.10 The Council will contribute funding from its investment returns and from income generated annually from the Harbour Account in order to fund an enhanced level of service to the population of Shetland. The total amount to be drawn from reserves to support the General Fund is budgeted to be £17.897m in 2018/19 (Line 33 in the table at 4.01)
- 4.11 To Council is required to set a balanced budget and therefore must set a rate of Council Tax to be applied in the financial year. The Shetland Islands Council currently has the 4<sup>th</sup> lowest level of Council tax in Scotland whilst providing arguably the best funded services.
- 4.12 It is proposed to raise the Council Tax by 3% for financial year 2018/19; a Band D property will incur an annual charge of £1,117.13. At this rate of taxation, with a small increase in the number of properties, it is expected that the Council will generate £9.363m from Council Tax during 2018/19.

## The 2018/19 Harbour Account Budget

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

Line No.	Description	2018/19	£000
	<b><i>Expenditure</i></b>		
1	Sullom Voe		12,237
2	Scalloway		979
3	Other Piers		1,417
4	Jetties & Spur Booms		4,931
5	Terminals		1,979
<b>6</b>	<b>TOTAL EXPENDITURE (equals lines 1 - 5)</b>		<b>21,543</b>
	<b><i>Income</i></b>		
7	Harbour Fees & Charges		(22,992)
8	Jetties & Spur Booms		(4,931)
<b>9</b>	<b>TOTAL INCOME (equals lines 7 - 8)</b>		<b>(27,923)</b>
<b>10</b>	<b>HARBOUR ACTIVITY NET SURPLUS (equals lines 6 - 9)</b>		<b>(6,380)</b>
11	Internal contribution from the General Fund for terminal berthing charges		(3,045)
12	Shetland Gas Plant		(1,024)
<b>13</b>	<b>TOTAL SURPLUS (equals line 10 - 12)</b>		<b>(10,449)</b>
	<b><i>Contributions to/(from) Reserves</i></b>		
14	Contribution to the Reserve Fund		10,449
<b>15</b>	<b>BALANCED HARBOUR ACCOUNT (line 13 plus line 14)</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 what has been a trend of reducing tanker numbers, leaving the risk of financial loss with the Council. Charges are set in this context and have been increased by 2.5% for 2018/19.

5.03 It is proposed to increase other charges, for other harbours and piers, by approximately 2.5%. The increase on other charges is to contribute to national cost pressures relating to pay and pensions.

5.04 Overall, the Council forecasts that the surplus generated on ports and harbours activities will meet the requirement in the Medium Term Financial Plan for 2018/19.

5.05 The berthing charge for the inter-island ferry use of shore-based ferry terminal assets results in net income of £3.045m in 2018/19.

- 5.06 Income from the Shetland Gas Plant throughput activity is anticipated to increase in 2018/19 due to fluctuating gas and oil prices, therefore it has been estimated that there will be additional income of £0.474m over the ground rent of £0.550m.
- 5.07 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 7 February 2018:

**Harbour Board**  
**7 February**  
**2018**

**F-007-F**  
2018/19 Budget and Charging Proposals Harbour Board  
<http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=>

## The 2018/19 Housing Revenue Account Budget

6.01 The 2018/19 Housing Revenue Account budget is set out in the table below:

Line No.	Description	2018/19 £000
	<b>Expenditure</b>	
1	Supervision & Management	808
2	Repairs & Maintenance	2,178
3	Void Rents & Charges	168
4	Garages	31
5	Capital Funded from Current Revenue	3,497
6	Capital Charges - Dwellings	1,330
<b>7</b>	<b>TOTAL EXPENDITURE (equals lines 1 - 6)</b>	<b>8,012</b>
	<b>Income</b>	
8	Interest on Revenue Balances	(1)
9	Rents - Dwellings	(6,730)
10	Rents - Other i.e. garages/sites etc	(229)
<b>11</b>	<b>TOTAL INCOME (equals lines 8 - 10)</b>	<b>(6,960)</b>
<b>12</b>	<b>TOTAL DEFICIT (line 7 plus line 11)</b>	<b>1,052</b>
	<b>Contributions to/(from) Reserves</b>	
13	Contribution from Housing Revenue Account (Reserves)	(1,052)
<b>14</b>	<b>BALANCED HOUSING REVENUE ACCOUNT BUDGET (line 12 plus line 13)</b>	<b>0</b>

6.02 The objective of the 2018/19 Housing Revenue Account (HRA) budget is to deliver a sustainable position and minimise rent increases for the year in line with the approved 5 Year Business Plan, which has been developed in conjunction with a 30 year financial model.

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 2018/19.

6.04 The capital expenditure in the Asset Investment Plan is set at £3.512m in 2018/19. This is in line with the 5 Year Business Plan and long-term financial model.

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 12 February 2018:

<b>Policy &amp; Resources Committee 12 February 2018</b>	<b>F-013-F</b> 2018/19 Housing Revenue Account Budget and Charging Proposals <a href="http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=">http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=</a>
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## The 2018/19 Asset Investment Plan (Capital Programme)

7.0 The 2018/19 Asset Investment Plan is set out in the table below:

Line No.	Description	2018/19 Budget £000
1	New Developments	3,273
2	Maintenance of Existing Assets	7,218
3	Housing Revenue Account Projects	3,512
4	Potential Projects	11,505
5	Fairer Funding for Ferries Projects	2,700
<b>6</b>	<b>TOTAL EXPENDITURE (equals lines 1 - 5)</b>	<b>28,208</b>
7	Scottish Government General Capital Grant	(6,612)
8	Other Capital Grants	(1,733)
9	Capital Receipts (General Fund and HRA)	(300)
10	Capital Funded from Current Revenue (Harbour and HRA)	(4,737)
11	Draw on Reserves – Spend to Save Reserve	(326)
12	Draw on Reserves – General Capital Reserve	(2,858)
13	Fair Funding for Ferries	(2,700)
<b>14</b>	<b>TOTAL FUNDING (equals lines 7 - 13)</b>	<b>(19,266)</b>
<b>15</b>	<b>FUNDING SHORTFALL (equals line 6 plus line 14)</b>	<b>8,942</b>
16	Borrowing	(8,942)
<b>17</b>	<b>TOTAL BORROWING (equals lines 16)</b>	<b>(8,942)</b>
<b>18</b>	<b>TOTAL FUNDING AND FINANCING (equals line 14 plus line 17)</b>	<b>(28,208)</b>
<b>19</b>	<b>BALANCED ASSET INVESTMENT PLAN (equals line 6 plus line 18)</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 operational asset base;
- Capital expenditure is primarily focussed on the capital maintenance of existing assets;
- 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;
- 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 and Investment Strategy.

## Asset Investment Plan 2018/19 to 2022/23

- 7.04 The Asset Investment Plan proposes to spend £135.019m over the next five years, which represents a significant investment in the Council's infrastructure and this will require borrowing of £12.469m to meet the funding shortfall.
- 7.05 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.
- 7.06 Over a third of the Plan focuses on the vessels and terminals that are required to support inter-island ferry services. The funding for the vessel and terminal replacement programme is subject to ongoing dialogue with Transport Scotland and a successful conclusion to that dialogue, with the Scottish Government meeting its commitment to fair funding for the inter-island ferry services being fundamental to the affordability of this programme.
- 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 12 February 2018.

**Policy &  
Resources  
Committee  
12 February 2018**

**F-016-F**

Proposed 5 Year Asset Investment Plan 2018/19-2022/23  
<http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=>