

# Shetland Islands Council



## The Council Budget Book 2017/18

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 2017/18 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 £21.247m, 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 £12.252m which is an affordable amount, this includes £2.753m of one-off interim funding from 2015/16 underspends. This is unsustainable going forward but as a short term solution using the underspend from 2015/16 (which was not included in the current Medium Term Financial Plan), the capital value of reserves is protected. This has enabled the Council to offset the significant reduction in government funding over and above the level anticipated when planning the budget, and will assist to meet the rising cost pressures that will impact in 2017/18.
- 1.03 This budget has been set using one-off underspends whilst the Council awaits confirmation of fair funding for ferries from Transport Scotland. An announcement by Transport Scotland is unlikely until the Scottish Government budget bill has been approved later in February 2017.
- 1.04 The medium term is fundamental to setting this budget, as it recognises that to make choices on service changes at this time, when such a significant element of the budget (internal ferries) is the subject of ongoing discussions, could have an adverse impact and give rise to unintended consequences.
- 1.05 In looking at the medium term, taking account of the underlying downward trend in core government funding, there is an undoubted need to address the cost of Council services and the affordability issues. For this reason the proposals and the Directorate priorities for the forthcoming year are presented to look to the future, to develop a framework of transformational change and to do this in conjunction with service redesign. 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.
- 1.06 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.
- 1.07 The 2017/18 budget does not adhere to the Medium Term Financial Plan as a result of the significant grant funding reductions it has experienced; in this and next year almost 9% of Scottish Government grant has been lost. The level of required savings of £3.409m has not been achieved as it faces rising costs and growing demands, particularly in caring for children.
- 1.08 Financial sustainability 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. A revised Medium Term Financial Plan will be presented to the Council in March 2017.

### **Progress to Date & Future Challenges**

- 1.09 At present the Council is on course to deliver its 2016/17 Budget which included £2.9m of savings. When added to the £2.1m of savings delivered in 2015/16, £12.7m in 2014/15, £12.5m in 2013/14, £15m in 2012/13 and £11.5m in 2011/12, the Council is demonstrating a track record of budget delivery.
- 1.10 Despite the work done so far, sustainability in particular is extremely challenging at this time with reducing Scottish Government funding being the trend since 2010/11. This downward trend is expected to continue while the UK and Scottish Governments seek to balance their budgets and prioritise their spending.
- 1.11 This year there has been a further significant reduction in the general revenue grant from the Scottish Government whilst the Council has to manage an ever increasing demand for Council services and manage cost pressures that apply to the models of service delivery, such as pay awards and national policy changes.
- 1.12 It is important that the Council carries out any analysis and research required to make the right decisions for Shetland and to achieve the outcomes it seeks. Based on the findings of that work it will enable the Council to formulate a plan and prepare to redesign services and transform the way it works and, at times, make what will be difficult decisions.
- 1.13 In order to take action on improving the Council's approach to identifying and implementing sustainable solutions for the future, Directorate plans identify core priority areas for action between now and 2020.
- 1.14 It is important in this process to engage with communities and involve them in decision-making. Within Shetland Community Choices one of the workstreams is 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 through the use of a digital tool.

### 1.15 Draw on Reserves

1.16 The Council is asked to approve a draw on reserves to balance the 2017/18 budget, as shown in the table below:

<b>Draw on Reserves</b>	<b>Budgeted Draw Contribution from/ (to) Reserves £m</b>
General Fund	21.247
Harbour Account Surplus	(9.509)
Housing Revenue Account	0.484
Asset Investment Plan	0.030
<b>TOTAL NET BUDGETED DRAW ON RESERVES 2017/18</b>	<b>12.252</b>

1.17 The total net budgeted draw on reserves for 2017/18 is £12.252m. This is possible due to investment returns (income and growth in value), increased income being applied from the Harbour Account surplus and a one-off application of 2015/16 underspends which has not been taken into account in the current Medium Term Financial Plan. The Medium Term Financial Plan outlines the challenges that the Council faces in relation to the next five years in terms of delivering a balanced and affordable budget.

### Key Budget Messages

1.18 The most significant budget proposals are as follows:

- The Scottish Government has increased the amount that people living in properties in Council Tax bandings E-H will have to pay. This is estimated to generate £0.155m for the Council.
- The Shetland Islands Council currently charges 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 reduction in Scottish Government revenue funding of 3.3% was significantly higher than the earlier estimate of a 1.6% reduction, resulting in an additional reduction in funding of £1.43m. This is including the additional funding for local government that was announced on 2 February 2017 – which provided revenue funding of £1.039m to Shetland.
- 2016/17 funding of £250m through the NHS to the Community Health & Social Care Integration Joint Boards (IJB) has been included in the baseline for 2017/18 and beyond. This ensures a sum of £1.024m continues to be available to the IJB. An additional £107m, £80m of which councils can access immediately, was also announced as part of the Scottish Government's budget. The IJB receives £0.450m and Shetland Islands Council's share is £0.340m.

- The Council's contribution to the IJB for social care services takes account of the baselined and additional funding referred to above, and complies with the direction on funding levels for IJBs given by the Scottish Government.
- The budget contains total savings of £3.187m, this was just short of meeting the Council's savings target of £3.409m as set out in the Medium Term Financial Plan.
- The cost pressures and contingencies budget totalling £6.218m is higher than last year due to the cost pressures for pay inflation and associated employer costs, i.e. pay award, pension contributions, pension auto-enrolment, apprenticeship levy, etc. This budget ensures that there is a corporate budget to mitigate any unplanned expenditure.
- The cost pressures and contingencies budget includes a sum of £0.5m to fund change projects.
- The Shetland Gas Plant is now operational, however, due to fluctuating gas prices, it is estimated that there will be limited income from this source in 2017/18. Therefore, it has been prudently estimated that an income of £0.550m from the lease will be received.
- The Harbour Charges at Sullom Voe are to remain at the 2016/17 level. 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 Housing Revenue Account (HRA) budget has been prepared in line with the proposed HRA 30 Year Business Plan.
- The Asset Investment Plan (AIP) budget provides significant investment in the Council's asset infrastructure and while business cases are developed for a number of priority areas there remains, over the whole 5 year period, £2.2m of capital funding that can be applied to these business cases. However it is very unlikely that all of these priorities can be funded over the 5 year period.
- 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.

### **Budget Decisions**

- 1.19 The 2017/18 Budget Book contains the following specific proposals, subject to approval by the Council on 15 February 2017:
- It is proposed the Council Tax is increased by 3%, following a period of nine years' freeze of the Council Tax, so a Band D property will now incur an annual charge of £1,084.59.

- An initial allocation of £19.231m in 2017/18 is proposed to be paid to the Shetland Health & Social Care Partnership IJB for functions delegated to it by the Council.
- For the Housing Revenue Account it is proposed to increase rents in 2017/18 by an inflationary sum of 2%, plus an additional £1 per week on all one and two bedroom properties.
- Each Council Committee has proposed to set a range of fees and charges for Council Services during 2017/18 (and 2018/19 in a few specific circumstances).
- It is proposed that 2017/18 budgets for each Council account are as set out in Sections 4 to 7 of this Budget Book.

# 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 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 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 2017/18 Budget**

- 2.02 The 2017/18 Council budget is a financial plan that complements the strategic Medium Term Financial Plan and moves the Council 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 Asset Investment Plan. This means it is clearer for Councillors 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 Corporate Services.
- 2.05 Assumptions were made regarding the level of Scottish Government funding in the early preparation of the budget. Unfortunately early assumptions anticipated a shortfall in grant funding which was significantly lower than that final settlement received. There were also assumptions that confirmation of grant funding from Transport Scotland would be known prior to setting the budget. The Council anticipates an announcement on the matter however, at the time of writing, this has not been made.
- 2.06 The resulting outcome of this budgeting exercise is that the aggregated budget proposals put forward by directorates are greater than the budget targets that were set within the Medium Term Financial Plan. Those proposals are aligned to the Council's priorities and outcomes as set out in the Corporate Plan.

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

- 2.07 The objective of the Shetland Islands Council Budget Book 2017/18 is to provide a high level summary of the proposals, 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

2.08 The detailed budget proposals for each area of the Council are set out in separate reports which were presented to Service and Policy & Resources Committees during February 2017. This report guides Councillors 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/Improvement Fund**

2.09 The Council has a Spend to Save/Improvement Fund. The purpose of the Spend to Save 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 in the revenue contingency 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 Fund would be used to fund project implementation for those which meet the Spend to Save scheme criteria.

## Linking the 2017/18 Budget to the Council's Corporate Plan

- 3.01 The 2017/18 General Fund budget proposes to incur net expenditure of £110.136m 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 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 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 2017/18.
- 3.04 Further detail on how these priorities will be delivered in the 2017/18 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 Service Committee meetings. These can be found on the Council's website.

Community Health & Social Care Directorate	<p style="text-align: center;"><b>CC-056-F</b></p> <p style="text-align: center;">Community Health &amp; Social Care Directorate Plan 2017/18  <a href="http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=">http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=</a></p>
Development Services Directorate	<p style="text-align: center;"><b>DV-063-F</b></p> <p style="text-align: center;">Development Services Directorate Plan 2017/18  <a href="http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=">http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=</a></p>
Children's Services Directorate	<p style="text-align: center;"><b>CS-06-F</b></p> <p style="text-align: center;">Children's Services Directorate Plan 2017/18  <a href="http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=">http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=</a></p>
Infrastructure Services Directorate	<p style="text-align: center;"><b>ISD-01-F</b></p> <p style="text-align: center;">Infrastructure Services Directorate Plan 2017/18  <a href="http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=">http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=</a></p>
Corporate & Chief Executive Directorates	<p style="text-align: center;"><b>CRP-025-F</b></p> <p style="text-align: center;">Corporate and Chief Executive's Directorate Plan 2017/18  <a href="http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=">http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=</a></p>

## The 2017/18 General Fund Budget

4.01 The 2017/18 General Fund budget is set out in the table below:

Line No.	Description	2017/18 £000	2017/18 £000
1	Chief Executive & Cost of Democracy	1,871	
2	Children's Services	41,852	
3	Community Health & Social Care Services	20,494	
4	Development Services	14,902	
5	Infrastructure Services	19,809	
6	Corporate Services	8,329	
7	Corporate Services (Fund Manager Fees)	895	
<b>8</b>	<b>GENERAL FUND SERVICES NET EXPENDITURE (equals lines 1-7)</b>		<b>108,152</b>
9	Allocation to the Integration Joint Board (IJB)	19,216	
10	Allocation to the Integration Joint Board (Audit Fee)	15	
11	Contribution from the Integrated Joint Board (IJB)	(20,494)	
<b>12</b>	<b>NET CONTRIBUTION FROM THE IJB (equals lines 9 - 11)</b>		<b>(1,263)</b>
13	Contingencies and Budget Pressures		4,791
14	Capital Financing Costs		1,427
15	Support Recharges to Harbour Account , HRA and Capital		(2,044)
16	Interest on Revenue Balances		(27)
17	Economic Development Investment Income		(900)
<b>18</b>	<b>TOTAL NET GENERAL FUND EXPENDITURE (equals line 8 plus lines 12-17)</b>		<b>110,136</b>
	<b>Funded by -</b>		
19	General Revenue Grant/NNDR (Scottish Government Allocation)	(79,886)	
20	Council Tax	(9,003)	
<b>21</b>	<b>TOTAL CORE FUNDING (equals lines 19-20)</b>		<b>(88,889)</b>
	<b>Deficit to be funded from Reserves</b>		
22	Draw on Reserves – 2015/16 Underspend Carry Forward	(2,753)	
23	Draw on Reserves – Core Expenditure General Fund	(12,272)	
24	Draw on Reserves – Equivalent to Harbour Account Surplus	(5,672)	
25	Shetland Gas Plant Contribution	(550)	
<b>26</b>	<b>TOTAL FUNDING FROM RESERVES (equals lines 22-25)</b>		<b>(21,247)</b>
<b>27</b>	<b>TOTAL FUNDING (equals line 21 plus line 26)</b>		<b>(110,136)</b>
<b>28</b>	<b>BALANCED BUDGET (line 18 plus line 27)</b>		<b>0</b>

4.02 The proposals in the 2017/18 General Fund budget are over 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:

	2017/18 Target £000	Cost Pressures/ Transfers £000	2017/18 Revised Target £000	2017/18 Actual Budget £000	Variance £000
Corporate & Executive Services	10,118	83	10,201	10,200	1
Children's Services	39,871	973	40,844	41,852	(1,008)
Community Health & Social Care Services	20,532	423	20,955	20,494	461
Integration Joint Board	(512)	(411)	(923)	(1,263)	340
Development Services	14,850	21	14,871	14,902	(31)
Infrastructure Services	19,985	(161)	19,824	19,809	15
<b>Total Directorate budgets</b>	<b>104,844</b>	<b>928</b>	<b>105,772</b>	<b>105,994</b>	<b>(222)</b>

The main cost pressures applied in 2017/18 have been for pay award, service specific spending such off island placements, free school meals, children's residential services and third sector payments, offset by increased income and reduced national insurance amount to a net £0.928m. Some of this was for cost pressures identified in the 2016/17 budget exercise which have been realised e.g. free school meals.

## Expenditure

4.04 The General Fund services net expenditure is budgeted to be £108.152m in 2017/18 (as shown at Line 8 in the table at 4.01) which represents the spending on day-to-day Council services. Excluding the Fund Manager Fees (Line 7) and taking into account the net income from the IJB (Line 12) the table below shows how the Actual Directorate Budgets 2017/18 (as shown in the table at 4.03) reconcile to the detailed budget proposal reports that have been through the Service Committee meetings in February 2017:

Directorate	Develop-ment Committee £000	Education & Families Committee £000	Environment & Transport Committee £000	Policy & Resources Committee £000	College Board £000	Total £000
Executive & Corporate				10,200		<b>10,200</b>
Children's		41,852				<b>41,852</b>
Community Health & Social Care				20,494		<b>20,494</b>
Net Transactions between the Council and IJB				(1,263)		<b>(1,263)</b>
Development	8,480	323	5,974		125	<b>14,902</b>

Infrastructure			19,809			<b>19,809</b>
<b>TOTAL</b>	<b>8,480</b>	<b>42,175</b>	<b>25,783</b>	<b>29,431</b>	<b>125</b>	<b>105,994</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 Service Committee Meetings.

Education & Families Committee 6 February 2017	<b>F-008-F</b> 2017/18 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 7 February 2017	<b>F-002-F</b> 2017/18 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 8 February 2017	<b>F-004-F</b> 2017/18 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 9 February 2017	<b>F-006-F</b> 2017/18 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 13 February 2017	<b>F-007-F</b> 2017/18 Budget and Charging Proposals Community Health and Social Care Partnership <a href="http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=">http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=</a>
Policy & Resources Committee 13 February 2017	<b>F-005-F</b> 2017/18 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>

### Contingencies and Cost Pressures

4.06 A figure of £6.218m has been included in the General Fund budget to cover contingencies and cost pressures (as set out in Lines 13 and 14 of the table at 4.01). This figure has been calculated based on the best information known as at January 2017 and includes the anticipated cost of capital financing costs.

4.07 A sum has been calculated as relating to Social Care services to a value of £0.814m that will be transferrable to the IJB once the actual costs are known and the financial position of Social Care services is monitored during the year.

4.08 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.

4.09 The following tables show how the figure of £6.218m (£5.768m for cost pressures and £0.450m for contingencies) has been calculated:

<b>Cost Pressures</b>	<b>Description</b>	<b>Allowance in 2017/18 budget (£000)</b>
Pay Award	This is to meet the additional cost of the 2017/18 annual pay award.	1,000
Holiday Pay/Sleepovers/Living Wage	This is to meet the estimated cost of holiday pay relating to overtime and additional hours to meet the cost of the living wage hourly rate and sleep-over payments.	739
Superannuation	This is to meet the actuarial increase on pension costs.	478
Pension Auto-Enrolment	In line with legislation all staff not in a pension scheme require to be auto-enrolled in the Council's pension scheme.	800
Apprenticeship Levy	This is to meet the new apprenticeship levy being applied by the Government. (0.5% of the pay bill)	474
AHS Maintenance/Lifecycle	This is to meet the cost of the maintenance/lifecycle costs which will be incurred from the new AHS build with the Scottish Government.	350
Capital Financing Charges	This is to meet the financing charges for external borrowing in relation to the Asset Investment Plan.	1,427
Funding for Change	To provide funding for transformational change across the organisation to be able to meet the budget reductions expected by 2020.	500
<b>TOTAL COST PRESSURES</b>		<b>5,768</b>

<b>Contingencies</b>	<b>Description</b>	<b>Allowance in 2017/18 budget (£000)</b>
Other Contingencies	This will provide a contingency budget for a range of possible contingencies which services have identified may arise in 2017/18 such as supply teachers, ferry vessel fuel costs etc.	1,379
<b>Risk based reduction – 67%</b>		<b>(929)</b>
<b>TOTAL CONTINGENCIES</b>		<b>450</b>
<b>TOTAL FUNDING IN BUDGET</b>	<b>COST PRESSURES AND CONTINGENCY</b>	<b>6,218</b>

## Funding

- 4.10 Initially the Scottish Government was providing £78,847m of funding for General Fund services to Shetland Islands Council in 2017/18. 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 was £3.792m less than last year's settlement.
- 4.11 An announcement by the Scottish Government on 2 February 2017 increased revenue and capital funding to all local authorities. Shetland Islands Council benefits to the value of £1.039m in revenue grant (and £0.267m for capital grant). This means that the revenue grant reduction for 2017/18 has been reduced to £2.753m and is a 3.3% reduction from 2016/17.
- 4.12 The Council is proposing to raise the Council Tax following a nine year freeze; a Band D property will incur an annual charge of £1,084.59. The Shetland Islands Council has 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 £9.003m from Council Tax during 2017/18.
- 4.13 It has been assumed that a 1% increase in the property base will occur, and Central Government has increased the cost of Council Tax for people living in properties that are in Band E to H. The increase in band values will generate an estimated income of £0.155m. The Council has no discretion to alter these banding changes.
- 4.14 The remainder of the funding required to balance the General Fund will come from the Council's reserves. This is budgeted to total £21.247m in 2017/18 (Line 26 in the table at 4.01).

## The 2017/18 Harbour Account Budget

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

Line No.	Description	2017/18 £000
	<b><i>Expenditure</i></b>	
1	Sullom Voe	11,502
2	Scalloway	1,154
3	Other Piers	428
4	Jetties & Spur Booms	2,070
5	Terminals	1,498
<b>6</b>	<b>TOTAL EXPENDITURE (equals lines 1-5)</b>	<b>16,652</b>
	<b><i>Income</i></b>	
7	Harbour Fees & Charges	(20,496)
8	Jetties & Spur Booms	(2,070)
<b>9</b>	<b>TOTAL INCOME (equals lines 7-8)</b>	<b>(22,566)</b>
<b>10</b>	<b>HARBOUR ACTIVITY NET SURPLUS (equals lines 6-9)</b>	<b>(5,914)</b>
11	Internal contribution from the General Fund for terminal berthing charges	(3,045)
12	Shetland Gas Plant	(550)
<b>13</b>	<b>TOTAL SURPLUS (equals line 10-12)</b>	<b>(9,509)</b>
	<b><i>Contributions to/(from) Reserves</i></b>	
14	Contribution to the Reserve Fund	9,509
<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. This means that there is a requirement on the Council to continue to incur considerable expenditure to maintain this level of service against reducing tanker numbers. Following the structural increase in tanker charges in 2016/17, there is proposed to be no increase applied to tanker charges for 2017/18.

5.03 It is proposed to increase other charges 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 2017/18.

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

5.06 Income from the Shetland Gas Plant throughput activity is anticipated to be minimal in 2017/18 due to fluctuating gas and oil prices, therefore it has been estimated that there will be income of £0.550m from the base rent during the year.

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 10 February 2017:

<b>Harbour Board 10 February 2017</b>	<b>F-003-F</b> 2017/18 Budget and Charging Proposals Harbour Board <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 2017/18 Housing Revenue Account Budget

6.01 The 2017/18 Housing Revenue Account budget is set out in the table below:

Line No.	Description	2017/18 £000
	<b>Expenditure</b>	
1	Supervision & Management	817
2	Repairs & Maintenance	1,884
3	Void Rents & Charges	165
4	Garages	30
5	Capital Funded from Current Revenue	2,692
6	Capital Charges - Dwellings	1,711
<b>7</b>	<b>TOTAL EXPENDITURE (equals lines 1-6)</b>	<b>7,299</b>
	<b>Income</b>	
8	Interest on Revenue Balances	(1)
9	Rents - Dwellings	(6,623)
10	Rents - Other i.e. garages/sites etc	(191)
<b>11</b>	<b>TOTAL INCOME (equals lines 8-10)</b>	<b>(6,815)</b>
<b>12</b>	<b>TOTAL DEFICIT (line 7 plus line 11)</b>	<b>484</b>
	<b>Surplus to contribute to Reserves</b>	
13	Contribution from Housing Repairs & Renewals Fund (Reserves)	(484)
<b>14</b>	<b>BALANCED HOUSING REVENUE ACCOUNT BUDGET (line 12 plus line 13)</b>	<b>0</b>

6.02 The objective of the 2017/18 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 continue the 2016/17 rent strategy to remove the disparity between smaller and larger properties as the distinction is no longer reasonable, and this is in line with tenant feedback. Rents are proposed to increase by 2%, with an additional £1 per week being added to rents for one and two bedroom properties for 2017/18.

6.04 The capital expenditure in the Asset Investment Plan is set at £2.913m in 2017/18. 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 13 February 2017:

<b>Development Committee 8 February 2017</b>	<b>F-010-F</b> 2017/18 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 2017/18 Asset Investment Plan (Capital Programme)

7.01 The 2017/18 Asset Investment Plan is set out in the table below:

Line No.	Description	2017/18 Budget £000
1	Maintenance of Existing Assets	8,095
2	New Developments	2,392
3	Housing Revenue Account Projects	2,913
4	Potential Projects	1,931
5	Fair Funding for Ferry Projects	200
<b>6</b>	<b>TOTAL EXPENDITURE (equals lines 1-5)</b>	<b>15,531</b>
7	Scottish Government General Capital Grant (General Fund)	(7,177)
8	Other Capital Grants (General Fund & Harbour)	(1,197)
9	Capital Receipts (General Fund and HRA)	(600)
10	Capital Funded from Current Revenue (Harbour and HRA)	(4,282)
11	Draw on Reserves – Second Homes Council Tax (General Fund)	(30)
<b>12</b>	<b>TOTAL FUNDING (equals lines 7-11)</b>	<b>(13,286)</b>
<b>13</b>	<b>FUNDING SHORTFALL (equals line 6 plus line 12)</b>	<b>2,245</b>
14	Borrowing (General Fund & Harbour)	(2,245)
<b>15</b>	<b>TOTAL BORROWING (equals line 14)</b>	<b>(2,245)</b>
<b>16</b>	<b>TOTAL FUNDING AND FINANCING (equals line 12 plus line 15)</b>	<b>(15,531)</b>
<b>17</b>	<b>BALANCED ASSET INVESTMENT PLAN (equals line 6 plus line 16)</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 Councillors 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 Manager - 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.

### **Asset Investment Plan 2017/18 to 2021/22**

7.04 The Asset Investment Plan proposed expenditure totals £75.8m over the next five years which represents a significant investment in the Council's infrastructure.

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. The main exceptions to this rule are the building of a new Anderson High School Halls of Residence and new Eric Gray Resource Centre.

7.06 Over a third of the Plan focuses on the vessels and terminals that are required to support the 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 is fundamental to the affordability of this programme.

7.07 Over the 5 years of the Plan there is a net surplus of capital funding of £2.2m. The allocation of this will be subject to the approvals made under the Council's Gateway Process for the Management of Capital Projects. Where the assets are held within the Harbour Account then it is recommended that borrowing would be the means of funding.

7.06 The detailed Asset Investment Plan budgetary information which underpins this section of the budget report can be found in the following budget proposals report (including appendix) which was presented to the Policy & Resources Committee on 13 February 2017.

<b>Policy &amp; Resources Committee 13 February 2017</b>	<b>F-014-F</b> Proposed 5 Year Asset Investment Plan 2017/18-2021/22 <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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