

**Policy and Resources Committee****26 November 2014****Management Accounts for Policy and Resources Committee:
2014/15 – Projected Outturn at Quarter 2****F-048-F****Report Presented by Executive Manager -
Finance****Corporate Services****1. Summary**

- 1.1 The purpose of this report is to enable the Policy and Resources Committee to monitor the financial performance of services within its remit to ensure that Members are aware of the forecast income and expenditure and the impact that this will have with regard to delivering the approved budget. This allows the Committee the opportunity to provide early instruction to officers to address any forecast overspends in order that the budget is delivered by the year-end.
- 1.2 This report is on the projected outturn position for the 2014/15 year as at the end of the second quarter for revenue, and capital. The forecasts have been determined by Finance Services after consultation with the relevant Budget Responsible Officers for the services in this Committee area.
- 1.3 The projected outturn position for the services in this Committee area is an overspend of £35k on revenue and an underspend of £336k on capital.

2. Decision Required

2.1 The Policy and Resources Committee is asked to RESOLVE to:

- review the Management Accounts showing the projected outturn position at Quarter 2;
- instruct the Chief Executive, the Director of Corporate Services and the Director of Development to ensure that the projected overspend is addressed to ensure that the approved budget is achieved by the end of the year.

3. Details

- 3.1 On 11 December 2013 (SIC Min Ref: 109/13) the Council approved the 2014/15 revenue and capital budgets for the Council (including the General Fund, Harbour Account, Housing Revenue Account, Trading Accounts and Spend to Save) requiring a draw from reserves of £14.793m. This is still at an unsustainably high level and therefore it is vital to the economic wellbeing of the organisation that the budget is delivered, as any overspends will result in a further draw on reserves.

Chief Executive Services Revenue – Overall Forecast: Well on track.

- 3.2 The projected revenue outturn position for Chief Executive Services is an underspend of £1k (0.1%) which means the services in this Committee area are collectively on course to deliver their Council approved budget.

G

Fund Manager Fees Revenue – Overall Forecast: Well off track.

- 3.3 The projected revenue outturn position for Fund Manager fees is an overspend of £168k (28%) which means this is on course to fail to deliver the Council approved budget. However, the higher investment fees are directly related to the value of the investments, which is currently forecast to be higher than anticipated in this financial year.

R

Corporate Services Revenue – Overall Forecast: Well on track.

G

- 3.4 The projected revenue outturn position for Corporate Services is an underspend of £132k (1%) which means the services in this Committee area are collectively on course to deliver their Council approved budget.

Corporate Services Capital – Overall Forecast: Well on track.

G

- 3.5 The projected outturn position on Corporate Services' capital projects expenditure and income is an underspend of £336k, which means the projects in this Committee area are collectively on course to deliver their Council approved budgets.

Community Councils – Overall Forecast: Well on track.

G

- 3.6 The projected revenue outturn position for Community Councils is to achieve the budget.

4. Implications

Strategic

4.1 Delivery On Corporate Priorities

There is a specific objective within the Corporate Plan to ensure that the Council is “living within our means” with a range of measures which will enable the Council to achieve financial sustainability over the next four years, and line up spending with priorities and continue to have significant reserves.

The Medium Term Financial Plan also includes a stated objective to achieve financial sustainability over the lifetime of the Council.

4.2 Community /Stakeholder Issues – None.

4.3 Policy And/Or Delegated Authority

Section 2.1.2(3) of the Council's Scheme of Administration and Delegations states that the Committee may exercise and perform all powers and duties of the Council in relation to any function, matter, service or undertaking delegated to it by the Council. The Council approved both revenue and capital budgets for the 2014/15 financial year. This report provides information to enable the Committee to ensure that the services within its remit are operating within the approved budgets.

4.4 Risk Management

There is a risk that revenue services and capital projects will not be delivered within the approved 2014/15 budget resulting in an additional draw on reserves, which is unsustainable. Failure to deliver the 2014/15 budgets may result in the Council failing to deliver its Corporate Plan and Medium Term Financial Plan.

4.5 Equalities, Health And Human Rights – None.

4.6 Environmental – None.

Resources

4.7 Financial

The 2014/15 Council budget is not sustainable because it requires a draw on reserves in excess of the returns that the fund managers can make on average in a year.

For every £1m of reserves spent (in excess of a sustainable level) it will mean that the Council will have to make additional savings of £50,000 each year in the future as a result of not being able to invest that £1m with fund managers to make a return.

It is therefore vital that the Council delivers its 2014/15 budget, as any overspend will result in a further unsustainable draw on reserves which will have the long term consequences as explained above.

4.8 Legal – None.

4.9 Human Resources – None.

4.10 Assets And Property – None.

5. Conclusions

- 5.1 The projected outturn position for the services under the remit of the Policy and Resources Committee is an overspend of £35k on revenue and an underspend of £336k on capital projects.

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List of Appendices

Appendix 1 – Corporate and Chief Executive Services and Community Councils – Projected Revenue Outturn Position 2014/15

Appendix 2 – Corporate and Chief Executive Services – Projected Capital Outturn Position 2014/15

Background documents:

SIC Budget Book 2014-15, SIC 11 December 2013

<http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=15444>

Corporate and Chief Executive Services**1. Projected Revenue Outturn Position 2014/15**

Description	Annual Budget 2014/15 £000	Projected Outturn 2014/15 £000	Budget v Proj. Outturn Variance (Adv)/ Pos £000
Executive Services	1,111	1,110	1
Council Members	571	571	0
Chief Executive Services	1,682	1,681	1
Fund Manager Fees	600	768	(168)
Director of Corporate Services	197	116	81
Capital Programmes	2,435	2,562	(127)
Finance	2,729	2,663	66
Joint Valuation Board	284	284	0
Governance & Law	1,021	931	90
Human Resources	1,484	1,497	(13)
ICT	1,440	1,409	31
Audit, Risk & Improvement	371	367	4
Corporate Services	9,961	9,829	132
Community Councils	174	174	0
Development Services	174	174	0
Total Controllable Costs	12,417	12,452	(35)

An explanation for the main variances by service is set out below.

1.1 Fund Manager Fees - projected outturn overspend £168k (28%).

R

This is directly related to the value of the investments, which is currently forecast to be higher than anticipated in this financial year.

1.2 Corporate Director - projected outturn underspend £81k (41%).

G

This service is projecting an underspend due to savings released from the Corporate and Executive restructure.

1.3 Capital Programmes - projected outturn overspend £127k (5%).

R

This service is projecting an overspend mainly due to additional legal fees, rent reviews and increases in rates and utilities, offset against staffing savings.

1.4 Finance - projected outturn underspend £66k (2%).

G

This service is projecting an underspend mainly due to an anticipated reduction in the external audit fee, salary savings due to temporary vacancies and external funding for staffing. This is offset by an overspend on external consultant fees and staff training.

1.5 Governance and Law - projected outturn underspend £90k (9%).

G

This service is projecting a staffing underspend due a restructure within the team and other temporary vacancies.

1.6 Human Resources - projected outturn overspend £13k (1%).

R

This service is projecting an overspend due to increased IT licencing fees and the number of licences required and increased training costs, offset against staffing savings due to temporary vacancies.

1.7 ICT - projected outturn underspend £31k (2%).

G

This service is projecting an underspend because of savings within the telephony contract, staffing savings due to temporary vacancies, savings in repairs and maintenance and purchase of new equipment, against an overspend on computer licences following a recent audit of licences, and an overspend on external consultants.

1.8 Audit, Risk and Improvement - projected outturn underspend £4k (1%).

G

This service is projecting an underspend due to a restructure of the staffing in this team.

Corporate and Chief Executive Services**2. Projected Capital Outturn Position 2014/15**

Description	Annual Budget 2014/15 £000	Projected Outturn 2014/15 £000	Budget v Proj. Outturn Variance (Adv)/ Pos £000
ICT	777	777	0
Capital Programmes - Property Sales	(500)	(836)	336
Total Controllable Costs	277	(59)	336

2.1 ICT - projected outturn breakeven.

G

2.2 Capital Programmes - projected outturn underspend £336k (67%)..

G

This is due to a number of properties anticipated to be sold in the prior year, completing in the first half of this financial year e.g. Leog House and 92 St Olaf Street.



**Policy and Resources Committee
Pension Fund Consultative Panel**

**26 November 2014
TBC**

Management Accounts for the Pension Fund: 2014/15 – Projected Outturn at Quarter 2	
F-054-F	
Report Presented by Executive Manager - Finance	Corporate Services

1. Summary

- 1.1 The purpose of this report is to enable the Policy and Resources Committee to monitor the financial performance of the Pension Fund to ensure that Members are aware of the forecast income and expenditure and the impact that this will have with regard to delivering the approved budget. This allows the Committee the opportunity to provide early instruction to officers to address any forecast overspends in order that the budget is delivered by the year-end.
- 1.2 This report is focused on the projected outturn position for the 2014/15 year as at the end of the second quarter.
- 1.3 The projected outturn position for the Pension Fund is an overspend of £1,801k on revenue.

2. Decision Required

The Policy and Resources Committee is asked to RESOLVE to:

- review the Management Accounts projected outturn position at Quarter 2;
- instruct the Executive Manager - Finance to ensure that the projected overspend is addressed to ensure that the approved budget is achieved by the end of the year.

3. Detail

3.1 On 11 December 2013 (SIC Min Ref: 107/13) the Council approved the 2014/15 Pension Fund budget which showed a net income of £7,291k.

3.2 The table below compares the annual budget against the projected outturn.

Description	2014-15 Annual Budget £'000	2014-15 Projected Outturn £'000	2014-15 Projected Outturn Variance £'000
Employee Costs	146	146	0
Pension System Costs	194	194	0
Administration Costs	9	10	1
Actuarial Fees	40	30	(10)
External Audit Fees	31	31	0
Investment Managers Fees	489	549	60
Benefits Payable	7,144	8,300	1,156
Lump Sums	2,697	2,706	9
Individual Transfers Out	595	595	0
Death Benefits	320	320	0
Refunds to members leaving service	14	20	6
Payments for members joining state scheme	11	28	17
Total Expenditure	11,690	12,929	1,239
Contributions Received	(15,301)	(14,738)	563
Individual Transfers In	(762)	(762)	0
Towage Contribution	(2,000)	(2,000)	0
Investment Income	(891)	(891)	0
Other Income	(27)	(28)	(1)
Total Income	(18,981)	(18,419)	562
Net Income	(7,291)	(5,490)	1,801

3.3 Benefits payable shows a negative variance of £1,156k which reflects higher retirement benefits expected to be paid this year compared to that originally budgeted. This is a reflection of the Council's reorganisation.

3.4 Contributions received shows a negative variance of £563k which reflects the decrease in contributions expected following staffing reductions as a result of the Council's restructuring.

3.5 The overall projected outturn is to decrease the net income to the Pension Fund by £1,801k.

4. Implications

Strategic

4.1 Delivery On Corporate Priorities

There is a specific objective within the Corporate Plan to ensure that the Council is “living within our means” with a range of measures which will enable the Council to achieve financial sustainability over the next four years, and line up spending with priorities and continue to have significant reserves.

The Medium Term Financial Plan also includes a stated objective to achieve financial sustainability over the lifetime of the Council.

4.2 Community /Stakeholder Issues – None.

4.3 Policy And/Or Delegated Authority

The Policy and Resources Committee has delegated authority to secure the co-ordination, control and proper management of the financial affairs of the Council (Section 2.2.1 of the Scheme of Administration and Delegations).

4.4 Risk Management

There is a risk that the operation of the Pension Fund will not be delivered within the approved 2014/15 budget. The Council's reorganisation is likely to have a direct negative impact on the Pension Fund.

4.5 Equalities, Health And Human Rights – None.

4.6 Environmental – None.

Resources

4.7 Financial

4.7.1 Any instances whereby a budget is not achieved will have a direct impact on the Pension Fund.

4.7.2 The Pension Fund shows a projected net income of £5,490k. This is £1,801k below the budget for 2013/14 of £7,291k.

4.7.3 The Pension Fund Investment Strategy approved by the Council seeks to address the situation of reducing income and increasing expenditure over the long term.

4.8 Legal – None.

4.9 Human Resources – None.

4.10 Assets And Property – None.

5. Conclusions

- 5.1 As a consequence of the Council's reorganisation, the projected outturn position for the Pension Fund is an overspend of £1,801k on revenue.

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Background documents:

Pension Fund Budget 2014/15, SIC 11 December 2013

<http://www.shetland.gov.uk/coins/viewDoc.asp?c=e%97%9Dc%96ly%8B>



**Policy & Resources Committee
Shetland Islands Council**

**26 November 2014
3 December 2014**

SIC Overall Management Accounts 2014-15 Projected Outturn at Quarter 2

F-073-F

**Report Presented by Executive Manager -
Finance**

Corporate Services

1.0 Summary

- 1.1 The purpose of this report is to enable the Policy & Resources Committee to monitor the financial performance of all Council services to ensure that Members are aware of the forecast income and expenditure and the impact that this will have with regard to delivering the approved budget. This allows the Committee the opportunity to provide early instruction to officers to address any forecast overspends in order that the budget is delivered by the year-end.
- 1.2 This report discusses the projected outturn position for the 2014/15 year as at the end of the second quarter for revenue and capital. The forecasts have been determined by Finance Services after consultation with the relevant Budget Responsible officers for the services. This report shows the impact this has on the draw on reserves for 2014/15.
- 1.3 The projected outturn position for the Council are underspends of £3.388m on revenue, £1.449m on capital plus £0.032m CFCR, and £1.005m on Spend to Save (unallocated). A total underspend of £5.874m.

2.0 Decision Required

- 2.1 The Policy & Resources Committee recommend that the Council RESOLVE to:
- review the Management Accounts showing the projected outturn position at quarter 2.

3.0 Detail

- 3.1 On 11 December 2013 (SIC Min Ref: 109/13) the Council approved the 2014/15 revenue and capital budgets for the Council (including the General Fund, Harbour Account, Housing Revenue Account and Spend to Save) requiring a draw from reserves of £14.793m. This is still at an unsustainably high level and therefore it is vital to the economic wellbeing of the organisation that the budget is delivered, as any overspends will result in a further draw on reserves.
- 3.2 The table below sets out the projected outturn position against the revised budget. There is a total projected underspend against the revised budget of £5.874m.

Type of Spending	<i>Original Budget</i> £m	Revised Budget £m	Projected Outturn £m	Variance (over)/underspend £m
Revenue	106.401	109.393	106.005	3.388
Capital	10.606	15.720	14.271	1.499
Spend to Save (unallocated)	1.500	1.681	0.676	1.005
Remove CFCR included in Capital above	(1.090)	(1.547)	(1.579)	0.032
TOTAL	117.417	125.247	119.373	5.874

- 3.3 The impact on the reserves of the projected outturn, set out in section 3.2 above, is that the draw on reserves for 2014-15 is to reduce by £7.074m against the revised budget. More of the underspend relates to spending funded by the Council's reserves than that funded by other sources on the Capital programme.

2014-15 Draw on Reserves	<i>Original Budgeted Draw</i> £m	Revised Budgeted Draw £m	Projected Outturn Draw £m	Variance (over)/underspend £m
Annual All Funds	14.793	20.278	13.204	7.074

- 3.4 The projected outturn draw on reserves equates to £36k per day as can be seen from the table below.

2014-15 Draw on Reserves	<i>Original Budgeted Draw</i> £000	Revised Budgeted Draw £000	Projected Outturn Draw £000	Variance (over)/underspend £000
Amount per Day	41	55	36	19

Variances shown in Appendices

- 3.5 Appendix 1 shows the revenue projected outturn position for the second quarter for the Council by service area and fund. Detailed reports on spending variances have been presented to individual committees.
- 3.6 There is a projected underspend of £3.031m on the General Fund against the revised budget. This underspend is a combination of projected underspends and overspends across directorates, the largest projected underspends are in Community Care (staffing costs) and Development (grant schemes) and the cost pressures and contingency is unlikely to be spent.
- 3.7 There is a projected increased surplus of £419k on the Harbour Account, which is mainly due to additional income.
- 3.8 There is a projected reduced surplus of £62k on the Housing Revenue Account due mainly to the restructuring and externalising of historic debt in 2014/15. The outstanding debt is to be paid over a shorter period, which is more efficient for the HRA over the longer term.
- 3.9 There is a projected underspend of £1.005m on the Spend to Save Reserve (unallocated).
- 3.10 Appendix 2 shows the capital projected outturn position for the first quarter for the Council. There is an anticipated underspend of £1.449m against the revised budget mainly due to delays on to the New Scalloway Health Centre Conversion, Phase 2 of the ET & Taing Conversion, Clickimin Roundabout/Access Road, Rolling Bridge Replacements, Town Hall Conservation project and Terminal Life Extensions. This is offset by an increase in spending on the new AHS school fees.

4.0 Implications

Strategic

4.1 Delivery On Corporate Priorities

There is a specific objective within the Corporate Plan to ensure that the Council is “living within our means” with a range of measures which will enable the Council to achieve financial sustainability over the next four years, and line up spending with priorities and continue to have significant reserves.

The Medium Term Financial Plan also includes a stated objective to achieve financial sustainability over the lifetime of the Council.

4.2 Community /Stakeholder Issues – None.

4.3 Policy And/Or Delegated Authority

Section 2.1.2(3) of the Council's Scheme of Administration and Delegations states that the Committee may exercise and perform all powers and duties of the Council in relation to any function, matter, service or undertaking delegated to it by the Council. The Council approved both revenue and capital budgets for the 2014/15 financial year. The Policy & Resources Committee has delegated authority for securing the co-ordination, control and proper management of the financial affairs of the Council.

4.4 Risk Management

There is a risk that revenue services and capital projects will not be delivered within the approved 2014/15 budget resulting in an additional draw on reserves, which is unsustainable. Failure to deliver the 2014/15 budgets may result in the Council failing to deliver its Corporate Plan and Medium Term Financial Plan.

4.5 Equalities, Health And Human Rights – None.

4.6 Environmental – None.

Resources

4.7 Financial

The 2014/15 Council budget is not sustainable because it requires a draw on reserves in excess of the returns that the fund managers can make on average in a year.

For every £1m of reserves spend (in excess of the sustainable level) it will mean that the Council will have to make additional savings of £50,000 each year in the future as a result of not being able to invest that £1m with fund managers to make a return.

It is therefore vital that the Council delivers its 2014/15 budget, as any overspend will result in a further unsustainable draw on reserves which will have the long term consequences as explained above.

Revenue (GF/Harbour/HRA/Spend to Save)

The projected outturn position shows a net underspend of £3.388m. This underspend is made up of General Fund underspend of £3.031m, a decrease in surplus income on the Housing Revenue Account of £0.062m, an increase on the surplus on the Harbour Account of £0.419m.

Capital (GF/Harbour/HRA/Spend to Save)

The projected outturn position shows a net underspend of £1.449m. This is made up of General Fund underspend of £0.730m and Harbour Account overspend of £15k, Spend to Save underspend of £0.735m and the Housing Revenue Account is expected to overspend by £0.001m.

Spend to Save Budget Unallocated Budget

The projected outturn position shows a net underspend of £1.005m.

Reserves

The projected outturn draw on reserves is £13.204m (or £36k per day) which is £7.074m (or £19k per day) less than the revised budget.

4.8 Legal – None.

4.9 Human Resources – None.

4.10 Assets And Property – None.

5.0 Conclusions

5.1 The revenue outturn position for the combined General Fund, Harbour Account, Housing Revenue Account and Spend to Save is projected to be under budget by £3.388m.

5.2 The capital outturn position for the combined General fund, Harbour Account, Housing Revenue Account and Spend to Save is projected to be under budget by £1.449m.

5.3 The outturn position for the Spend to Save (unallocated) budget is projected to be under budget by £1.005m.

5.4 The projected draw from reserves is to decrease by £7.074m against the revised budget.

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List of Appendices

Appendix 1 – Overall SIC Projected Revenue Outturn Position for 2014/15

Appendix 2 - Overall SIC Projected Capital Outturn Position for 2014/15

Background documents:

SIC Budget Book 2014-15, SIC 11 December 2013

<http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=15444>

END

Shetland Islands Council**1. Revenue Projected Outturn Position for 2014/15**

General/Support/Recharged Description	Revised Budget 2014/15 £000	Projected Outturn 2014/15 £000	Budget v Proj. Outturn Variance £000
Chief Executive	1,682	1,681	1
Children's Services	41,702	41,609	93
Community Care	20,238	19,573	664
Corporate Services	9,961	9,829	132
Development	13,724	13,240	484
Infrastructure	20,810	20,680	129
Fund Managers Fees	600	768	(168)
Contingencies & Budget Pressures	5,141	3,445	1,696
Net Recharges to Other Fund	(1,911)	(1,911)	0
Total Costs	111,946	108,915	3,031
<i>Funded by:</i>			
Government Grants	(85,732)	(86,096)	364
Council Tax	(8,686)	(8,348)	(338)
Unsustainable Draw on Reserves	(17,528)	(14,471)	(3,057)
Total Funding	(111,946)	(108,915)	(3,031)
Balanced Budget	0	0	0

Harbour Account	Revised Budget 2014/15 £000	Projected Outturn 2014/15 £000	Budget v Proj. Outturn Variance £000
Harbour Account	(2,224)	(2,643)	419
<i>Funded by:</i> Marine Fund (Reserve)	(138)	(138)	0
Contribution to Reserve Fund (Reserve)	2,362	2,781	(419)
Balanced Budget	0	0	0

Housing Revenue Account	Revised Budget 2014/15 £000	Projected Outturn 2014/15 £000	Budget v Proj. Outturn Variance £000
Housing Revenue Account	(192)	(129)	(62)
Funded by: Contribution to HRA R&R fund (Reserve)	192	129	62
Balanced Budget	0	0	0

Spend to Save	Revised Budget 2014/15 £000	Projected Outturn 2014/15 £000	Budget v Proj. Outturn Variance £000
Spend to Save Unallocated	1,681	676	1,005
Funded by: Spend to Save (Reserve)	(1,681)	(676)	(1,005)
Balanced Budget	0	0	0

Shetland Islands Council**2. Capital Projected Outturn Position for 2014/15**

Service Area Description	Revised Budget 2014/15 £000	Projected Outturn 2014/15 £000	Budget v Proj. Outturn Variance £000
Children's Services	1,488	2,886	(1,398)
Community Care	3,793	2,602	1,191
Corporate Services	777	777	0
Development	702	768	(66)
Infrastructure (incl. Harbour Account)	6,872	5,149	1,723
Development (HRA)	2,087	2,088	(1)
Total Costs	15,720	14,271	1,449
<i>Funded by:</i>			
General Capital Grant	(6,996)	(6,996)	0
Other Government Grants	(495)	(495)	0
Capital Fund Reserve	(1,447)	473	(1,920)
Spend to Save Reserve	(1,650)	(915)	(735)
ERDF Grant	0	(106)	106
Capital Receipts	(500)	(836)	336
General Fund CFCR	(388)	(388)	0
CFCR (HRA)	(1,337)	(1,338)	1
Capital Receipts (HRA)	(750)	(750)	0
CFCR (Harbour Account)	(210)	(210)	0
Debt Charges (Harbour Account)	(16)	(31)	15
External Borrowing	(1,931)	(2,680)	748
Total Funding & Financing	(15,720)	(14,271)	(1,449)
Balanced Budget	0	0	0



Policy and Resources Committee

26 November 2014

2015-16 Budget and Charging Proposals Policy and Resources Committee

F-056-F

Report Presented by Executive Manager –
Finance

Corporate Services

1.0 Summary

- 1.1 The purpose of this report is to enable the Policy and Resources Committee to consider the controllable budget proposals for the services within the Committee's remit, which will in turn contribute towards ensuring that the Corporate, Chief Executive and Development directorates meet their Target Operating Budgets, as set out in the Medium Term Financial Plan.
- 1.2 The summary budget proposals for the services under the remit of Policy and Resources Committee are £9.785m, split by service area as follows:

Service	2015-16 Proposed Budget £000
Executive Services	1,213
Council Members	619
Chief Executive Sub-total	1,832
Director of Corporate Services	210
Capital Programmes	801
Finance	2,173
Governance & Law	1,000
Human Resources	1,458
ICT	1,415
Audit, Risk and Improvement	437
Valuation Joint Board	284
Corporate Sub-total	7,779
TOTAL Chief Executive and Corporate	9,611
Community Councils	174
TOTAL Development	174
TOTAL	9,785
Fund Manager Fees	700

2.0 Decision Required

2.1 That the Policy and Resources Committee RECOMMEND to Council that it:

- Approve the budget proposals for 2015-16 included within this report and set out in detail in the Budget Activity Sheet (Appendix 2) and Charging Sheet (Appendix 3).

3.0 Background

3.1 The Council agreed its Medium Term Financial Plan on 2 July 2014 (min ref 49/14), which sets out an integrated budgeting and reserves strategy for the period 2014-2019.

3.2 As part of the budgeting strategy, each of the Council's directorates was provided with a Target Operating Budget. Each Director has subsequently developed their directorate budget proposals within these targets for 2015-16. The proposals in this report show how this will be delivered.

3.3 The Target Operating Budget for 2015-16 was set as follows:

Directorate	Original Target 2015-16 £000	Budget Transfers £000	Cost Pressures £000	Revised Target 2015-16 £000
Corporate and Chief Executive	10,629	(963)	0	9,666
Development	12,725	712	500	13,937

3.4 By adhering to these Target Operating Budgets, Members will ensure that the organisation is now achieving a financially sustainable budget for 2015-16 with the use of reserves at a sustainable level.

3.5 Appendix 1 contains a reconciliation of how the budget proposals for the services within Directorates are aligned to the remit of this Committee.

3.6 The approach taken to develop these budget proposals was incremental budgeting, which means that the costs of each service were built up using existing budgets as the base-line. At all times ensuring activities are to be carried out in the most efficient way.

3.7 The Council undertook a series of 6 public meetings across Shetland in July and August 2014 in order to gauge the Public's views on where the 2015-16 budget savings should be made. The meetings were attended by a total of 77 members of the public, which represents less than 0.5% of the Shetland electorate.

3.8 The table below sets out the average proposed reduction in directorate budgets for 2015-16 that emerged from the public meetings exercise:

Directorate	Average % reduction 2015-16 from 'Building Budgets' participants
Chief Executive & Corporate	3.6
Children's Services	4.4
Community Care Services	0.9
Development Services	3.4
Infrastructure Services	2.5

- 3.9 The Chief Executive and Director of Corporate Services have reviewed the results of the public meetings and have implemented 3.8% of savings, which is more than the average proposed saving for the directorates of 3.6%.
- 3.10 The Director of Development Services has reviewed the results of the public meetings and has implemented 5.2% of savings, which is more than the average proposed saving for the directorate and includes a reduction in Economic Development Projects and Architectural Heritage budgets.
- 3.11 The results of this detailed budget work have been captured in a detailed Budget Activity Sheet - Appendix 2.
- 3.12 The proposed charging structure included in the budget proposals for the Corporate and Chief Executive Directorates is attached as Appendix 3.
- 3.13 The next section of this report summarises the key budgetary changes which are detailed in the Budget Activity Sheet.

4.0 2015-16 Budget Proposals

The following section lists the major changes proposed in the budget for 2015/16 which has been adjusted for cost pressures and service transfers:

- Corporate and Chief Executive restructure.
- Business Support review.
- Implementation of more robust cash management arrangements.
- Centralising budgets such as advertising and training.

5.0 Implications

Strategic

5.1 Delivery On Corporate Priorities

The budget has been produced to deliver the Directorate Plans which will contribute to meeting the Corporate Plan. The budget has also been produced bearing in mind the Corporate Plan's objectives of financial sustainability and balance across all sectors with efficient and responsive public services and a reduced reliance on the public sector.

5.2 Community /Stakeholder Issues – NONE

5.3 Policy And/Or Delegated Authority

The Policy and Resources Committee has delegated authority to advise the Council in the development of service, objectives, policies and plans concerned with service delivery. The Council approved the Medium Term Financial Plan on 2 July 2014. This set the parameters for the 2015-16 revenue budget and allocated the available resources amongst directorates. Approval of the revenue budget requires a decision of the Council, in terms of Section 2.1.3 of the Council's Scheme of Delegations.

5.4 Risk Management

A failure to meet the reductions in overall budget spending levels will result in the Council utilising its reserves unsustainably.

5.5 Equalities, Health And Human Rights – NONE

5.6 Environmental – NONE

Resources

5.7 Financial - This report presents budget proposals that are consistent with the budget strategy included within the Medium Term Financial Plan. Any decision to recommend changes to the proposals in this report will result in an increased or decreased draw on reserves, and may result in not meeting the targets in the Medium Term Financial Plan. This will require a formal amendment and be fully quantified in the Committee decision.

5.8 Legal – The proposals in this report will allow the Council to meet its statutory requirements and to ensure that those services meet the appropriate legislative requirements. Overall priority has been given to services which the Council has a statutory requirement to provide with a lower priority given to those services which are discretionary services.

5.9 Human Resources – NONE

- 5.10 Assets And Property – A risk based approach will be taken for the management of property assets to minimise the deterioration and potential failure of assets over the life of the Medium Term Financial Plan.

Where possible unused assets will be disposed of to reduce ongoing revenue costs and maximise capital receipts for the Council.

6.0 Conclusions

- 6.1 The proposals contained within this report meet the target operating budgets as set out in the Medium Term Financial Plan for the services within the remit of the Policy and Resources Committee.
- 6.2 These proposals will enable the Policy and Resources Directorates to deliver their Directorate Plan as well as to move towards meeting the requirements of the Medium Term Financial Plan in future years within the term of this Council.

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List of Appendices

Appendix 1 - 2015-16 Reconciliation of Directorates Proposed Budgets to Committees

Appendix 2 - 2015-16 Policy and Resources Directorates Budget Activity Sheet

Appendix 3 - 2015-16 Schedule of Charges

END

2015-16 Reconciliation of Directorates Proposed Budgets to Committees

Directorate	Development Committee £000	Social Services Committee £000	Education & Families Committee £000	Environment & Transport Committee £000	Executive Committee £000	Total £000
Executive & Corporate Services					9,611	9,611
Children's Services		1,296	38,127			39,423
Community Care		19,743				19,743
Development	4,852	2,532	674	5,369	174	13,601
Infrastructure				20,551		20,551
TOTAL	4,852	23,571	38,801	25,920	9,785	102,929

Chief Executive and Corporate Services Directorate and Community Councils

Service	Activity	FTE	Proposed Budget £	Red Amber Green	Proposed Service Level
Executive Services	Chief Executive, Leadership & Support	3.00	432,159	G	No change.
Executive Services	Member Development & Support	3.32	146,708	G	No change, but increased income generation through premises lettings.
Executive Services	Communications	2.89	150,485	G	No change, but efficiency savings through consolidation of local advertising.
Executive Services	Business Support	14.95	445,983	G	Reduction in staffing (approx 0.4 FTE) and efficiency savings through pooling support budgets.
Executive Services	Bank Charges	-	38,000	G	No change.
Council Members	Council Members	-	618,283	G	No change.
Capital Programme	Estates Management	3.42	-28,608	G	No change to service level, but increased budget due to a projected net reduction in income for 15/16, and increase in rent payable following rent reviews.
Capital Programme	Asset Strategy	1.55	72,773	G	No change.
Capital Programme	Procurement	2.74	163,762	G	No change.
Capital Programme	Contract Compliance	1.00	56,033	G	No change.
Capital Programme	Capital Programme Management	0.35	30,365	G	No change.
Capital Programme	Project Management	3.84	253,507	A	Staffing reduction (1FTE) in line with reduced Asset Investment Plan.
Capital Programme	Design Services	4.84	253,507	G	No change.
Directorate	Corporate Services Directorate	1.00	210,270	G	No change but efficiency savings.

Service	Activity	FTE	Proposed Budget £	Red Amber Green	Proposed Service Level
Finance	Executive Manager	2.08	426,865	G	No change, but reduction in Audit Scotland external audit fee and a transfer of general ledger licensing costs from ICT.
Finance	Management Accounting	11.30	528,303	G	No change.
Finance	Financial Accounting	4.32	206,973	G	No change.
Finance	Treasury	3.15	-236,811	G	Overhaul of cash management arrangements resulting in additional annual income of £370k.
Finance	Revenues	12.28	347,022	G	No change.
Finance	Benefits Administration	7.93	404,369	G	No change.
Finance	Payroll	8.27	348,804	G	No change, but reduction in staffing (0.68 FTE).
Finance	Payments	4.18	148,091	G	No change.
Finance	Fund Manager Fees	-	700,000	G	No change, but fees are expected to be higher as a result of anticipated higher fund levels.
Governance & Law	Executive Manager	1.00	106,850	G	No change but efficiency savings.
Governance & Law	Committee Administration	4.84	261,658	G	No change but efficiency savings.
Governance & Law	Registrars	1.62	43,702	G	No change but efficiency savings.
Governance & Law	Legal Services	7.09	405,982	G	No change but efficiency savings.
Governance & Law	Insurance	3.00	118,631	G	No change but efficiency savings.
Governance & Law	Emergency Planning & Resilience	1.00	63,158	G	No change but efficiency savings.
Human Resources	Employment Support	6.28	371,374	G	Reduction of 1FTE post whilst delivering efficiency savings in centralising outstanding devolved recruitment activity.
Human Resources	Training	7.86	284,160	G	Centralisation of Workforce Development Team and administrative processes resulting in more efficient ways of working.

Service	Activity	FTE	Proposed Budget £	Red Amber Green	Proposed Service Level
Human Resources	Staff Welfare	6.05	327,898	G	0.23 FTE increase in provision to meet increase in demands and more proactive support in attendance management.
Human Resources	Moving On Project	-	30,922	G	No change.
Human Resources	Policy & Business Support	9.53	439,134	G	No change.
Human Resources	Childcare Vouchers	-	5,000	G	No Change.
ICT	Executive Manager	1.00	88,819	G	No Change.
ICT	Projects	9.42	429,149	G	No Change.
ICT	Support	8.47	385,495	G	No Change.
ICT	Operations	5.65	511,418	G	No Change.
Audit, Risk and Improvement	Internal Audit	3.78	183,497	G	Efficiency savings due to restructure.
Audit, Risk and Improvement	Risk Management	1.89	108,055	G	Efficiency savings within Audit, Risk & Improvement overall but additional 1 FTE within Risk Management.
Audit, Risk and Improvement	Performance Management & Reporting	2.30	145,187	G	Efficiency savings due to restructure.
Valuation Joint Board	Shetland Contribution	-	284,300	G	No change.
Community Planning & Development	Community Support	2.00	366,960	G	No change to Community Grant Schemes within this activity.

Activity	Charge	Unit	2014/15 Charge £	2015/16 Charge £	Variance %	Vat: SR = Standard Rated (VAT code 1) EX = Exempt (VAT code 2) NB = Non Business (VAT code 3) OS = Outwith Scope (VAT code 8) ZR = Zero Rated (VAT code 0) RR = Reduced Rate of 5% (VAT code 6)	Comments
Town Hall	Meeting/Talk/Workshop	Per Hour	25.00	25.00	0	EX unless there will be catering taking place (not necessary arranged by SIC) resulting in SR	
Town Hall	Concert/Dance/Rehearsal	Per Hour	30.00	30.00	0	EX unless there will be catering taking place (not necessary arranged by SIC) resulting in SR	
Town Hall	Coffee morning/ kitchen hire/ evening/ teas/ dinner	Per Hour	33.00	33.00	0	EX unless there will be catering taking place (not necessary arranged by SIC) resulting in SR	
Town Hall	Wedding/Dinner Dance	Per Hour	50.00	50.00	0	EX unless there will be catering taking place (not necessary arranged by SIC) resulting in SR	
Town Hall	Christmas Party	Per Hour	42.00	42.00	0	EX unless there will be catering taking place (not necessary arranged by SIC) resulting in SR	
Town Hall	Up Helly Aa	Per Hour	67.50	67.50	0	EX unless there will be catering taking place (not necessary arranged by SIC) resulting in SR	
Town Hall	Cheese & Wine	Per Hour	38.50	38.50	0	EX unless there will be catering taking place (not necessary arranged by SIC) resulting in SR	
Town Hall	Fair	Per Hour	40.00	40.00	0	EX unless there will be catering taking place (not necessary arranged by SIC) resulting in SR	

Activity	Charge	Unit	2014/15 Charge £	2015/16 Charge £	Variance %	Vat: SR = Standard Rated (VAT code 1) EX = Exempt (VAT code 2) NB = Non Business (VAT code 3) OS = Outwith Scope (VAT code 8) ZR = Zero Rated (VAT code 0) RR = Reduced Rate of 5% (VAT code 6)	Comments
Town Hall	Misc, inc show, prize giving, quiz, whist	Per Hour	30.00	30.00	0	EX unless there will be catering taking place (not necessary arranged by SIC) resulting in SR	
Town Hall	Cleaning costs for Up Helly Aa	Per Event	530.50	530.50	0	SR	
Town Hall	Performing Rights Society Charges - Concerts (live music)	Per Event	17.83	17.83	0	SR	
Town Hall	Performing Rights Society Charges - Miscellaneous Events (dinner dance)	Per Event	20.07	20.07	0	SR	
Town Hall	Performing Rights Society Charges - Workshops	Per Event	2.24	2.24	0	SR	
Town Hall	Performing Rights Society Charges - Exhibitions (fair/award ceremony)	Per Event	30.08	30.08	0	SR	
Town Hall	Performing Rights Society Charges - Concerts (live music) entry charged at door	Per Event	32.00	32.00	0	SR	

Activity	Charge	Unit	2014/15 Charge £	2015/16 Charge £	Variance %	Vat: SR = Standard Rated (VAT code 1) EX = Exempt (VAT code 2) NB = Non Business (VAT code 3) OS = Outwith Scope (VAT code 8) ZR = Zero Rated (VAT code 0) RR = Reduced Rate of 5% (VAT code 6)	Comments
Town Hall	Cancellation Charges - cancellation of room bookings must be confirmed at least 5 days before the date or the full charge is payable. These bookings will not be transferred to another date.		25% of full charge	25% of full charge		OS	Cancellations of room bookings must be confirmed at least 5 days before the date or the full charge is payable. These bookings will not be transferred to another date. Cancellation of large scale events must be confirmed at least one month in advance or 25% of the full charge is payable.
Town Hall	Preparation Time - any preparation time will be charged at the applicable hourly rate for the event.	Per Hour	Dependent on event	Dependent on event		EX	Any preparation time will be charged at the applicable hourly rate for the event.
Property Enquiry Certificates	Property Enquiry Certificates		110.00	110.00	0	NB	
Civil Marriages - Lerwick Registration Office	Registration Office - Office Hours - No guests -		25.00	35.00	40	NB	

Activity	Charge	Unit	2014/15 Charge £	2015/16 Charge £	Variance %	Vat: SR = Standard Rated (VAT code 1) EX = Exempt (VAT code 2) NB = Non Business (VAT code 3) OS = Outwith Scope (VAT code 8) ZR = Zero Rated (VAT code 0) RR = Reduced Rate of 5% (VAT code 6)	Comments
	Accommodation and Attendance Fee						
Civil Marriages - Lerwick Registration Office	Registration Office - Office Hours - No guests - Statutory Charges		125.00	125.00	0	NB	
Civil Marriages - Lerwick Registration Office	Registration Office - Office Hours - No guests - TOTAL CHARGE		150.00	160.00	7	NB	
Civil Marriages - Lerwick Registration Office	Registration Office - Office Hours - Guests - Accommodation and Attendance Fee		75.00	85.00	13	NB	
Civil Marriages - Lerwick Registration Office	Registration Office - Office Hours - Guests - Statutory Charges		125.00	125.00	0	NB	
Civil Marriages - Lerwick Registration Office	Registration Office - Office Hours - Guests - TOTAL CHARGE		200.00	210.00	5	NB	
Civil Marriages - Lerwick Registration Office	Registration Office - Outwith Office hours - Guests - Accommodation and Attendance Fee		125.00	135.00	8	NB	
Civil Marriages - Lerwick Registration Office	Registration Office - Outwith Office hours -		125.00	125.00	0	NB	

Activity	Charge	Unit	2014/15 Charge £	2015/16 Charge £	Variance %	Vat: SR = Standard Rated (VAT code 1) EX = Exempt (VAT code 2) NB = Non Business (VAT code 3) OS = Outwith Scope (VAT code 8) ZR = Zero Rated (VAT code 0) RR = Reduced Rate of 5% (VAT code 6)	Comments
	Guests - Statutory Charges						
Civil Marriages - Lerwick Registration Office	Registration Office - Outwith Office Hours - Guests - TOTAL CHARGE		250.00	260.00	4	NB	
Civil Marriages	Travel Costs for a Registrar attendance at an Approved Place - up to 5 miles from Registration Office		4.50	4.50	0	NB	
Civil Marriages	Travel Costs for a Registrar attendance at an Approved Place - up to 10 miles from Registration Office		9.00	9.00	0	NB	
Civil Marriages	Travel Costs for a Registrar attendance at an Approved Place - up to 20 miles from Registration Office		18.00	18.00	0	NB	
Civil Marriages	Travel Costs for a Registrar attendance at an Approved Place - Over 20 miles		36.00	36.00	0	NB	
Civil Marriages	Ferry fares at standard return costs will be					NB	

Activity	Charge	Unit	2014/15 Charge £	2015/16 Charge £	Variance %	Vat: SR = Standard Rated (VAT code 1) EX = Exempt (VAT code 2) NB = Non Business (VAT code 3) OS = Outwith Scope (VAT code 8) ZR = Zero Rated (VAT code 0) RR = Reduced Rate of 5% (VAT code 6)	Comments
	added to the travel costs where appropriate						
Civil Marriages	All Accommodation and Attendance Fees include a £20 non-refundable amount		20.00	30.00	50	NB	
LICENSING (Scotland) Act 2005 (New)	Initial Premises Application Fee - Category 1		200.00	200.00	0	NB	
LICENSING (Scotland) Act 2005 (New)	Initial Premises Application Fee - Category 2		800.00	800.00	0	NB	
LICENSING (Scotland) Act 2005 (New)	Initial Premises Application Fee - Category 3		1,100.00	1,100.00	0	NB	
LICENSING (Scotland) Act 2005 (New)	Initial Premises Application Fee - Category 4		1,300.00	1,300.00	0	NB	
LICENSING (Scotland) Act 2005 (New)	Initial Premises Application Fee - Category 5		1,700.00	1,700.00	0	NB	
LICENSING (Scotland) Act 2005 (New)	Initial Premises Application Fee - Category 6		2,000.00	2,000.00	0	NB	
LICENSING (Scotland) Act 2005 (New)	Annual Premises Licence Fee - Category 1		180.00	180.00	0	NB	

Activity	Charge	Unit	2014/15 Charge £	2015/16 Charge £	Variance %	Vat: SR = Standard Rated (VAT code 1) EX = Exempt (VAT code 2) NB = Non Business (VAT code 3) OS = Outwith Scope (VAT code 8) ZR = Zero Rated (VAT code 0) RR = Reduced Rate of 5% (VAT code 6)	Comments
LICENSING (Scotland) Act 2005 (New)	Annual Premises Licence Fee - Category 2		220.00	220.00	0	NB	
LICENSING (Scotland) Act 2005 (New)	Annual Premises Licence Fee - Category 3		280.00	280.00	0	NB	
LICENSING (Scotland) Act 2005 (New)	Annual Premises Licence Fee - Category 4		500.00	500.00	0	NB	
LICENSING (Scotland) Act 2005 (New)	Annual Premises Licence Fee - Category 5		700.00	700.00	0	NB	
LICENSING (Scotland) Act 2005 (New)	Annual Premises Licence Fee - Category 6		900.00	900.00	0	NB	
LICENSING (Scotland) Act 2005 (New)	Vary Premises Licence 29(1) Substitution of manager		31.00	31.00	0	NB	
LICENSING (Scotland) Act 2005 (New)	Vary Premises Licence 29(1) minor		20.00	20.00	0	NB	
LICENSING (Scotland) Act 2005 (New)	Vary Premises Licence 29(1) other		50.00	150.00	200	NB	
LICENSING (Scotland) Act 2005 (New)	Xfr by Licence Holder 33(1) with variation		75.00	225.00	200	NB	
LICENSING (Scotland) Act 2005 (New)	Xfr by Licence Holder 33(1) with no variation		50.00	150.00	200	NB	

Activity	Charge	Unit	2014/15 Charge £	2015/16 Charge £	Variance %	Vat: SR = Standard Rated (VAT code 1) EX = Exempt (VAT code 2) NB = Non Business (VAT code 3) OS = Outwith Scope (VAT code 8) ZR = Zero Rated (VAT code 0) RR = Reduced Rate of 5% (VAT code 6)	Comments
LICENSING (Scotland) Act 2005 (New)	Xfr by another person 34(1) with variation		75.00	225.00	200	NB	
LICENSING (Scotland) Act 2005 (New)	Xfr by another person 34(1) with no variation		50.00	150.00	200	NB	
LICENSING (Scotland) Act 2005 (New)	Temporary Premises Licence 47(2)		75.00	225.00	200	NB	
LICENSING (Scotland) Act 2005 (New)	Occasional Licence 56(1)		10.00	10.00	0	NB	
LICENSING (Scotland) Act 2005 (New)	Extended Hours 68(1)		10.00	10.00	0	NB	
LICENSING (Scotland) Act 2005 (New)	Personal Licence 72(1)		50.00	50.00	0	NB	
LICENSING (Scotland) Act 2005 (New)	Replacement Personal Licence 92(1)		10.00	30.00	200	NB	
LICENSING (Scotland) Act 2005 (New)	Replacement Premises Licence 53(1)		0.00	30.00	N/A	NB	



**Policy and Resources Committee
Shetland Islands Council**

**26 November 2014
3 December 2014**

2015-16 Housing Revenue Account Budget and Charging Proposals

F-068-F

**Report Presented by Executive Manager -
Finance**

Corporate Services

1.0 Summary

- 1.1 The purpose of this report is to enable the Policy and Resources Committee and Shetland Islands Council to consider the budget proposals for the Housing Revenue Account (HRA).
- 1.2 Following the resolution of the historic debt, the HRA is working on a fully costed 30 year business plan to demonstrate affordability and sustainability in the future. The 2015-16 Budget is presented on the basis of a 'holding year' between the resolution of the debt and the formal start of the HRA Business Plan.
- 1.3 The main change is the proposal on rents is to remove the disparity in rents between similar properties of the same size and location group as property attributes are now no longer valid as a result of stock meeting the Scottish Housing Quality Standard. This will also simplify the rent structure. Properties that are unaffected by these changes will not see an increase in their rents during 2015-16.

2.0 Decision Required

- 2.1 That Policy and Resources Committee RECOMMENDS that the Council resolves to approve the budget proposals (Section 4), the rent levels and proposed charging for 2015-16 (Appendix 1) included within this report.

3.0 Background

- 3.1 The Council agreed its Medium Term Financial Plan on 2 July 2014 (min ref 49/14), which sets out an integrated budgeting and reserves strategy for the period 2014-2019.
- 3.2 The overarching financial aims of the HRA are:

- Ensure annual HRA budgets are financially sustainable;
- Focus on keeping housing rents at affordable levels;
- Focus capital expenditure on maintaining the existing housing stock, ensuring housing quality standards are met in 2015 and beyond;
- All capital expenditure funded through borrowing must comply with the Prudential Code and its key principles of prudence, affordability and sustainability; and
- Ensure only a sustainable draw is made on the Housing Repairs and Renewals Account each year.

3.3 At present, capital expenditure in the Asset Investment Plan is at £1.728m. This is a holding position until the implementation of the formal HRA Business Plan.

4.0 2015-16 HRA Budget Proposals

4.1 The table below sets out the proposed 2015-16 budget for the HRA:

2014-15 Approved Budget (£000)	Description	2015-16 Proposed Budget (£000)
	<u>Expenditure</u>	
737	Supervision & Management	803
2,369	Repair & Maintenance	2,474
207	Void Rents & Charges	181
25	Garages	26
950	Capital Funded from Current Revenue	978
1,731	Debt Charges - Dwellings	1,827
6,019	Total: Expenditure	6,289
	<u>Income:</u>	
(4)	Interest on Revenue Balances	(4)
(6,470)	Rents - Dwellings	(6,526)
(124)	Rents - Other ie garages/sites etc	(177)
(6,598)	Total: Income	(6,707)
(579)	Total Surplus	(418)
579	Contribution (from) / to Housing R & R Fund	418
0	Balanced HRA	0

Expenditure

4.1.1 The proposed 2015-16 budget for the HRA contains a net increase in total expenditure of £269,754 over the 2014-15 budget. The reasons for this increase/decreases are as follows –

- Supervision and Management ▲ **£65,850 increase** – This is mainly due to an increase in recharges due to a review of support costs.

- Repairs and Maintenance **▲£105,366 increase** – This is mainly due to an increase in recharges due to a review of support costs..
- Debt Charges **▲£95,615 increase** – these charges relate to the repayment of the housing debt, and the interest charges and expenses on that debt. This has been externalised over a shorter period than was anticipated in the 14-15 budget, however this is more efficient for the HRA over the longer term.
- Capital Funded from Current Expenditure **▲£28,000 increase** – Capital expenditure has been held at 2014-15 levels. The additional £28k represents the retention amount for the completed new build housing at Brae.
- Void Rent and Charges **▼ £26,352 decrease** – Void rents and charges have reduced due to a change in assumptions on the rate of voids.

Income

4.1.2 The net increase in expenditure is budgeted to be balanced by the following income contributions in 2015-16:

- Rents – Dwellings **▲ £55,474 increase** – This is due to the proposal on rents to remove the disparity between similar properties of the same size and location group as property attributes are now no longer valid as a result of stock meeting the Scottish Housing Quality Standard. Only some properties will be affected by these changes.
- Rents – Other **▲£52,605 increase** – This increase is due to a detailed review of garage and site rents which identified that the council was previously charging below standard market prices and other authorities. Rent charges have now been increased to be more in line with other areas.
- Contribution to the Housing Repairs and Renewals Fund **▼£161,675 decrease** – The contribution is less in 2015/16 due to the variances reported above.

The proposed charging structure included in the budget proposals for the HRA is attached as Appendix 1.

Capital Expenditure

4.1.3 The Housing capital programme consists of committed and maintenance projects only in 2015-16. Further details of this is reported in the Asset Investment Plan 2015-20.

4.1.4 There is an explicit need for the Council to ensure that the Housing Revenue Account complies with the Prudential Code, around affordability of capital, sustainability of funding streams and the impact on the rent payers.

5.0 Reserves

- 5.1 The purpose of the Housing Repairs and Renewals Fund (Reserve) is to improve the condition of the Council's housing stock.
- 5.2 It is estimated that the Housing Repairs and Renewals Fund will end 2015-16 with a balance of approximately £12.770 m. In future years the HRA will only budget for a sustainable draw in line with the Medium Term Financial Plan.

Repairs & Renewals Fund Movement	Opening Balance 1 April (£m)	Earnings (£m)	Draw / Contribution (£m)	Closing Balance 31 March (£m)
2012-13	12.259	0.221	(2.058)	10.422
2013-14	10.422	1.919	(1.478)	10.863
2014-15	10.863	0.625	0.192	11.680
2015-16	11.680	0.672	0.418	12.770

6.0 2015-16 and Beyond

- 6.1 The HRA is working towards a fully costed 30 year business plan to demonstrate affordability and sustainability of the HRA in the future. The Business Plan will come forward in February - March of 2015 for discussion and approval.

7.0 Implications

Strategic

7.1 Delivery On Corporate Priorities

The budget has been produced bearing in mind as far as possible the Corporate Plan's objectives of financial sustainability and balance across all sectors with efficient and responsive public services and a reduced reliance on the public sector.

- 7.2 Community /Stakeholder Issues – There is a statutory obligation to consult with tenants annually on the rent increases and any proposed changes to service levels. The Council sent out the Tenant Rent Consultation Survey to all tenants at the end of October 2014 with a deadline of 14 November 2014 for responses.

There was an 8% response to the survey. From that the majority of tenants (65%) felt that their current rent was affordable 24% said it was not affordable and 11% did not answer. Tenants expressed a preference to state rents in terms of bedrooms instead of apartments. Tenants would also like to see further work on the geographic differentials in future. The Shetland Tenants Forum concluded that they would not like to see any proposed rent increase beyond inflation for 2015/16 as the debt had been sorted out and that was seen to be the driver for greater increases in recent years. There is also support for a more stable rent increase with a future indicative rent through the business planning process.

Further Engagement with Tenants is planned via the refresh of the Tenant Participation Strategy, further work with the Shetland Tenants Forum, more direct consultation and information provision with the wider tenant base and the creation of issue-specific focus groups.

7.3 Policy And/Or Delegated Authority

Approval of the Budget is a matter reserved by the Council after taking advice from the Policy and Resources Committee. Once approved, the budget forms the basis of the Director of Development's delegated authority to deliver services, within policy and within budget.

7.4 Risk Management

The main risk for the Housing Revenue Account is to ensure that there is sufficient income generated to meet both revenue and capital expenditure, otherwise this will result in an additional draw from reserves.

7.5 Equalities, Health And Human Rights – The Local Housing Strategy has had a full equalities impact assessment carried out.

7.6 Environmental – The Local Housing Strategy was screened for Strategic Environmental Assessment.

Resources

7.7 Financial

This Report sets out the budget for the Housing Revenue Account for 2015-16 which is consistent with the Medium Term Financial Plan.

The 2015-16 Budget is presented on the basis of a 'holding year' while the 30 year business plan is being completed.

The main proposal is to remove the disparity in rents between similar properties of the same size and location group as property attributes are now no longer valid as a result of stock meeting the Scottish Housing Quality Standard. This will result in an average rent increase of 1.67%. Properties which were previously attracting a lower rent will be moved to the standard rent charge for that size and location of property. This change will only impact on some of the properties. Properties that are unaffected by these changes will not see any increase in their rents during 2015-16.

7.8 Legal – NONE

7.9 Human Resources – NONE

7.10 Assets And Property – Approval of this budget will enable the service to work towards securing the Scottish Housing Quality Standards by 2015.

8.0 Conclusions

8.1 The proposals contained within this report help to ensure the financial sustainability of the HRA.

- 8.2 There is an explicit need for the Council to ensure that the Housing Revenue Account complies with the Prudential Code, around affordability of capital, sustainability of funding streams and the impact on the rent payers.

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List of Appendices
Appendix 1 – Proposed Charging 2015-16

END

Proposed Charging 2015-16Rent levels – Lerwick and Non Lerwick 2015-16

No of Bedrooms	Area	2014/15 Rent Per Week £	2015/16 Rent Per Week £	Weekly Increase £
7 Bedroom	Lerwick	145.93	145.93	0.00
6 Bedroom	Lerwick	131.45	131.45	0.00
5 Bedroom	Lerwick	116.97	116.97	0.00
4 Bedroom	Lerwick	102.11	102.11	0.00
3 Bedroom	Lerwick	87.63	87.63	0.00
2 Bedroom	Lerwick	72.77	72.77	0.00
1 Bedroom	Lerwick	58.68	58.68	0.00
Bedsit	Lerwick	43.82	43.82	0.00
7 Bedroom	Non Lerwick	138.63	138.63	0.00
6 Bedroom	Non Lerwick	124.88	124.88	0.00
5 Bedroom	Non Lerwick	111.12	111.12	0.00
4 Bedroom	Non Lerwick	97.00	97.00	0.00
3 Bedroom	Non Lerwick	83.25	83.25	0.00
2 Bedroom	Non Lerwick	69.13	69.13	0.00
1 Bedroom	Non Lerwick	55.74	55.74	0.00
Bedsit	Non Lerwick	41.63	41.63	0.00
TOTAL HOUSES		70.86	72.04	1.67%

NOTES

- (1) Properties are no longer differentiated by attributes.
The full rental charge is now charged on all properties.
This has resulted in a rent increase for some of the the HRA properties
as they move to the standard charge.
- (2) Non-Lerwick properties have a 95% rent differential.

Appendix 1 – Proposed Charging 2015-16

Garages, Sheds and Site Charges 2015-16

TYPE OF CHARGE	2014/15 CHARGE £	2014/15 CHARGE £	VARIANCE %
GARAGES:			
Garage Rents (no electricity)	7.50	10.00	33.33
Garage Rents (electricity)	11.10	14.50	30.63
Double Garage (electricity)	16.60	22.00	32.53
Garage Site Rent	1.65	2.50	51.52
SHEDS:			
Soldian Court and Voderview, Lerwick	1.00	1.50	50.00



Policy and Resources Committee

26 November 2014

**Chair's Report – Education and Families Committee 24 November 2014 –
2015-16 Budget Proposals**
Report No. P&R-2611-E&FC

1.0 Summary

- 1.1 The purpose of this report is to consider the recommendations from the Chair of the Education and Families Committee in relation to a report requiring a Council decision, via a recommendation from the Policy and Resources Committee. All of the recommendations have been factored into the overall budget setting report.

2.0 Decision Required

- 2.1 That the Policy and Resources Committee approves the recommendations from the Education and Families Committee, as part of the overall budget setting exercise.

3.0 Report

- 3.1 2015-16 Budget Proposals Education and Families Committee
The Committee considered a report from the Executive Manager – Finance [F-070]. The Committee was asked to consider the controllable budget proposals for the services within the Committee's remit, which will in turn contribute towards ensuring that the Children's Services and Development Directorates meet their Target Operating Budgets, as set out in the Medium Term Financial Plan.
- 3.2 The summary budget proposals for the services under the remit of the Education & Families Committee are £38.801m, split by service area as follows:

Service		2015-16 Proposed Budget £000
Director of Children's Services		1,833
Children & Families		1,026
Children's Resources		3,390
Quality Improvement/Schools		30,916
Library		962
Total Children's Services		38,127
Community Planning & Development		326
Train Shetland		348
Total Development Services		674
OVERALL TOTAL		38,801

3.3 The Committee **recommended** approval of the budget proposals for 2015-16 included within this report and set out in detail in the Budget Activity Sheet and Charging Sheet.

3.4 Copies of the report have been previously circulated or can be accessed via the Council's website at the link shown below, or by contacting Committee Services.

3.5 The Chair will present any further information to the Committee as to the debate or issues that the Committee considered.

4.0 Implications

4.1 Detailed information concerning the proposals was contained within the report already circulated to Members, including the strategic and resources implications for the Council.

4.2 The impact of the recommendations presented by the Education and Families Committee are contained in the report SIC Budget Book 2015-16 (Report No. F-072) which is on the agenda today.

For further information please contact:

Ms V Wishart, Chair of Education and Families Committee
19 November 2014

List of Appendices

None

Background documents:

Education and Families Committee – 24 November 2014

<http://www.shetland.gov.uk/coins/agenda.asp?meetingid=4348>

END



Policy and Resources Committee

26 November 2014

Chair's Report – Development Committee 24 November 2014– 2015-16 Budget Proposals Report No. P&R-2611-DC

1.0 Summary

- 1.1 The purpose of this report is to consider the recommendations from the Chair of the Development Committee in relation to a report requiring a Council decision, via a recommendation from the Policy and Resources Committee. All of the recommendations have been factored into the overall budget setting report.

2.0 Decision Required

- 2.1 That the Policy and Resources Committee approves the recommendations from the Development Committee, as part of the overall budget setting exercise.

3.0 Report

- 3.1 2015-16 Budget Proposals Development Committee
The Committee considered a report from the Executive Manager – Finance [F-066]. The Committee was asked to consider the controllable budget proposals for services within the Committee's remit, which will in turn contribute towards ensuring that the Development Directorate meets their Target Operating Budget, as set out in the Medium Term Financial Plan.
- 3.2 The summary budget proposals for services under the remit of Development Committee are £4.852m, split by service area as follows:

Service	2015-16 Proposed Budget £000
Director of Development	812
Economic Development	2,800
Planning	1,240
TOTAL	4,852

- 3.3 The Committee **recommended** approval of the budget proposals for 2015-16 included within the report and as set out in detail in the budget activity sheet and charging sheet.
- 3.4 Copies of the report have been previously circulated or can be accessed via the Council's website at the link shown below, or by contacting Committee Services.
- 3.5 The Chair will present any further information to the Committee as to the debate or issues that the Committee considered.**

4.0 Implications

- 4.1 Detailed information concerning the proposals was contained within the report already circulated to Members, including the strategic and resources implications for the Council.
- 4.2 The impact of the recommendations presented by the Development Committee are contained in the report SIC Budget Book 2015-16 (Report No. F-072) which is on the agenda today.

For further information please contact:

Mr A Cooper, Chair of Development Committee
19 November 2014

List of Appendices

None

Background documents:

Development Committee – 24 November 2014

<http://www.shetland.gov.uk/coins/agenda.asp?meetingid=4359>

END

**Chair's Report – Social Services Committee – 25 November 2014**
2015-16 Budget Proposals
Report No. P&R-2611-SSC**1.0 Summary**

- 1.1 The purpose of this report is to consider the recommendations from the Chair of the Social Services Committee in relation to a report requiring a Council decision, via a recommendation from the Policy and Resources Committee. All of the recommendations have been factored into the overall budget setting report.

2.0 Decision Required

- 2.1 That the Policy and Resources Committee approves the recommendations from the Social Services Committee, as part of the overall budget setting exercise.

3.0 Report

- 3.1 2015-16 Budget Proposals Social Services Committee
The Committee considered a report from the Executive Manager – Finance [F-067]. The Committee was asked to consider the controllable budget proposals for the services within the Committee's remit, which will in turn contribute towards ensuring that the Community Care, Development and Children's Services directorates meets their Target Operating Budgets, as set out in the Medium Term Financial Plan.
- 3.2 The summary budget proposals for the services under the remit of the Social Services Committee are £23.6m, split by service area as follows:

Service	2015-16 Proposed Budget £000
Directorate	800
Adult Services	6,095
Community Care resources	9,715
Criminal Justice	10
Mental Health	1,748
Occupational Therapy	1,375

Total Community Care Services	19,743
Service	2015-16 Proposed Budget £000
Community Planning and Development	766
Housing	1,766
Total Development Services	2,532
Sports & Leisure	1,296
Total Children's Services	1,296
OVERALL TOTAL	23,572

- 3.3 The Committee **recommended** approval of the budget proposals for 2015-16 included within the report and as set out in detail in the budget activity sheet and charging sheet. The Committee also noted the 2015/16 draft budget proposals for Community Care and the NHS which are relevant for the Integrated Joint Board that will become operational from 1 April 2015.
- 3.4 Copies of the report have been previously circulated or can be accessed via the Council's website at the link shown below, or by contacting Committee Services.
- 3.5 **The Chair will present any further information to the Committee as to the debate or issues that the Committee considered.**

4.0 Implications

- 4.1 Detailed information concerning the proposals was contained within the report already circulated to Members, including the strategic and resources implications for the Council.
- 4.2 The impact of the recommendations presented by the Social Services Committee are contained in the report SIC Budget Book 2015-16 (Report No. F-072) which is on the agenda today.

For further information please contact:

Mr C Smith, Chair of Social Services Committee
19 November 2014

List of Appendices
None

Background documents:
Social Services Committee – 25 November 2014
<http://www.shetland.gov.uk/coins/agenda.asp?meetingid=4336>

END

**Chair's Report – Environment and Transport Committee 25 November 2014 –
2015-16 Budget Proposals**
Report No. P&R-2611-E&TC**1.0 Summary**

- 1.1 The purpose of this report is to consider the recommendations from the Chair of the Environment and Transport Committee in relation to a report requiring a Council decision, via a recommendation from the Policy and Resources Committee. All of the recommendations have been factored into the overall budget setting report.

2.0 Decision Required

- 2.1 That the Policy and Resources Committee approves the recommendations from the Environment and Transport Committee, as part of the overall budget setting exercise.

3.0 Report

- 3.1 2015-16 Budget Proposals Environment and Transport Committee
The Committee considered a report from the Executive Manager – Finance [F-059]. The Committee was asked to consider the controllable budget proposals for the services within the Committee's remit, which will in turn contribute towards ensuring that the Infrastructure & Development directorates meet their Target Operating Budgets, as set out in the Medium Term Financial Plan.
- 1.2 The summary budget proposals for the services under the remit of Environment & Transport Committee are £25.920m, split by service area as follows:

Service	2015-16 Proposed Budget £000
Infrastructure Directorate	938
Environmental Services	3,169
Estate Operations	988
Ferry Operations	11,470
Roads	3,986
Total Infrastructure Services	20,551

Service	2015-16 Proposed Budget £000
Transport Planning	5,369
Total Development Services	5,369
OVERALL TOTAL	25,920

- 3.3 The Committee **recommended** approval of the budget proposals for 2014-15 set out in detail in the Budget Activity Sheet and Charging Sheet.
- 3.4 Copies of the report have been previously circulated or can be accessed via the Council's website at the link shown below, or by contacting Committee Services.
- 3.5 The Chair will present any further information to the Committee as to the debate or issues that the Committee considered.**

4.0 Implications

- 4.1 Detailed information concerning the proposals was contained within the report already circulated to Members, including the strategic and resources implications for the Council.
- 4.2 The impact of the recommendations presented by the Environment and Transport Committee are contained in the report SIC Budget Book 2015-16 (Report No. F-072) which is on the agenda today.

For further information please contact:

Mr M Stout, Chair of Environment and Transport Committee
19 November 2014

List of Appendices
None

Background documents:
Environment and Transport Committee – 25 November 2014
<http://www.shetland.gov.uk/coins/agenda.asp?meetingid=4353>

END

**Policy and Resources Committee****26 November 2014****Chair's Report – Harbour Board 26 November 2014
2015-16 Budget Proposals
Report No. P&R-2611-HB****1.0 Summary**

- 1.1 The purpose of this report is to consider the recommendations from the Chair of the Harbour Board in relation to a report requiring a Council decision, via a recommendation from the Policy and Resources Committee. All of the recommendations have been factored into the overall budget setting report.

2.0 Decision Required

- 2.1 That the Policy and Resources Committee approves the recommendations from the Harbour Board, as part of the overall budget setting exercise.

3.0 Report

- 3.1 2015-16 Budget Proposals Harbour Board
The Committee considered a report from the Executive Manager – Finance [F-062]. The Committee was asked to consider the budget proposals for services within the Board's remit, which will in turn contribute towards ensuring that the Harbour Board meets the surplus target as set out in the Medium Term Financial Plan.
- 3.2 The summary budget proposals for the services under the remit of the Harbour Board is a surplus of £6.382m on harbour activity and £1.3m from the Total Gas Plant, split by activity area as follows:

Service	2015-16 Proposed Budget £000
Ports Management & Engineering	170
Sullom Voe	10,328
Scalloway	689
Terminals	804
Other Piers	371
Jetties & Spur Booms	2,294
Total Expenditure	14,656

Service	2015-16 Proposed Budget £000
Harbour Fees & Charges	(15,538)
Terminal Charges	(3,206)
Jetties & Spur Booms	(2,294)
Total Income	(21,038)
Net Surplus	(6,382)
Contribution from the Marine Fund	(138)
Contribution to the Reserve Fund	6,520
Balanced Budget	0

Service	2015-16 Proposed Budget £000
Total Gas Plant contribution	(1,349)

- 3.3 The Board **recommended** approval of the budget proposals for 2015-16 included within the report and the Table of Dues for 2015-16.
- 3.4 Copies of the report have been previously circulated or can be accessed via the Council's website at the link shown below, or by contacting Committee Services.
- 3.5 **The Chair will present any further information to the Committee as to the debate or issues that the Committee considered.**

4.0 Implications

- 4.1 Detailed information concerning the proposals was contained within the report already circulated to Members, including the strategic and resources implications for the Council.
- 4.2 The impact of the recommendations presented by the Harbour Board are contained in the report SIC Budget Book 2015-16 (Report No. F-072) which is on the agenda today.

For further information please contact:

Ms A Manson, Chair of Harbour Board
19 November 2014

List of Appendices

None

Background documents:

Harbour Board – 26 November 2014

<http://www.shetland.gov.uk/coins/agenda.asp?meetingid=4371>

END

**Policy and Resources Committee****26 November 2014**

**Chair's Report – Shetland College Board 26 November 2014 –
2015—16 Budget Proposals**
Report No. P&R-2611-SCB

1.0 Summary

- 1.1 The purpose of this report is to consider the recommendations from the Chair of the Shetland College Board in relation to a report requiring a Council decision, via a recommendation from the Policy and Resources Committee. All of the recommendations have been factored into the overall budget setting report.

2.0 Decision Required

- 2.1 That the Policy and Resources Committee approves the recommendations from the Shetland College Board, as part of the overall budget setting exercise.

3.0 Report

- 3.1 2015-16 Budget Proposals Shetland College Board
The Committee considered a report from the Executive Manager – Finance [F071]. The Committee was asked to consider the budget proposals for Shetland College, which will in turn contribute towards ensuring that the Development directorate meets their Target Operating Budget, as set out in the Medium Term Financial Plan.
- 3.2 The summary budget proposals for Shetland College (Controllable and Non Controllable) are:

Shetland College	2015-16 Proposed Budget £000
<i>Income:</i>	
Scottish Further Education Funding Council	1,872
Tuition Fees, Contracts & Grants	444
Other Income	241
TOTAL INCOME	2,557

Shetland College	2015-16 Proposed Budget £000
Expenditure:	
Employee Costs	1,989
Premises Costs	496
Operating Costs	421
Grants to Individuals	4
Professional Fees/Recharges	95
Travel/Vehicle Expenses	9
TOTAL EXPENDITURE	3,014
TOTAL DEFICIT	(457)
SIC Contribution	296
Remaining Deficit*	161

*A provision for this deficit has been made under contingencies, in the Council Budget Book 2015-16.

- 3.3 The Board **recommended** approval of the budget proposals for 2015-16.
- 3.4 Copies of the report have been previously circulated or can be accessed via the Council's website at the link shown below, or by contacting Committee Services.
- 3.5 **The Chair will present any further information to the Committee as to the debate or issues that the Committee considered.**

4.0 Implications

- 4.1 Detailed information concerning the proposals was contained within the report already circulated to Members, including the strategic and resources implications for the Council.
- 4.2 The impact of the recommendations presented by the Shetland College Board are contained in the report SIC Budget Book 2015-16 (Report No. F-072) which is on the agenda today.

For further information please contact:

Mr P Campbell, Chair of Shetland College Board
19 November 2014

List of Appendices

None

Background documents:

Shetland College Board – 26 November 2014

END

**Policy and Resources Committee****26 November 2014****Shetland Islands Council****3 December 2014****Asset Investment Plan, Gateway Process – Service Need Case Reports****Report No: CPS-16-14-F****Report Presented by Executive Manager –
Capital Programme****Capital Programme Service****1.0 Summary**

- 1.1 This report presents two projects from within the Infrastructure directorate that have been considered by the Capital Investment Group based on the submission of Service Need Case (SNC) reports. One relates to a replacement culvert close to Toft Ferry Terminal. The condition of this culvert has worsened significantly since the report was submitted due to adverse weather, forcing staff to take immediate action to resolve the resultant flooding. The other relates to road repairs near Ronas Voe.

2.0 Decision Required

- 2.1 The Policy and Resources Committee RECOMMENDS that the Council resolves to:
- a) Retrospectively approve for implementation the project described in Appendix A to this report; and,
 - b) Approve for implementation the project described in Appendix B to this report.

3.0 Detail

- 3.1 On 24 March 2010 (min ref 47/10), the Council adopted a 'Gateway' process, drawing on national and best practice guidance, to ensure the robustness of all capital projects.
- 3.2 Subsequently, on 19 May 2010 (min ref 75/10), the Council agreed a procedure for prioritising those projects that have been approved through the Gateway process. A key principle in that procedure is that the Council's AIP is re-prioritised on an annual basis, however SNCs can be

processed at any time. By approving a SNC, Members are agreeing that the project should go ahead, but are not making a decision as to the timing.

- 3.3 In the case of the Toft Culvert project, described in the SNC attached as Appendix A to this report, the condition of the infrastructure has deteriorated rapidly since the SNC was drafted following a period of heavy rainfall. The existing culverts have collapsed causing flooding of the road. There is no diversionary route to this section of road, which is the only means of access to the north isles. There is a risk that over topping water could create an extremely dangerous condition.
- 3.4 The works consist of:
 - 3.4.1 A new 1200mm diameter culvert located north of the existing culvert, with associated concrete headwalls.
 - 3.4.2 Re-grading of ground levels on the upstream side of the road.
 - 3.4.3 Estimated cost is £30K, all incurred in 2014/15.
- 3.5 The works to resolve the problem are already underway and retrospective approval is therefore being sought from Members. It is proposed that the project will be funded by displacing other culvert replacement works that were programmed for 2014/15 in the Asset Investment Plan 2014-19.
- 3.6 The road works near Ronas Voe are described in the SNC attached as Appendix B to this report and consist of:
 - 3.6.1 Regulating and overlay of the bitmac surfacing, which will result in improved vertical alignment.
 - 3.6.2 Replacement of stone culverts.
 - 3.6.3 Estimated cost is £65K, incurred in 2015/16.

4.0 Implications

Strategic

- 4.1 Delivery On Corporate Priorities – The Gateway Process contributes to maintaining a 5-year Asset Investment Plan that is financially sustainable. The projects and budgets proposed in this report will maintain existing services and assets and are therefore in line with the Council's Medium Term Financial Plan.
- 4.2 Community/ Stakeholder Issues – None.
- 4.3 Policy And/ Or Delegated Authority – Based on advice from the Policy and Resources Committee approval of the financial strategy and budget framework is a matter reserved for the Council.
- 4.4 Risk Management – As explained above, the scheme described in Appendix A to this report has been prioritised based on the risk to the public and of the Council becoming unable to maintain access to the north isles.

Failure to secure a sustainable use of reserves will result in the Council's financial policy not being achieved.

4.5 Equalities, Health And Human Rights – None.

4.6 Environmental – None.

Resources

4.7 Financial –

4.7.1 The projects described in the attachments to this report have been assessed against the objectives of the Medium Term Financial Plan.

4.7.2 There are no ongoing revenue costs associated with the projects described in this report.

4.7.3 Approval of the proposal described in Appendix A to this report will result in a financial commitment of £30K in 2014/15, to be funded by displacing other culvert replacement works that were programmed for 2014/15 in the Asset Investment Plan 2014-19.

4.8 Legal – Governance and Law provide advice and assistance on the full range of Council services, duties and functions including those included in this report.

4.9 Human Resources – None.

4.10 Assets And Property – None.

5.0 Conclusions

5.1 This report presents two projects that the Appraisal Panel has approved for consideration by Members. The Policy and Resources Committee is asked to make a recommendation to the Council as to whether they should be approved.

For further information please contact:

Robert Sinclair, Executive Manager – Capital Programme

Tel: 01595 74 4144 Email: robert.sinclair@shetland.gov.uk

Background documents:

Appendix A – Service Need Case – Replacement Culvert, A968 Sullom Voe Junction to Toft Ferry Terminal

Appendix B – Service Need Case – C0402-020/00 Assater to Swinister Junction

Medium Term Financial Plan 2014-2019

<http://intranet2/Policy/Shared%20Documents/Medium%20Term%20Financial%20Plan%202014%20-%202019.pdf>

END

Replacement Culvert, A968 Sullom Voe Jn. to Toft Ferry Terminal
Capital Programme Service Need Case
DRAFT Report, October 2014

Executive summary. This project involves the relocation and replacement of a culvert at the Grunnaveoe Burn, Toft. The existing culvert is blocked and partially collapsed in the middle.

The existing culvert consists of 2 nr. 600mm dia. steel pipes laid side by side at the inlet and outlet with a stone culvert section in the middle. The middle section of the culvert has collapsed allowing only a trickle of water through one pipe and the other pipe is completely blocked.

1. Introduction

- **Brief history.** The existing culvert was originally a stone build culvert that has been lengthened at both sides when the road was upgraded and widened. This was done using a pair of steel pipes at both ends.
- **Background.** The stone section in the middle has collapsed and at present only a severely reduced flow of water can flow through one of the two pipes and no water through the other pipe. The condition and location of the culvert and the type of construction means that refurbishment of the existing bridge would have a relatively high cost and therefore a new structure is recommended.
- **Brief description of issues to be resolved.** The culvert is situated on a road that has no alternative route and is the only route to the North Isles. The existing culvert is at a depth of 5.5 metres below the road level and would involve major works to replace the culvert at its present location. Our preferred approach is to replace the existing culvert with a new 1200mm internal diameter, twin wall wheelite, culvert and concrete headwalls. The location of the culvert would be moved along the road to the location of an existing 300mm culvert. This would be a much more cost effective solution as the existing blocked culvert is at such a depth to replace it at its present location would be very costly.
- **Road safety considerations.** The existing culvert being blocked is causing a significant build up of water in storm conditions forming a lake behind the embankment. This water builds up and drains out through the next culvert along the road. In extreme condition it threatens to over top the road and would be extremely dangerous should any vehicle end up off the road. The road at the existing culvert location would involve construction of a by-pass road to allow traffic to continue flowing and major excavation would be required.

2. Statutory Requirements

- The Roads (Scotland) Act 1984 requires the Council to manage and maintain the public road network: the Council could be said to be not complying with either of these requirements if we are creating artificial water hazards by not maintaining our network.
- The Road Traffic Act 1988, Section 39, requires the Council to investigate road crashes, and take appropriate measures to prevent them.

Responsible Officer	George Leask						
Issue No.	1	Revision No.		Revision Date:		Doc Ref:	1.4.1.1

3. Reference to Corporate and Service Plans

- **Shetland Transport Strategy.** Improvements to the local roads network are supported in Section 7.
- **Shetland Local Plan.** The project will sustain the transport links highlighted in the Local Plan.
- **Shetland Single Outcome Agreement.** This project is in line with the need to ensure good access for all.
- **Roads Service Plan.** The Roads Service Plan identifies the need to maintain the existing road network and improve it where appropriate.

4. Benefits to Other Services (Internal/External)

- **Benefits.** All road users will benefit from continuing to have a safe road free of hazards, including all public and private bodies serving the surrounding communities, as well as safer routes for pedestrians and better access for service and delivery vehicles.
- **Adverse effects.** I do not consider that construction of the scheme would impose any significant adverse effects on other bodies or individuals.

5. Definition and Justification of Service

- **Why the proposed project is required.** See Section 1 above.

6. Socio- Economic Considerations

- High maintenance costs and possible imposition of weight restriction, and a dangerous hazard being created if the culvert is not replaced.
- The proposed scheme will upgrade the safety of the road and amenity.
- It will sustain part of the local road links in the area.

7. Stakeholder and Client Consultation

- We have consulted Sepa, the Amenity Trust and the land owner who all have no issues with the proposal.

8. Participation by Others

- **Describe any partnering arrangements.** There are no direct partnering arrangements proposed.
- **Links with other Council Services.** As stated in Section 4 above, many services will benefit from the above project. Notable examples are: all vehicles travelling to and from the north Isles, Transport, Schools, Environment, and other users of large vehicles.

9. Project Options to Meet Identified Service Needs

- **Do nothing.** This is not an option, since the condition of the culvert is deteriorating steadily and causing a deviation in the road, and a significant hazard at the edge of the road which could be very dangerous.

Responsible Officer	George Leask						
Issue No.	1	Revision No.		Revision Date:		Doc Ref:	1.4.1.1

- **Patch it up.** This would not be sufficient, even in the short term, as minor repairs would not address the under-lying structural and edge protection issues.
- **Replacement at existing Location.** This would solve the problem however the depth of excavation and volume of material required to form the required bypass road would make this option extremely expensive and cause much more disruption to all road users. Estimated cost for this work £80K
- **Replacement at new location:** This is the option which was selected on technical & practical grounds as being the most appropriate. This option will result in a new 1200mm diameter culvert with inlet and outlet Headwalls located north of the existing culvert. All suitable material removed from the excavation and from the verge widening required during construction would be used for infilling on the upstream of the existing culvert location help fill the existing low spot where the water accumulates. This will help the water to follow the existing ditch to the proposed new culvert location. Estimated cost for this work £30K.

10. Funding (Capital and Revenue)

- **Statement as to likely source(s) of funding for:**
 - **Feasibility Study.** This has just been done. SEPA, the Ameinty trust and the land owner have all been consulted and are all happy for the work to proceed.
 - **Implementation.** The Council's Capital Programme is the appropriate source of funding. We would like to request that £30k, from the 2014-2015 budget be reallocated to this scheme and the work be allowed to commence as soon as possible to be profiled as follows:
 - 2014/15 £30k (for design, works and supervision)
- **Assessment of revenue implications.** If this project was not carried out, there would be significant & capitol costs over many years to come. A significant length of safety barrier would have to be erected along the section of road where the water is pooling. There is the increased potential of slippage.

11. Risk Analysis

- The 'high level' risks are that a large pool forming on the upstream side of the existing road would be potentially lethal should a vehical leave the road and land in it. The existing culvert has partially collapsed at one section and with continued pressure of water building up each time it rains the potential for further collapse or slippage increases. Should this happen temporary closure may have to be applied to the road, thus cutting of the only vehicle route to the North Isles.

12. Timing

- **Legislative drivers.** The obligations detailed in Section 2 above indicate that the project is urgent.
- **Availability of resources.** Funding is being sought from the existing 2014/2015 budget which has a number of projected that are not going to be done this year. Civil engineering design and supervision staff are available in the Roads Service.

Responsible Officer	George Leask						
Issue No.	1	Revision No.		Revision Date:		Doc Ref:	1.4.1.1

Several engineering contractors are available locally to do this kind of work, including the Council's own Roads Trading Partner (the former DLO).

- **Coordination with any linked projects.** I am not aware of any.

13. Brief for Future Study

- **Site investigation.** This work has been done.
- **Preliminary design/ investigation on identified options.** This work has been done.
- **Budget estimates for identified options.** This work has been done
- **Assessment of likely Planning implications.** Completion of these works would help sustain transport links.
- **Utilities.** They will be consulted with regard to protection, etc.

14. Third Party Review

- There is normally no requirement for a third party to review an ordinary road improvement project.
- However, it is our normal practice to ensure that the Department's Road Safety Engineer carries out a safety audit or safety check on all medium-to-large schemes. This will be done shortly.
- SEPA's has been contacted and are happy with the proposals.

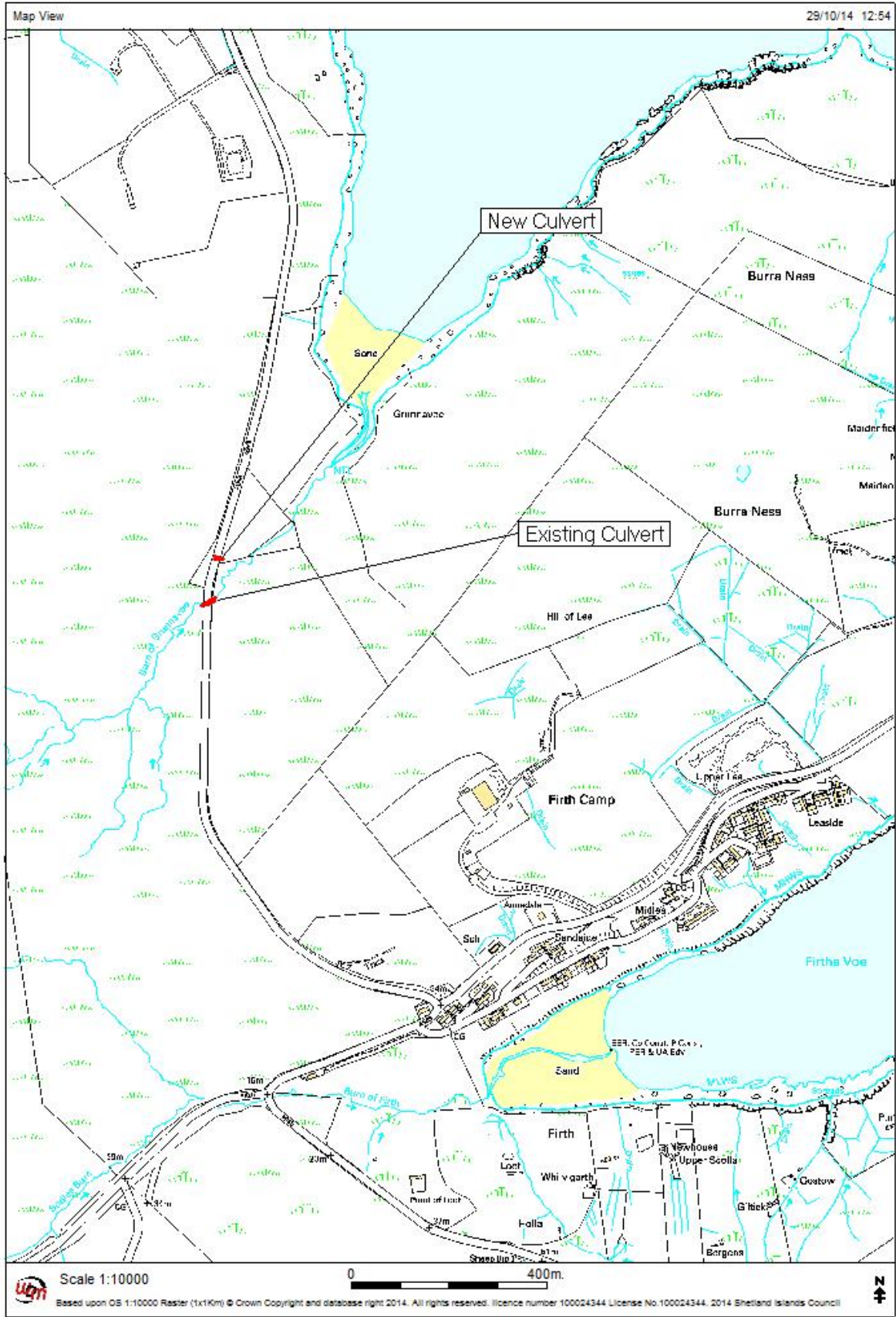
15. Conclusions. The existing culvert has ceased to function and needs to be replaced. Due to the depth of the existing culverts the only satisfactory solution is to replace the culvert at the new location and allow the water to follow the existing side drain to the new location.

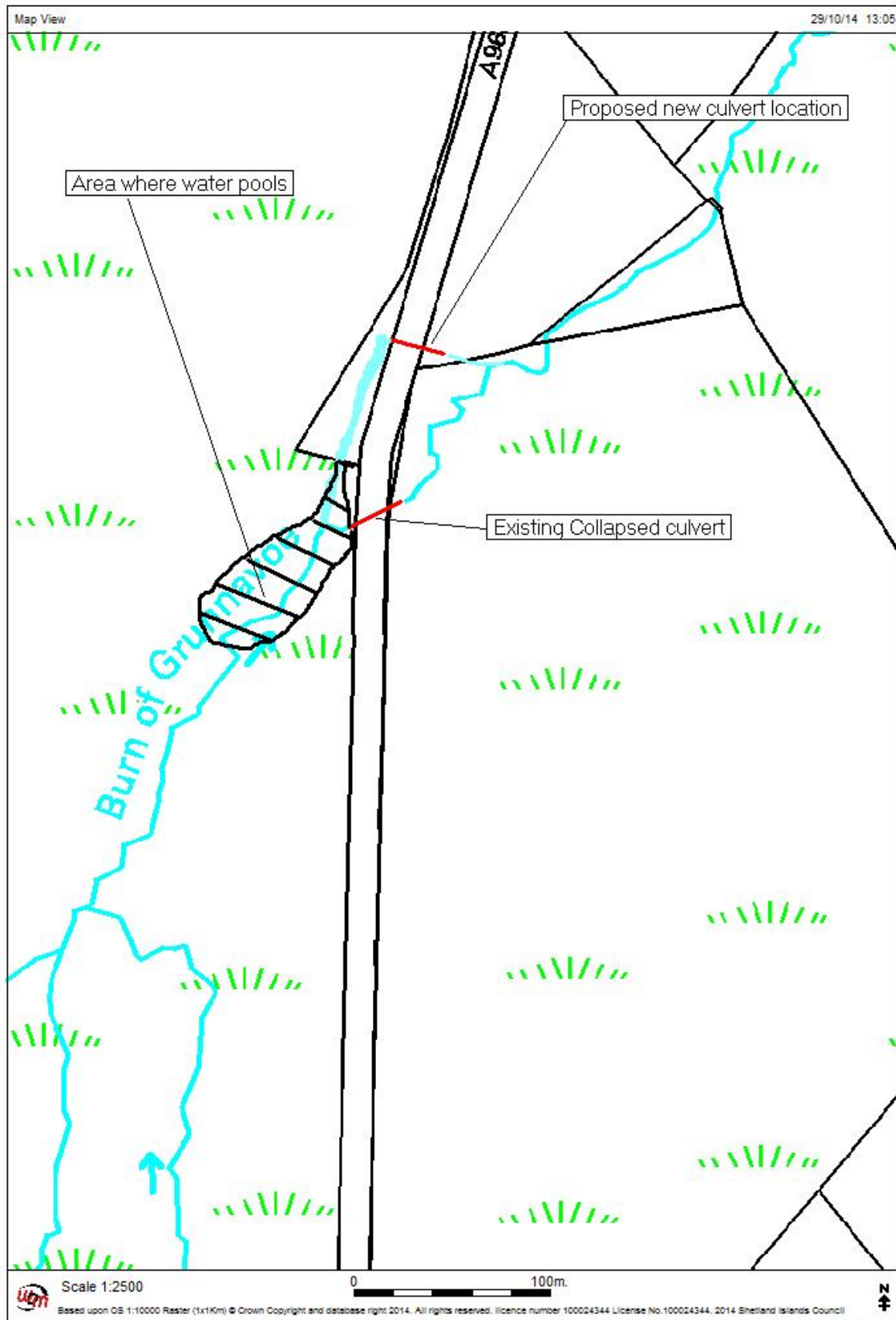
16. Recommendations. I recommend on technical and socio-economic grounds that funding of £30k be made available from the current 2014/2015 budget.

17. Appendices.

- Appendix 1 – Location Plan
- Appendix 1 – Photo

Responsible Officer	George Leask						
Issue No.	1	Revision No.		Revision Date:		Doc Ref:	1.4.1.1





Appendix 2 – Photos



Responsible Officer	George Leask						
Issue No.	1	Revision No.		Revision Date:		Doc Ref:	1.4.1.1



Responsible Officer	George Leask					
Issue No.	1	Revision No.		Revision Date:		Doc Ref: 1.4.1.1



Responsible Officer	George Leask						
Issue No.	1	Revision No.		Revision Date:		Doc Ref:	1.4.1.1

**C0402-020/00 Assatter to Swinister Jn.
Capital Programme Service Need Case
DRAFT Report, 2014**

Executive summary: This project involves the reconstruction of an 800m section of the above road. The section of road is cracked and badly out of shape road and of a poor construction. Due to increased traffic volume and weight the road has gone out of shape and is cracked.

1. Introduction

- **Brief history:** The section of the road is from the cattle grid 600m east of the Junction to the Salmon pier towards Swinister. This section of road is narrow and undulated with steep drop off the north side verge to Ronas voe
- The section of road is single track with passing places.. The road is narrow, with poor verges. The existing road is badly out of shape is cracked in various places.
- **Background.** It is the main route between the Hillswick and Ollaberry/North Roe. The current condition of the carriageway means that repairs works are required as soon as possible. If these works are carried out before conditions deteriorate further, the existing structure will be retained for a longer time.
- **Brief description of issues to be resolved.** The whole section of road would be overlaid with a regulating layer of bitmac, followed by a new surface course. The verges would be raised and widened where possible
- **Road safety considerations.** The existing carriageway is out of shape with cracking throughout, poor verges and is very narrow. The works would bring the road up to the required standard and greatly reduce the cost of the works if it is left to wait for a full reconstruction in the future.

2. Statutory Requirements

- The Roads (Scotland) Act 1984 requires the Council to manage and maintain the public road network: the Council could be said to be not complying with the requirements if the road has to be closed completely.
- The Road Traffic Act 1988, Section 39, requires the Council to investigate road crashes, and take appropriate measures to prevent them.

3. Reference to Corporate and Service Plans

- **Shetland Transport Strategy.** Improvements to the local roads network are supported in Section 7.
- **Shetland Local Plan.** The project will sustain the transport links highlighted in the Local Plan.
- **Shetland Single Outcome Agreement.** This project is in line with the need to ensure good access for all.
- **Roads Service Plan.** The Roads Service Plan identifies the need to maintain the existing road network and improve it where appropriate.

4. Benefits to Other Services (Internal/External)

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- **Benefits.** All road users will benefit from continuing to have a road open to traffic, including all public and private bodies serving the surrounding communities. The route is on one of the main roads between the Hillswick and Ollaberry/North Roe .
- **Adverse effects.** I do not consider that construction of the scheme would impose any significant adverse effects on other bodies or individuals.

5. Definition and Justification of Service

- **Why the proposed project is required.** See Section 1 above.

6. Socio- Economic Considerations

- Possible need for replacement of the entire structure at very significant costs if the repair works are not carried out.
- The proposed scheme will ensure the safety and amenity of the road continues.

7. Stakeholder and Client Consultation

- There has been consultation with the Network Section of the Roads Department.

8. Participation by Others

- **Describe any partnering arrangements.** There are no direct partnering arrangements proposed.
- **Links with other Council Services.** As stated in Section 4 above, many services will benefit from the above project. Notable examples are: Transport, Schools, Environment, and other users of large vehicles.

9. Project Options to Meet Identified Service Needs

- **Do nothing.** This is not an option, since the condition of the carriageway is deteriorating steadily.
- **Patch it up.** This would still incur significant costs; however repairs with bitmac would only be temporary and would not address the overall poor shape of the road.
- **Replacement.** This would be a costly option. Given the overall length it is preferable that repair works are carried out before the condition deteriorates such that replacement is the only option.
- **Regulating and overlay:-** This would be the desired repair method as the steel regulating layer on sections will help improve the vertical alignment and stop the carriageway from rutting and subsiding again. A bitmac wearing course will strengthen the structure further and improve the ride quality, extending the structures lifespan dramatically. Replacement of several stone culverts which are in poor condition will help protect the substructure of the road. Improving the verges will also help protect the roads structural integrity. This will be the most economical and structurally sound method of repairing the section of carriageway.

10. Funding (Capital and Revenue)

- **Statement as to likely source(s) of funding for:**
 - **Feasibility Study.** This was done some time ago.

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- **Implementation.** The Council's Capital Programme is the appropriate source of funding. The total estimated to be required is £64,760, to be profiled as follows: (all costs at 2014 values)
- 2015/16 £64,760 (for works and supervision)
- **Assessment of revenue implications.** If the reconstruction works are not carried out then the revenue budget will be unable to cover the cost implications of a replacement scheme at a later date.

11. Risk Analysis

- The 'high level' risks are that a road closure may eventually have to be applied to the road if the above project does not proceed while the existing carriageway is suitable for repair works.

12. Timing

- **Legislative drivers.** The obligations detailed in Section 2 above indicate that the project is urgent.
- **Availability of resources.** Funding is being sought for to place the project in the Capital Programme for construction in 2015-16. Roads Services have the resources available to design, build and manage the project.
- **Coordination with any linked projects.** I am not aware of any.

13. Brief for Future Study

- **Site investigation.** This work has been done.
- **Preliminary design/ investigation on identified options.** This work has been done.
- **Budget estimates for identified options.** This work has been done
- **Assessment of likely Planning implications.** Completion of these works would maintain existing transport links.
- **Utilities.** They will be consulted but no difficulties are expected.

14. Third Party Review

- There is normally no requirement for a third party to review an ordinary road improvement project.
- However, it is our normal practice to ensure that the Department's Road Safety Engineer carries out a safety audit or safety check on all medium-to-large schemes. This will be done shortly.

15. Conclusions. The existing carriageway is in poor condition and deteriorating. The best value solution is to carry out repair works as soon as possible, negating the need for a costly replacement scheme.

16. Recommendations. I recommend on technical and socio-economic grounds that funding of £64,760 be made available for the above project in the Indicative Capital Programme for construction in 2015/16.

Responsible Officer	Brian Wood						
Issue No.	1	Revision No.		Revision Date:		Doc Ref:	1.4.1.1

17. Appendices.

- Appendix 1 – Location Plan



Responsible Officer	Brian Wood					
Issue No.	1	Revision No.		Revision Date:		Doc Ref: 1.4.1.1

- Appendix 2 – Photo



Responsible Officer	Brian Wood						
Issue No.	1	Revision No.		Revision Date:		Doc Ref:	1.4.1.1



**Policy and Resources Committee
Shetland Islands Council**

**26 November 2014
3 December 2014**

Proposed 5-Year Asset Investment Plan 2015-20

CPS-17-14-F

**Executive Manager – Capital Programme
Service**

Corporate Services

1.0 Summary

- 1.1 The Council agreed its Medium Term Financial Plan on 2 July 2014 (min ref 09/14), which sets out an integrated budgeting and reserves strategy for the lifetime of the current Council, and which includes an Asset Investment Policy.
- 1.2 By adopting this policy, Members agreed:
 - 1.2.1 that there would be no growth in the asset base;
 - 1.2.2 that all capital expenditure to be focussed on the maintenance of existing assets rather than the creation/purchase of new assets, (with the exception of the previously agreed new Anderson High School and high-speed broadband);
 - 1.2.3 that a full business case, including projected future demand, and investment appraisal process should be completed before a project can be considered for inclusion on the Asset Investment Plan;
 - 1.2.4 that 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;

- 1.2.5 to focus on selling existing assets that are surplus to requirements to reduce the asset base; and
 - 1.2.6 that all capital projects clearly demonstrate the revenue consequences arising from a capital spending decision to assist Members in understanding the full financial impact.
- 1.3 This report sets out proposals for a sustainable 5-year Asset Investment Plan (attached as Appendix A), in line with the framework outlined in paragraph 1.2 above.

2.0 Decision Required

- 2.1 That the Executive Committee RECOMMENDS that the Council resolves to:
- 2.1.1 approve the capital budget proposals for 2015/16 included in this report, and set out in detail at Appendix A; and
 - 2.1.2 adopt this as the Council's 5-year Asset Investment Plan 2015-20, subject to any requirements of the Council's 'gateway' process, the resolution of any issues relating to external funding and any variation in the level of government grants

3.0 Detail

- 3.1 It is proposed that a report will be presented to Members early in 2015, which will address any proposals for carry forward of existing 2014/15 budgets due to project slippage and they are therefore not addressed in this report.
- 3.2 The proposed Asset Investment Plan 2015-20 is set out in Appendix A to this report, in line with the principles set out in the Medium Term Financial Plan. The focus of this plan is on the maintenance and life extension of existing assets, with the notable exceptions being the new Anderson High School and the new Eric Gray Resource Centre.
- 3.3 The proposed 2015-20 budget for capital expenditure (detailed in Appendix A to this report) is summarised in the table below.

Description	2015-20 Budget £000
New Developments	51,919
Maintenance of Existing Assets	33,570
Spend to Save Projects	70
Housing Revenue Account Projects	6,528
Capital Contingency	2,500
Total: Expenditure	94,587
Scottish Government General Capital Grant	(31,363)
Capital Receipts (General Fund & HRA)	(1,550)
External Funding (General Fund)	(32,926)
Funded from Revenue (Harbour & HRA)	(6,958)
Draw on Reserves – Spend to Save Projects	(70)
Draw from Reserves - 2nd Homes Council Tax	(100)
External Borrowing	(21,620)
Total: Funding	(94,587)
Balanced Capital Programme for 2015-20	0

- 3.4 It should be noted that a number of the projects that are presented for inclusion for 2015/16, have not yet been subject to the Council's 'gateway' process, or require more detailed information to be submitted, and these are identified as such in Appendix A. Their inclusion is therefore dependent on that process and this will be reported to Members prior to the start of financial year 2015/16.
- 3.5 In presenting the projects for inclusion, each one has been assessed in line with the Asset Investment Policy criteria drawn from the Medium Term Financial Plan.
- 3.6 The Scottish Government has indicated the level of core capital grant that it will provide to the Council in 2015/16. However, they have not provided an indication of the level of capital grant funding for future years. Appendix A to this report estimates a figure of £6m for Scottish Government grant funding for the remainder of the Plan. This is presented as prudent estimates. Members will be provided with updates as part of the annual review of the Asset Investment Plan.

4.0 Implications

Strategic

- 4.1 Delivery On Corporate Priorities – This contributes to the efficient operation of the Council's business. It is an integral part of implementing the Council's Medium Term Financial Plan.

- 4.2 Community/ Stakeholder Issues – None.
- 4.3 Policy and/ or Delegated Authority – Approval of the financial strategy and budget framework is a matter reserved for the Council having taken advice from the Policy and Resources Committee.
- 4.4 Risk Management – The main risk to the delivery of the Asset Investment Plan is the level of Scottish Government capital grant that may be available after 2015-16. Depending on Government economic policy there could be significant differences between the estimated and actual grant made available to the Council.
- 4.5 Equalities, Health And Human Rights – None.
- 4.6 Environmental – None.

Resources

4.7 Financial –

- 4.7.1 This Report sets out the capital expenditure budget for 2015/16 of £28.5m and includes indicative budgets for the following four financial years. The full 5 year Asset Investment Plan expenditure budget totals £94.6m.

The Asset Investment Plan has been produced in line with the Medium Term Financial Plan and ensures that there is a minimal draw on reserves to fund capital over the next five years in order to protect revenue front line service expenditure.

- 4.7.2 The new projects in the Asset Investment Plan are funded from borrowing in line with the Capital Funding Policy in the Medium Term Financial Plan, as follows:

The new Anderson High School creates a revenue pressure of £1.256m per annum for 25 years to be funded corporately.

The initial borrowing for the new Eric Gray Resource Centre (£1.6m) creates a revenue pressure of £122k for 2015/16. Once the project is completed the full ongoing revenue borrowing pressure will be £420k per annum for the following 24 years for the Community Health & Social Care Directorate.

- 4.7.3 There is also a funding deficit for the Ferry Vessel life extensions during the life of the Plan of £722k, which, if realised, will result in an additional revenue pressure for borrowing for the Infrastructure Directorate of approximately £73k per annum over a period of 15 years. This will be monitored and applied if necessary.
- 4.7.4 The overall revenue pressure for borrowing associated with the 5 year AIP totals £1.7m per annum for up to 25 years.

- 4.8 Legal – None.
- 4.9 Human Resources – None.
- 4.10 Assets and Property

5.0 Conclusions

- 5.1 The proposed Asset Investment Plan seeks to focus on maintaining existing assets whilst delivering on new key priority assets such as the Anderson High School replacement and the new Eric Gray Resource Centre.
- 5.2 The proposed Asset Investment Plan complies with the Medium Term Financial Plan and if approved will propose that the Council spends £94.6m over 5 years on capital expenditure with associated revenue cost pressures of £1.7m per annum for up to 25 years.

For further information please contact:
Robert Sinclair, Executive Manager – Capital Programme
01595 744144
robert.sinclair@shetland.gov.uk

List of Appendices

Appendix A Asset Investment Plan 2015-20

END

Directorate	Project	Awaiting Gateway or Supporting Information Approval for 15/16	Year 1 15/16	Year 2 16/17	Year 3 17/18	Year 4 18/19	Year 5 19/20	5-year Total
Development	Old Firth Family Centre Conversion	Y	100,000					100,000
Development	Minor Works/Purchases Bus Services	Y	20,000	20,000	20,000	20,000	20,000	100,000
Infrastructure	Building Maintenance Capital Works	Y	384,020	384,020	1,000,000	1,000,000	1,000,000	3,768,040
Infrastructure	Town Hall Windows		840,000	840,000				1,680,000
Infrastructure	Bells Brae Primary School Refurbishment		425,000	425,000				850,000
Infrastructure	Sound Primary School Refurbishment		300,000	300,000				600,000
Infrastructure	Waste Management Recycling	Y	164,000					164,000
Infrastructure	Energy Recovery Plant		85,000	70,000	27,000	65,000	2,000,000	2,247,000
Infrastructure	Landfill Capping	Y	180,000		140,000			320,000
Infrastructure	Scord Quarry Plant Replacement	Y	199,500	249,000	195,000	245,000	160,000	1,048,500
Infrastructure	Vehicle & Plant Replacement Programme	Y	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	6,000,000
Infrastructure	Pelican Crossings Lk, repl complete installations	Y	30,000	32,500	35,000	20,000	20,000	137,500
Infrastructure	Traffic Management	Y	25,000	25,000	25,000	25,000	25,000	125,000
Infrastructure	Road Accident Investigation & Prevention	Y	50,000	50,000	50,000	25,000	25,000	200,000
	ICT Equipment							
Corporate	PC & LAN Replacement	Y	150,000	150,000	150,000	150,000	150,000	750,000
Corporate	Schools ICT Equipment	Y	195,000	195,000	195,000	195,000	195,000	975,000
Corporate	Photocopier Replacement	Y	75,000	75,000	75,000	75,000	75,000	375,000
Corporate	Shetland Public Sector Network	Y	256,000	256,000	256,000	256,000	256,000	1,280,000
	Ferry Vessels							
Infrastructure	Geira Life Extension				1,000,000			1,000,000
Infrastructure	Fivla Life Extension	Y	500,000	500,000				1,000,000
Infrastructure	Linga Conversion		100,000	2,000,000				2,100,000
Infrastructure	Leirna life extension				800,000			800,000
Infrastructure	Hendra life extension						1,000,000	1,000,000
Infrastructure	Good Shepherd replacement					200,000		200,000
	Bridge Repairs/Replacement							
Infrastructure	Trondra bridge bearings		475,000					475,000
Infrastructure	Balliasta Bridge, Unst		15,000					15,000
Infrastructure	Balliasta Bridge 2, Unst		10,000					10,000
Infrastructure	Clumlie Bridge, Dunrossness		20,000					20,000
Infrastructure	Fildale Bridge, Yell		40,000					40,000
Infrastructure	Trondra Bridge Painting		25,000	300,000	5,000			330,000
Infrastructure	Vatsetter Bridge, Yell			35,000				35,000
Infrastructure	Red Burn Bridge			35,000				35,000
Infrastructure	Muckle Roe Bridge Painting			25,000	200,000	3,000		228,000
Infrastructure	Tresta Retaining Wall				180,000			180,000
Infrastructure	Will Houll				20,000			20,000
Infrastructure	Breiwick Loch Bridge, Eshaness					40,000		40,000
Infrastructure	Kirkabister Bridge, Bressay					35,000		35,000
Infrastructure	Stonganess Bridge, Cullivoe, Yell			10,000	10,000	300,000	6,000	326,000
	Streetlighting - Scheme Renewals							
Infrastructure	West Sletts Park, Lerwick		5,000					5,000
Infrastructure	Gressy Loan, Lerwick		10,000					10,000
Infrastructure	Bixter A971		32,000					32,000
Infrastructure	A970 Brae		35,000					35,000
Infrastructure	Steenbrae Aywick Yell			10,000				10,000
Infrastructure	Westerloch Drive, Lerwick			18,000				18,000
Infrastructure	Beach Road, Unst			6,000				6,000
Infrastructure	Voehead, Weisdale			12,000				12,000
Infrastructure	Smuggabank, Mossbank			15,000				15,000
Infrastructure	South St Olaf Street, Lerwick				12,000			12,000
Infrastructure	Stukka, Hillswick				12,000			12,000
Infrastructure	Hestingott, Virkie				20,000			20,000
	Streetlighting - Replacement Columns							

Directorate	Project	Awaiting Gateway or Supporting Information Approval for 15/16	Year 1 15/16	Year 2 16/17	Year 3 17/18	Year 4 18/19	Year 5 19/20	5-year Total
Infrastructure	Upper Scalloway		8,000					8,000
Infrastructure	Voderview, Lerwick		8,000					8,000
Infrastructure	Dalsetter Wynd Dunrossness		8,000					8,000
Infrastructure	Cameron Way Sandwich		8,000					8,000
Infrastructure	Upper Blackhill Ind Est, Lerwick		9,000					9,000
Infrastructure	North Gremista IE		9,000					9,000
Infrastructure	Twageos Road, Lerwick		9,000					9,000
Infrastructure	Knab Road, Lerwick			15,000				15,000
Infrastructure	A970 Cunningsburgh			30,000				30,000
Infrastructure	A970 Lerwick			30,000				30,000
Infrastructure	A970 Brae			30,000				30,000
Infrastructure	A970 Cunningsburgh				30,000			30,000
Infrastructure	A970 Lerwick				30,000			30,000
Infrastructure	A970 Brae				30,000			30,000
Infrastructure	B9076 Brae				30,000			30,000
Infrastructure	A969 Lerwick					50,000		50,000
Infrastructure	Scalloway					25,000		25,000
Infrastructure	A970 Voe					20,000		20,000
Infrastructure	Fogralea, Lerwick					15,000		15,000
Infrastructure	Taska, Lerwick					10,000		10,000
Infrastructure	Longland, Lerwick					10,000		10,000
Infrastructure	A970 Cunningsburgh						40,000	40,000
Infrastructure	A969 Lerwick Replace						40,000	40,000
Infrastructure	Various Scalloway						25,000	25,000
Infrastructure	Various Sandwich						20,000	20,000
Infrastructure	North Rd Area. Lerwick						20,000	20,000
	Streetlighting - Removals							
Infrastructure	Stackhoull, Sullom		10,000					10,000
Infrastructure	Wethersta Industrial Estate, Delting		8,000					8,000
Infrastructure	Cameron Way Sandwich		5,000					5,000
Infrastructure	The Hillock, Boddam, Dunrossness		5,000					5,000
Infrastructure	Whitelaw Road, Aith		5,000					5,000
Infrastructure	Dalsetter Wynd					10,000		10,000
Infrastructure	Burrapark, Mid Yell					6,000		6,000
Infrastructure	Park Wynd, Sandwich					5,000		5,000
Infrastructure	Saeter, Symbister					5,000		5,000
Infrastructure	Colonial Place, Scatness						5,000	5,000
Infrastructure	Swinister Cul-de-sac, Sandwich						5,000	5,000
Infrastructure	Hillside, Voe						5,000	5,000
Infrastructure	Midgard, North Roe						5,000	5,000
Infrastructure	Ferry View, Ulsta						3,000	3,000
Infrastructure	Harlsdale, Whalsay						3,000	3,000
Infrastructure	Sunnybank, Burra						3,000	3,000
	Road Reconstruction							
Infrastructure	A969 South Road (Roundabout to Cairnfield Road)		132,145					132,145
Infrastructure	Herra Road to Grimister (Mid Yell)		92,150					92,150
Infrastructure	Norderhoull 40mph Sign (Collafirth Junction)		114,670					114,670
Infrastructure	Brook Point Brig B9086 (Joans Road Junction, Hillswick)		34,400					34,400
Infrastructure	Muness Road (B9084 Junction at Shop to East Road Junction)		52,500					52,500
Infrastructure	Freefield Road (Baltasound)		36,750					36,750
Infrastructure	Assater Junction (Swinister A970)	Y	64,760					64,760
Infrastructure	Commercial Street Reflagging	Y	40,000	40,000	40,000	40,000	40,000	200,000
Infrastructure	Future Years to be informed by Annual Survey Info			400,000	400,000	400,000	400,000	1,600,000
	Road Safety Barrier Replacement							
Infrastructure	Dales Lees: Gruting to Dales Voe	Y	120,000					120,000
Infrastructure	Dales Lees: Dales Voe 1 to Dales Voe 3			120,000				120,000
Infrastructure	Dales Lees: Dales Voe 3 to Scarvar Ayre				120,000			120,000

Directorate	Project	Awaiting Gateway or Supporting Information Approval for 15/16	Year 1 15/16	Year 2 16/17	Year 3 17/18	Year 4 18/19	Year 5 19/20	5-year Total
Infrastructure	Dales Lees: Scarvar Ayre to Crawsiller Knowe					120,000		120,000
Infrastructure	Dales Lees: Crawsiller Knowe to Swinister						120,000	120,000
	Ports & Harbours							
Infrastructure	P&H Plant, Vehicles & Equipment	Y	70,000	70,000	70,000	70,000	70,000	350,000
Infrastructure	P&H Navigational Aids	Y	70,000	70,000	70,000	70,000	70,000	350,000
Infrastructure	Ferry Terminals	Y	80,000	80,000	80,000	80,000	80,000	400,000
Infrastructure	Ferry Terminal Hut Security		60,000					60,000
Infrastructure	Ferry Terminal Access Works		40,000					40,000
	TOTAL MAINTENANCE OF EXISTING ASSETS		7,044,895	8,122,520	6,527,000	4,790,000	7,086,000	33,570,415
Children's	New Anderson High School		15,497,940	30,995,881				46,493,821
Children's	AHS Clickimin Path		25,000					25,000
Community Care	Eric Gray Replacement		1,620,000	3,240,000	540,000			5,400,000
	TOTAL NEW DEVELOPMENTS		17,142,940	34,235,881	540,000	0	0	51,918,821
Community Care	ET & Taing House Extensions		70,000					70,000
	TOTAL SPEND TO SAVE PROJECTS		70,000	0	0	0	0	70,000
Development	Brae New Housing		28,000					28,000
Development	Heating Replacement Programme	Y	300,000	200,000	200,000	200,000	200,000	1,100,000
Development	Housing Quality Standard	Y	1,400,000	1,000,000	1,000,000	1,000,000	1,000,000	5,400,000
	TOTAL HOUSING REVENUE ACCOUNT PROJECTS		1,728,000	1,200,000	1,200,000	1,200,000	1,200,000	6,528,000
	Capital Contingency		2,500,000					2,500,000
	TOTAL CONTINGENCY		2,500,000	0	0	0	0	2,500,000

TOTAL ASSET INVESTMENT PLAN EXPENDITURE		28,485,835	43,558,401	8,267,000	5,990,000	8,286,000	94,587,236
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Area	Funding Source		Year 1 15/16	Year 2 16/17	Year 3 17/18	Year 4 18/19	Year 5 19/20	5-year Total
General Fund	Scottish Government General Capital Grant		(7,363,000)	(6,000,000)	(6,000,000)	(6,000,000)	(6,000,000)	(31,363,000)
General Fund	External Funding (Town Hall Windows)		(464,270)	(464,270)				(928,540)
General Fund	Sustrans Capital Grant (AHS Clickimin Path)		(12,500)					(12,500)
General Fund	Schools for the Future (AHS)			(30,995,881)				(30,995,881)
General Fund	Schools for the Future (BB & Sound PS Maintenance)		(484,750)	(484,750)				(969,500)
General Fund	Transport Scotland Capital Grant (Terminals)		(20,000)					(20,000)
General Fund	GF Capital from Current Revenue (Terminals)		(160,000)	(80,000)	(80,000)	(80,000)	(80,000)	(480,000)
General Fund	Capital Receipts (Properties)		(300,000)					(300,000)
General Fund	Capital Receipts (Vehicles)		(100,000)	(100,000)	(100,000)	(100,000)	(100,000)	(500,000)
General Fund	Second Homes Ctax Reserve (Old Firth Family Ctre)		(100,000)					(100,000)
Harbour Account	Harbour - Capital from Current Revenue		(140,000)	(140,000)	(140,000)	(140,000)	(140,000)	(700,000)
Spend to Save	Spend to Save Reserve (ET & Taing House Extension)		(70,000)					(70,000)
HRA	HRA - Capital from Current Revenue		(978,000)	(1,200,000)	(1,200,000)	(1,200,000)	(1,200,000)	(5,778,000)
HRA	HRA - Capital Receipts		(750,000)					(750,000)
	FUNDED BY GRANTS AND RESERVES		(10,942,520)	(39,464,901)	(7,520,000)	(7,520,000)	(7,520,000)	(72,967,421)
General Fund	New Anderson High School		(15,497,940)					(15,497,940)
General Fund	Eric Gray Resource Centre Replacement		(1,620,000)	(3,240,000)	(540,000)			(5,400,000)
General Fund	Ferry Vessel Life Extensions - Balancing Deficit		(425,375)	(853,500)	(207,000)	1,530,000	(766,000)	(721,875)
	FUNDED BY BORROWING		(17,543,315)	(4,093,500)	(747,000)	1,530,000	(766,000)	(21,619,815)

TOTAL ASSET INVESTMENT PLAN FUNDING		(28,485,835)	(43,558,401)	(8,267,000)	(5,990,000)	(8,286,000)	(94,587,236)
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**Harbour Board
Policy & Resources Committee**

**26 November 2014
26 November 2014**

Sella Ness Port Operation – Financial Modelling

F-074-F

Report Presented by Executive Manager – Finance

Corporate Services

1.0 Summary

- 1.1 As part of the work undertaken on the Long Term Financial Plan, a specific piece of financial modelling has been completed to estimate future surpluses from the Sella Ness Port (the “Port”) operation.
- 1.2 The initial results estimate that if the Port is managed carefully from a financial point of view, it would make a net contribution to the Council’s Reserve Fund over the period 2014-2050.
- 1.3 However, based on an initial comparison between the likely future surpluses generated from retaining the Port, and the cash flows that could be generated if the Port was sold with the proceeds invested with fund managers, the latter option represents a better financial outcome for the Council.

2.0 Decision Required

That the Harbour Board **RECOMMENDS** that the Policy & Resources Committee **RESOLVES** to approve that a further report be presented in 2015 upon completion of the additional work required in order to prove the council with updated and more robust financial modelling.

3.0 Detail

- 3.1 The Medium Term Financial Plan was independently reviewed during 2013 by SOLACE Enterprises. One recommendation that came out of this work was that the Council should undertake a Long Term Financial Planning exercise. Over the past 12 months the Finance Service has been leading on preparing this piece of work which will be presented to Council on 3 December 2014.
- 3.2 One important strand of the work was to undertake a financial modeling exercise on the future cash-flows of the Port in order to determine the

level of surplus that it could contribute to funding Council services in the future.

- 3.3 It is not possible to place significant reliance on a forecast of future revenues up to 2050 as a result of the number of variables and external factors that could impact upon it. However the exercise provides an indication of the likely future direction of the Port if it continues to operate as it currently does into the future. It also highlights the financial risks around continuing to operate the Port.
- 3.4 The model has been reviewed by SOLACE Enterprises Ltd which has confirmed that the model is competent. The model has also been reviewed by officials at Scottish Government who also commented that the model was technically sound. However, a key piece of feedback from the Scottish Government was that the income data entered into the model relies on information from BP and it would be beneficial to contract a private oil and gas analyst to provide an independent view on future throughput projections for the Sullom Voe Terminal (SVT).
- 3.5 This work has been commissioned, and upon its completion the future throughput projections will be worked through the financial model.

The Approach

- 3.6 The financial model covers the period 2014-2050, which matches what the industry has indicated is the remaining lifetime of SVT.
- 3.7 There are a number of key assumptions in the financial modelling as set out below –
- The Port and associated assets remain 100% owned and operated by Shetland Islands Council;
 - Jetties 1-4 remain a BP funded assets;
 - Assumes that BP continues to require a 24 hour a day, 7 day a week operation for the remaining life of the Port, and therefore staffing levels remain at the same level;
 - The terms and conditions of the Sullom Voe Agreement remain unchanged;
 - Harbour dues are increased by inflation each year;
 - All capital investment estimated to 2050 is fully included in the model;
 - Employee costs and operating costs are inflated annually;
 - Used BP estimates for tanker numbers up to 2025/26 and then a straight line reduction each year until there are none in 2050;
 - Decommissioning of the Port will cost the Council £13 million.
- 3.8 The financial model was prepared in Spring 2014 and has been discussed with the oil industry formally at a Sullom Voe Association meeting in May 2014.

- 3.9 The model has subsequently been externally reviewed, but will require to be fully updated once the independent throughput projections have been obtained.
- 3.10 SOLACE Enterprises Ltd also undertook a review of different options for the Port based on the financial model – attached at Appendix 1.
- 3.11 After this initial report had been produced, the Executive Manager – Finance explained that in the event of an outright sale, the proceeds would be invested with fund managers and the Council would use the 7.3% average annual investment return to supplement service expenditure. As a result SOLACE Enterprises Ltd produced a second supplementary report – attached at Appendix 2.
- 3.12 In addition the financial modelling exercise, Finance Services commissioned SOLACE Enterprises Ltd to undertake a company valuation exercise to determine what a fair value sales price would be for the Port. The calculation was based on the cash flows in the financial model, and are therefore subject to change if the independent throughput projections differ significantly from those provided by BP.
- 3.13 The assumption made on the sales option is that the proceeds would be invested with the Council's fund managers, and the Council would seek to make an annual return.

The findings

- 3.14 SOLACE Enterprises Ltd estimate that the Port has a sales value of £71.7m based on the information in the financial model.
- 3.15 The table sets out the future cash flows (in today's prices) available to fund services in the period to 2050 under the financial model for continuing to operate the Port and under the scenario of selling the Port and investing the sales proceeds with fund managers.

	Financial Model – Continue operating Port in current format	Sell the Port and invest the proceeds
Total Net Positive Cash Flows (NPV) to 2050	£101.8 million	£197.9 million
Annual average amount	£2.8 million	£5.3 million

- 3.16 Further work is required to refine the assumptions and update throughput projections, but the difference in future available cash between the two scenarios is £96.1 million.
- 3.17 Expressed another way, it will cost the Council £2.5m per year for the next 37 years for the right to operate the Port, as opposed to selling it.
- 3.18 Therefore, it would take a significant change in assumptions for the exercise to show that retaining the Port is the most financially beneficial approach that the Council could take.

The Conclusions

- 3.19 The initial conclusions from this first piece of work is that it would be financially beneficial for the Council to sell the Port if it could achieve the fair value valuation.
- 3.20 Further work is required to sharpen the financial modelling so that there is better quality information on which Members can make a decision about the future of the Port
- 3.21 The sensitivity analysis undertaken on the Port financial modelling highlights the high level of volatility in this industry, with small changes in assumptions leading to significant changes in future net cash flows.
- 3.22 The modelling highlights the level of financial risk associated with the ongoing running of the Port as a result of the size of the future cash flows that were modelled in relation to the size of the Council's net general fund budget of around £110 million. The total cash flows in the model total £1.36 billion which is 12 times the entire annual budget of the Council. Therefore relatively minor variations against the assumptions in the model could have a big impact on the general fund which relies on the Port's forecast surpluses.
- 3.23 Further information on risk is set out in the risk management section of the report.

4.0 Implications

Strategic

- 4.1 Delivery On Corporate Priorities
The decision over the future of the Port will have significant financial implications and have a bearing on future funding levels available to fund services in line with corporate priorities.
- 4.2 Community /Stakeholder Issues – The Council has had initial discussions on the model with the oil industry, Scottish Government and shortly the UK Government. Further engagement will be necessary once the financial model has been updated early in 2015.
- 4.3 Policy And/Or Delegated Authority
The Harbour Board has responsibility for providing strategic oversight in relation to all aspects of the Council's harbour undertaking. The Policy and Resources Committee has delegated authority for securing the control and proper management of the financial affairs of the Council.
- 4.4 Risk Management
There are no risks arising directly from this report, but the early work undertaken highlights a number of risks around this exercise and also around the Council's operation of the Port.

The financial modelling exercise

- 4.4.1 The obvious risk is around the imperfect information that will be available to Council when it takes a decision whether to retain the Port, and in what form, or sell the Port.
- 4.4.2 If the Council decided to sell the Port it is possible that the actual performance of the Port could be better than forecast meaning that a) the Council could have achieved a higher sales value and b) the Council may have been financially better off by retaining the Port.
- 4.4.3 If the Council decided to keep the Port based on the financial modelling exercise, the actual performance of the Port could be significantly poorer than forecast, meaning the Council was worse off as a result of maintaining ownership of it.

Key Financial Risks arising from operating the Port

- 4.4.4 Throughput – the single biggest factor in the financial model is the amount of income that the Port will generate from the Council based on the Port's throughput. This is a volatile source of income as a result of the numerous factors that influence it, none of which the Council has any ability to control at all. For example, oil prices, the rate at which new technology is developed to make extraction profitable, the potential for increased FPSO to market transfers thereby avoiding the SVT will all impact on throughput levels.
- 4.4.5 Operating model – the Port's operating model requires a 24/7 operation using specialist staff. This is expensive and has the potential to become more so in future if staff need to be brought into Shetland to provide the service.
- 4.4.6 Capital investment required – significant sums of capital investment are required in order to keep the Port operational into the future. However, because of the uncertainty around future profitability, there is no guarantee that an investment return will be made on any capital expenditure.
- 4.4.7 Losses in the later years of operation – the model indicates that the Port will operate at a loss in later years as reducing throughput and tanker movements mean the falling income is insufficient to cover the fixed costs of operating the Port. It is unclear how significant these losses might be so the Council carries a risk that they may be greater than have been budgeted for.
- 4.4.8 Reinstatement Costs – again the model estimates what the costs of reinstatement of the site might be for the Council, but again there is a lack of clarity around this, which presents the financial risk that the costs might be higher than budgeted for in the model.
- 4.4.9 Litigation – if operational accidents occur there is a potential for the Council to suffer financial loss as a result of litigation.

Key Non-Financial Risks arising from operating the Port

4.4.10 Environmental – if an environmental accident occurred the Council could be held responsible, both legally and with the public, for damaging Shetland's natural environment.

4.4.11 Workforce issues – there are a number of workforce issues regarding the Port such as terms and conditions of staff, succession planning and industrial action issues. Also, due to the nature of the work, there is the potential for serious injury or death of staff employed by the Council.

4.5 Equalities, Health And Human Rights – None.

4.6 Environmental – None.

Resources

4.7 Financial - There are no direct financial implications arising from this report for noting. However, upon completion of further work in early 2015, the Council will have sufficient information to start to form a view on the approach that it wishes to take with regard to the future of the Port. There will be significant financial implications as a result of any decision owing to the large amounts involved.

One key point that should be made is that the Port does not exist to provide services to the public. It should therefore not be treated like any other Council service like the ferries service. Instead it should be treated as a business with its sole purpose being to make an investment return for its owners – the Council. Therefore any decision as to whether to retain or sell the Port or whether to make future investment of capital should all be based on the principles of profitability.

The cost of the SOLACE consultancy was £9,174 for the 2 reports. This was met from within the 2014-15 Finance Service budget.

4.8 Legal – None arising directly from this report.

4.9 Human Resources – None.

4.10 Assets And Property – None.

5.0 Conclusions

5.1 Early indications suggest that the Council would be financially better off in the future if it were to sell the Port at fair value rather than continue to operate it into the future.

- 5.2 This course of action would also reduce the amount of financial and non-financial risk that the Council faces currently by operating the Port.
- 5.3 Further work is required to ensure that any future decision made by the Council is based on the most robust evidence available. Therefore a further report will come forward in 2015 which will include updated and more robust financial modelling.
-

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List of Appendices

Appendix 1 – Review of Sullom Voe Financial Projections & Options – An independent appraisal by SOLACE

Appendix 2 – Practical Considerations of Status Quo v Sale Option for Sullom Voe – A brief supplementary report by SOLACE Enterprises



Shetland Islands Council

Shetland Islands Council

Review of Sullom Voe Financial Projections & Options

An Independent Appraisal by SOLACE

May 2014



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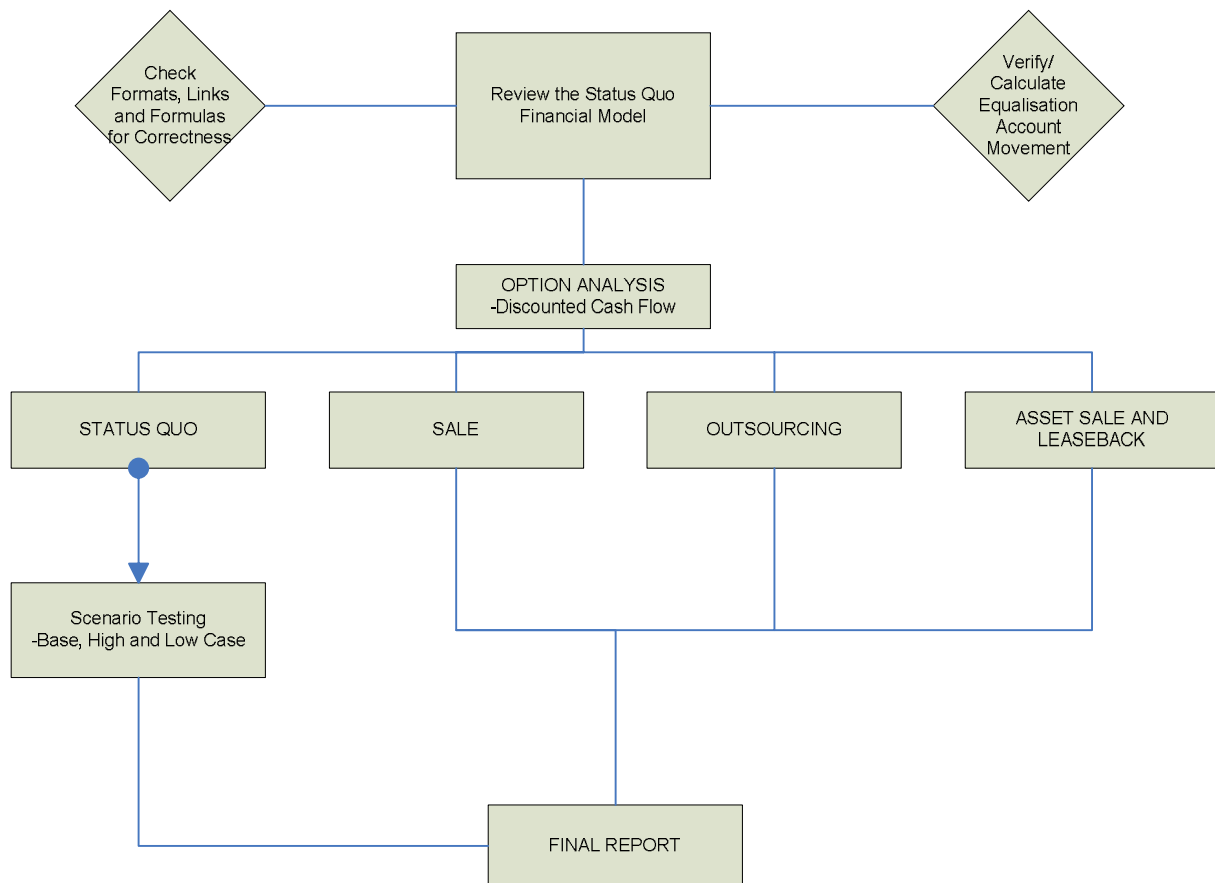
Background and Overview

1. Shetland Islands Council (SIC) owns the Harbour/Port at Sella Ness which is the prime area of tanker activity for the oil terminal at Sullom Voe operated by British Petroleum (BP). The Company have recently given a 35 year commitment to the terminal right through to 2050.
2. The Council operates a Harbour Account with all surpluses generated transferred to the Reserve Fund. The renewed commitment by BP has led the Council to revisit its in-house financial model - calculating income and costs over this longer period.
3. While the surpluses generated from this income stream are substantial, SIC has to be mindful of the time when the terminal eventually reaches the end of its useful life, surpluses turn to deficits and decommissioning costs need to be incurred to reinstate the site to its original condition. This will involve the removal of all jetties and man made structures.
4. SOLACE have been commissioned to independently appraise SIC's in-house model to ensure it is robust and correctly provides for equalisation adjustments to balance out early year surpluses with later year deficits.
5. A requirement also exists to consider other options such as a full commercial sale or outsourcing arrangement. The financial impact of these alternatives is to be calculated to establish the "tipping point" when the Port is no longer worth retaining under the existing status quo (24/7) method of operation.

1. Methodology and Work Carried Out

- 1.1 All our work was carried out off-site. We were sent an electronic version of the Council's in-house financial model for scrutiny and appraisal. The model is made up of a number of linked workbooks.
- 1.2 Our work always follows a structured methodology. This is shown in visual form below.





- 1.3 Our first objective is to make sure the in-house model is arithmetically and formulaically correct and its inputs and assumptions are correctly assembled. Any potential changes are highlighted as part of the SOLACE review including the preparation of a revised version of the financial calculations.
- 1.4 Thereafter, we converted the in-house model to a commercial discounted cash flow (DCF) format to allow the calculation of a net present value (NPV) for comparison with alternative options. Sensitivity calculations were also carried out on the status quo model in this presentational form to test the robustness of the existing operational arrangement to changes in key assumptions.
- 1.5 The aim of this approach is to show in clear financial terms – using recognised investment appraisal techniques – the likely long-term commercial value of the Port and NPV thresholds when the status quo is no longer the best forward looking financial outcome for SIC.

2. Review of Council's Existing Financial Model

Review of Model integrity

- 2.1 The model produced by SIC is essentially the BASE case. Our initial work involved checking its basic operation – namely, it was free from errors, all formulas worked as they should and it produced sound arithmetical outputs.
- 2.2 The model consists of 10 workbooks;
- “Assumptions” – key assumptions made;
 - “Sullom Voe” – summary income and expenditure from 2014/15 till 2050/51 ;
 - “Capital Financing” – Outstanding debt for the new tugs spread over 30 years and capital costs fully held in the year of replacement;
 - “Inflation Factors” – a list of inflation and capital financing rates;
 - “SV Pivot on 1415 – 1718 Data” – Pivot Table summaries of budget data;
 - “Employee costs Overall Infl Calc” - Employee costs for 2014/15 with and without inflation;
 - “1415 to 1718 Data” – ledger database with 2014/15 budget and forward estimate information;
 - “RPI CPI” – Historical data (with notes) on the various different inflation indicators published by the Office of National Statistics;
 - “Tanker Inc Calc Sheet” – detailed calculations of Tanker Export (Harbour Charges), Schiehallion Tanker Imports income, Towage Charges and Miscellaneous Income; and
 - “SV Assets” – a list of asset book values from SIC’s general ledger.
- 2.3 Arithmetically the model is completely correct. All formulas and links work and are free from error. We used the Excel formula auditing tool to ensure this is the case – particularly with the tanker income calculations. We can therefore conclude total surpluses in the period 2014/15 to 2050/51 of £87,603,574 are correctly derived based on model inputs.
- 2.4 In addition to the arithmetical check, we also carried out a detailed analysis of the inputs used to arrive at the gross accumulated surplus figure mentioned above. Our review focused on the main “Sullom Voe” summary worksheet as subsidiary worksheets linked to the main totals contained here. The results of this “line by line” analysis are shown in the table below.

Model Line Heading	Comment
INCOME	
Tanker Traffic	Tanker traffic income correctly linked from "Tanker Inc Calc Sheet." Overall totals agree. Inflation at 2.7%.
Marine Fund	Marine fund based on long term inflation factor of 2% throughout.
Harbour Agreement Throughput	Harbour Agreement throughput correctly linked from "Tanker Inc Calc Sheet" but no inflation uplifts appear to have been applied – fixed income in the agreement. It is based on average tanker income over the last 4 years.
Jetty Maintenance Income	Jetty Maintenance Income reduces each year by 1/36th of the 2014/15 income. No inflation. But same numbers also included in expenditure so neutral effect overall.
Other (rentals, Hire Charges etc)	Other income inflated at 2.7% throughout (same as tanker traffic income). Inflation applied to 2014/15 total but the modelling does not recognize the reduced other income per the pivot table for 2015/16, 2016/17 and 2017/18 (and hence subsequent years).
EXPENDITURE	
Employee Costs	Employee costs inflation 1.7% throughout. Employee costs inflated forwards with the exception of the Lump Sum Pension contribution for the Shetland Towage staff which is included as £2m in 2014/15 and £1.6m in 2015/16 then removed as no further contribution should be required. Base salary value before inflation £5,851,906 (this is different from the base budget at "Employee costs Overall Infl Calc." which shows £6,093,629 – a difference of £241,723 - £343,531 with inflation).
Operating Costs	Operating costs increase by 2.7% inflation. However, 2015/16 – 2017/18 (and subsequent years) do not

	recognise higher level of cost as shown on the pivot table worksheet.
Jetty Maintenance Operating Costs	Same figures as income - net effect neutral
Financing Costs	<p>Financing costs at 4%. This is a prudent level for Public Works Loan Board (PWLB) borrowing if required.</p> <p>We calculate capital and interest borrowing on new tug costs over 30 years at 4% is £695,343. Original Entries simply divide outstanding debt by 30 then 4% is added (interest only).</p> <p>The other items of expenditure incurred in the year of replacement should be uprated for inflation – not charged at the financing rate of 4%.</p>
PROVISIONS/EQUALISATION	
Provision for Decommissioning Costs	Provision for decommissioning costs £13M. This is sourced from the Medium Term Financial Plan (MTFP) for 2012-2017. The “Assumptions” worksheet says this figure is “...difficult to quantify and has no real basis,” although the MTFP suggests a formal estimate is available.
Provision for Equalisation in Future Years	Manual provisions are made in the profitable years to build up cover for later years of expected losses. The overall effect is neutral – it is a smoothing adjustment over the life of the Port.

- 2.5 We are unsure of the reasoning behind the capital financing calculations (and again it may be perfectly legitimate) but the only externally financed expenditure appears to be for the new Tug boats. This is charged to the main account on an interest only basis of 4% - no principal repayment element is included. In addition, new capital expenditure looks to be funded from income in the year of expenditure – in other words without external financing. Despite this, the “Capital Financing” workbook says “All to be funded by external borrowing at 4% interest over 30 year period.”

- 2.6 Also, some of the figures are not completely in line with pivot table information driven from the budget and estimate database. There may be perfectly good reasons for this although we have prepared our own version of the model adjusting for these potential changes (and also capital financing costs) – this can be found at Appendix A. A comparison of our adjusted results and the Council's original results are shown in the table.

CATEGORY	COUNCIL (£)	SOLACE (£)	DIFFERENCE (£)	REASON
<u>Income Extract</u>				SOLACE version uses reduced income in "SV Pivot in 1415-1718 Data" for 2015/16, 2016/17, 2017/18 and then subsequent years too.
Other income (rental, hire charges etc)	(6,794,879)	(5,434,515)	(1,360,364)	
<u>Expenditure Extract</u>				Council version does not take into account higher level of costs shown in "SV Pivot in 1415-1718 Data" for 2015/16, 2016/17, 2017/18 and thereafter.
Operating Costs	223,506,423	237,960,376	(14,453,953)	
Financing Costs	37,450,779	20,860,280	16,590,499	Capital repayment element of Tug Debt included in SOLACE version (small rounding difference)
Capital Costs incurred in year	0	33,567,275	(33,567,275)	Capital Expenditure inflated at 2.7% for SOLACE version (assumes financed from in-year Cashflow rather

TOTAL Expenditure Difference	260,957,202	292,387,931	(31,430,729)	than external borrowing at 4%) Small rounding difference exists.
(Surplus)/Deficit Difference	(87,603,574)	(54,812,480)	(32,791,093)	Small rounding difference exists.

- 2.7 This is a substantial difference and requires the Council to take a look at the relevant income and expenditure headings and satisfy itself existing entries are correct or make the changes we have used in our own version of the model. For the purposes of all the detailed NPV calculations shown in section 3 – we have used our version.

Verification of Equalisation Account Adjustments

- 2.8 The adjustments made in the SIC model manually set aside a provision from early year's profits to be released when losses are incurred from 2039/40 onwards. The provision calculations have been correctly made.
- 2.9 An earmarked, formal equalisation account reserve should be created for this purpose in order that movements can be formally monitored. From our experience elsewhere, it is usual for such reserves to be cash-backed and interest added as the size of the fund grows. This could also possibly be a reasonable model to follow for decommissioning costs too, in order to mitigate against the effects of inflation.
- 2.10 In the SOLACE version, manual adjustments are made in the same way as the original to arrive at a neutral position after 37 years but taking into account the lower surpluses generated.

Overall View of the In-House Model

- 2.11 In terms of arithmetic operation, the SIC model is correctly constituted and properly calculates income, expenditure, provisions and surpluses/deficits over the life of the Port. It is fit for purpose in terms of a monitoring system and for updating the MTFP.
- 2.12 In terms of key inputs, we have identified some differences we believe need

further investigation as they have a materially influential effect on financial outcomes. There may be a good reason for SIC proceeding with existing numbers; however we have used calculations from this point forward using our own adjusted version of the model. If it subsequently transpires the original SIC entries should continue to be used, then we are happy to recast the NPV models accordingly (and our report outputs).

3. Review of Options

Approach to Comparing Options

- 3.1 As commercial options, in addition to the status quo, are part of the review, we have used appropriate DCF techniques to compare the likely financial consequences of different courses of action. DCF techniques require all the entries to be in cash only – in other words, non-cash entries such as provisions are ignored – although when the provision is expended it will be included in the year of expenditure. Capital financing is also not included in the main model as the discount factor is deemed to account for financing requirements.
- 3.2 An additional worksheet is added to each of the option models (“Cash Funding”) showing financing and cash generated over 37 years. This is a calculation used in commercial appraisal to show financing in a very pure form - based on all deficits being funded from additional borrowing and all surpluses used to repay debt. Summarising, it shows cumulative Cashflow (positive and negative) over the period and in real terms too.
- 3.3 As Cashflow is inflated, all surpluses or deficits in the main “Sullom Voe Model” worksheet are discounted at a nominal rate (not adjusted for inflation). The Government’s nominal rate is typically 6% (real is 3.5%) although it is normal to try and use rates more applicable to the organisation being appraised – for example long term weighted cost of capital rates. All the options from the Council’s perspective use 5.75% - this being the Fund Manager return rate and representative of the opportunity cost of using capital as well as more in line with reduced rates for longer term projects (>30 years) involving greater uncertainty.

Status Quo Option and Related Sensitivity Testing

BASE Case

- 3.4 The Council’s existing model (BASE case) is converted to a DCF commercial Cashflow with a resultant NPV. This is shown at Appendix B. Inflation rates used are the same at the original SIC version.
- 3.5 The 37 year NPV is £103,172,212. The real terms cumulative cash at the end of

37 years (see “Cash Funding” worksheet) is £274,349,435. These results show the commercial value of the Sullom Voe asset to the Council. It is clear the Port is a valuable income generator to SIC.

- 3.6 The cash funding calculation is based on an investment rate of 5.75% and a borrowing rate of 4%. Outstanding debt of £12,085,364 for the Tug boats is included as an initial, existing deficit.

LOW case

- 3.7 We subjected the Base case to a number of adverse sensitivities (Appendix C). The scenario calculations are shown in the model under What If Analysis – Scenario Manager. All the figures can be returned to the BASE case if needed so individual scenarios can be tested. Relevant workbooks are:
- “Sullom Voe Model”;
 - “Capital Financing”;
 - “Tanker Inc Calc Sheet” ; and
 - “Cash Funding.”
- 3.8 Scenarios include; reducing inflation for income but increasing for employee costs, doubling de-commissioning costs, adding £10M of capital expenditure for SIC taking on BP funded assets, lower tanker numbers and less favourable borrowing and investment rates.
- 3.9 Doubling decommissioning costs and increasing capital expenditure by £10M have limited sensitivity. The effect of discounting mitigates any decommissioning cost expenditure as it is far off into the future.
- 3.10 Lower inflation combined with lower tanker numbers are highly sensitive factors. The Appendix C default shows the position if inflation reduces to 2% (and increases to 2% for employee costs) and tankers numbers reduce from 90% to 80%. All other assumptions stay the same.
- 3.11 As can be seen, the NPV reduces to £56,671,326 and cumulative cash balances also reduce to £75,926,085 in real terms (based on less favourable borrowing and investment rates).
- 3.12 As a matter of interest, with all adverse factors applied, the NPV becomes £43,856,879 with a cash balance of £40,869,692 after 37 years in real terms.
- 3.13 While the Port is still profitable (despite a number of adverse factors), the high sensitivity to inflation and tanker number throughput requires regular monitoring.

HIGH Case

- 3.14 We flexed the BASE case model using higher inflation (but lower inflation for employee costs) and tanker numbers at 95% of capacity. We also took the opportunity to increase Harbour dues above inflation (gross 3.7% which is +0.7% above the assumed inflation rate) from 2035/36 onwards (when traffic levels start decreasing).
- 3.15 These default results are shown at Appendix D and again are underpinned by scenario planning in the following workbooks.
- “Sullom Voe Model”;
 - “Tanker Inc Calc Sheet” ; and
 - “Cash Funding.”
- 3.16 The Appendix default NPV is £133,132,178 and real terms cumulative cash balances at the end of 37 years are £405,022,818 (more favourable borrowing and investment rates are used for the cash funding workings). If tanker numbers are increased to 100%, then the NPV rises even further to £150,095,178 (real terms cash balances of £458,753,955).
- 3.17 Our analysis indicates tanker number remain highly sensitive to changes followed by inflation uplifts. Harbour due increases above inflation on their own from 2035/36, have limited impact.

Overall View on Sensitivity

- 3.18 Key areas of sensitivity are the inflation rates driving income and costs and tanker throughput numbers. Values over the course of 37 years are resilient to capital expenditure requirements including decommissioning costs owing to the likelihood of being incurred way off into the future. We suggest close monitoring continues of inflation and tanker numbers in order that adverse trends are identified early and planned for. This will ensure the MTFP always uses the most reliable future estimates underpinned by good business intelligence.

Outright Sale

Commercial Buyer Perspective

- 3.19 A key requirement of this report is to calculate the point at which a sale may be more beneficial than retention. In order to do this, we need to calculate the Port's commercial worth.
- 3.20 Normally when assets deliver an income stream over a long period, business valuations are not made on the basis of asset values alone. The value to any buyer goes beyond this and is based on the cash that can be generated by the

acquisition over the long-term.

- 3.21 Sullom Voe would be valued in this way by a buyer. The income and expenditure over the 37 year period would be assessed using DCF techniques to arrive at an NPV which is the discounted sum of all surpluses and deficits in future years represented at today's values. It is normal practice for the NPV to be the purchase price.
- 3.22 We have therefore prepared a Cashflow from the perspective of a potential buyer. This is shown at Appendix E. Assumptions are slightly different from the Council model as a buyer would look to negotiate on the basis of standard discount rates (6%), long-term inflation at lower rates for income (and higher rates for employee costs) and more than likely would have to borrow to finance the purchase. The buyer would also seek to introduce additional risk factors into the model to reduce the overall NPV.
- 3.23 In the example shown, we assume a sale would conclude at the end of year 3 (2016/17 financial year). A buyer would look to deduct from any sale proceeds, the NPV value of the Cashflow in these 3 intervening years. On this basis, the NPV sale price of £87,103,144 would be reduced by £15,360,258 to arrive at a potential sale price of £71,742,885 (after a small rounding difference). This is shown at worksheet "Cash Funding" and lists the cash funding profile based on 100% borrowing of the purchase price. It also shows net payback after 8 years.

Same Sale Terms; Council Perspective

- 3.24 We also replicated the position from the Council's point of view based on the same potential sale price of £71,742,885. This can be seen at Appendix F.
- 3.25 If this sale price is achieved, the NPV is £76,434,060 with real terms closing cash of £191,778,152. The model assumes any cash proceeds would be invested at an average 5.75% throughout.
- 3.26 We also ran a scenario test through the model to establish the selling price SIC would need to achieve to make it worth considering selling the Port – NPV being at least the same as the NPV for the status quo option. This is contained in the "Sullom Voe Model" What If Analysis – Scenario Manager – Commercial Sale = Status Quo Tipping Point.
- 3.27 Our calculations indicate the sale price would need to be at least £103,363,661 before it was worth considering an outright sale of the Port.

Outsourcing

- 3.28 We then examined the assumed position if the Council retained the Port assets but outsourced the delivery management – staff and operations to a private

sector provider. With the strategic importance of the Port and the size of operation, full scale outsourcing (assets and operations – like a franchise) has not been considered at this stage. That is not to say such a deal could not be agreed but it would require considerable due diligence and expense because of the anticipated complexity. If the feasibility of outsourcing is progressed by SIC, then it would be worthwhile to assess the benefits of all outsourcing options at that time.

- 3.29 Outsourcing is a global discipline both in the public and private sectors and involves organisations tasking an outside agency to deliver a service previously operated in-house. It started primarily with back office functions such as Finance and Information Technology (IT) but now extends to front line service delivery too. In the UK, outsourcing is commonplace in the English public sector but has received little appetite in the same sector in Scotland.
- 3.30 Typical business commercial outsourcing involves a set payment each year as part of a long-term agreement to operate the delivery operation. It usually involves the achievement of efficiency targets with savings to be passed back to the Council. The provider will look to generate profits from the arrangement by reducing ongoing costs and improving performance.
- 3.31 Quite simply, outsourcing involves the externalisation of the previous in-house service for a fee. It is usual the fee paid to the third party deliverer has inflation increases built in along with efficiency gains. For example, while the annual agency/outsourcing fee may increase at say CPI/RPI annually, there may be a requirement to a return a set % of efficiency savings too.
- 3.32 At Appendix G, we have assumed an outsourcing deal could be agreed at the end of year 3 (the same timescale as the outright sale option). In terms of the model, only employee and operational costs are affected. In reality, jetty maintenance operating costs would also be included but for the purposes of the model they are treated as neutral.
- 3.33 While provision is made for efficiency discounts, none are employed – efficiency gains for the Council are deemed to come from the provider being able to limit the impact of inflation for operating costs at a level below what the Council could achieve. This is deliberate as our intention is find the “tipping point” where the retention option may no longer be viable for SIC.
- 3.34 The model at Appendix G assumes the Council could still generate income at the prevailing RPI but limit operating costs to 0.7% less than this rate. Even on this modest basis, an NPV is generated over 37 years of £105,407,152 and a real terms cash balance of £280,810,451. This is similar to the status quo position.
- 3.35 Our analysis suggests potential outsourcing of operational delivery may have

financial merit. SIC could retain the income generating assets of the Port but potentially mitigate the cost risk of an in-house workforce and 24/7 operation.

- 3.36 Our basic calculations show a broad equivalent NPV as the status quo even accounting for high set-up costs and no efficiency payback (other than being able to mitigate the effects of inflation and its impact on SIC). Even introducing a 1% efficiency gain per annum, greatly increases the NPV value – it is very sensitive to change. This suggests scope exists for sizeable savings although we recognise finding an appropriate provider who can deliver the same standards (or higher) at lower cost, is key to a successful arrangement.
- 3.37 Outsourcing is deemed to cost the same to implement as a straight sale and assumed to be in place by the end of 2016/17. The timescale and set-up costs recognise public sector outsourcing is always expensive, time consuming and fraught with Union issues regarding future pay, conditions and pensions.

Sale and Leaseback

- 3.38 Another option we considered is the sale and leaseback of existing assets to a Finance House – operational delivery would remain with the Council. It is expected land and major assets such as Tug boats etc may be of interest to financial institutions especially owing to the long income generation period of 37 years.
- 3.39 Again, our intention is to find the point where the benefits of the option may outweigh the status quo in financial terms. To find an approximate match the following assumptions were made in the model at Appendix H.
- Sale value set at 50% of existing asset ledger cost;
 - Inflation and discount factors same as other Council focused models;
 - Lease payments set at 5% of capital value each year and increased in line with inflation (2%) – assume CPI.
 - Asset sale at end of 2016/17 and arrangement costs assumed to be 25% of outright sale/outsourcing models – estimated at £250,000 before inflation. In reality, would expect costs to be much less.
 - Council retains income and delivery operation – assets sold to Finance House in return for making lease payments over 30 years.
- 3.40 It is assumed a lower sale value will be achieved than simply the net book value on the asset ledger as most assets are operational with heavy use. It is recognised that this may be more than offset by Sullom Voe land value that currently only shows a nominal £22 value in the ledger.

- 3.41 Not much information exists on typical arrangement fees for sale and leaseback deals principally because the deals are commercially sensitive. We have deliberately overstated the expected cost and timescale in order to be prudent and provide ample time for negotiations.
- 3.42 The 37 year NPV of the model is £104,028,657 with real terms cash balances of £276,882,603. This indicates a 30 year sale and leaseback arrangement is similar in financial terms to the status quo if sale proceeds of at least £20M (current prices) can be secured from the arrangement and lease payments do not exceed 5% of the capital proceeds. Moreover, inflation should not exceed a rate such as the long term CPI rate of 2%.

Summary Comparisons and Overall View

- 3.43 Our results indicate the status quo option is financially advantageous to SIC especially when compared against the outright sale model.
- 3.44 However, financial advantages (potentially) can be matched when considering alternatives such as outsourcing and asset sale and leaseback. These options may be worth investigating further beyond these initial tentative calculations, although realistic consideration will be dependant on finding suitable partners who are willing to get involved/invest.
- 3.45 Our calculations in summary form are shown below.

Option	NPV (£)	Real Terms Cash Balance (£)	Option V Status Quo "Tipping Point"
Status Quo (BASE)	103,172,212	274,349,435	NPV based on existing assumptions (adjusted by SOLACE).
Outright Sale	76,434,060	191,778,152	Sale proceeds need to be in excess of £103M to make an outright sale worthwhile.
Outsourcing of Operations	105,407,152	280,810,451	Income generating assets retained but operation outsourced with

			0.7% annual inflation "efficiency"
Sale and Leaseback	104,028,657	276,882,603	SIC retain operation but sell assets. Capital receipt of at least £20M needs to be secured. Lease payments must not exceed 5% of capital sum and increases limited to long-term CPI of 2%.

4. Conclusions and Recommendations

Conclusions

- 4.1 In terms of arithmetic operation, the SIC model is correctly constituted and properly calculates income, expenditure, provisions and surpluses/deficits over the life of the Port. It is fit for purpose in terms of a monitoring system and for updating the MTFP.
- 4.2 We have identified some differences between our version of the model and the Council's. They need further investigation as they have a material effect on the financial outcome over the 37 year period.
- 4.3 Adjustments made in the SIC model use an equalisation account to set aside provisions from early years profits to provide for later year losses. The provision calculations have been correctly made.
- 4.4 The status quo option generates considerable Cashflow for SIC but is vulnerable to changes in inflation and tanker number throughput.
- 4.5 A number of options were considered and compared against the status quo on a commercial DCF basis. On a straight comparison of retention v outright sale, sale proceeds would need to be in excess of £103M to make it worthwhile contemplating disposal. Based on existing Cashflow and business valuation practices, a sale value of this level is unlikely to be achieved.
- 4.6 However, fairly modest terms for outsourcing and sale and leaseback options appear to deliver similar financial outcomes to that of the status quo. These options could be investigated further taking all factors into account – not just

financial terms.

Recommendations

- 4.7 The differences between the Council and SOLACE versions of the model should be examined closely and changes made if necessary to the Council version in order that the MTFP accurately represents income from the Port.
- 4.8 Consideration should be given to creating an earmarked, equalisation account reserve so movements can be formally monitored. It is usual for such reserves to be cash-backed and interest added as the size of the fund grows. This approach could also be extended to provide for future decommissioning costs.
- 4.9 Detailed calculations involving the status quo model, indicate key sensitivity in terms of inflation (and the relationship between income and cost inflation) and tanker number throughput. Continued close monitoring of inflation and tanker numbers is needed to ensure adverse trends are identified and planned for. This will ensure the MTFP always uses the most reliable future estimates.
- 4.10 Based on our calculations, the status quo still makes perfect financial sense for SIC. The income from this source will continue to bring many financial benefits over the coming years.
- 4.11 Nevertheless, our preliminary work here suggests either outsourcing or sale and leaseback arrangements may offer a better payback if generous terms can be agreed (our “tipping point” calculations use modest assumptions of the likely financial benefits). In terms of outsourcing, this may mean efficiency gains being passed back in the form of lower management fees. In the case of sale and leaseback - a higher cash sum for existing assets that can be invested at high rates of return (5.75%). If SIC intends to explore this further, then some basic informal steps can be taken now to identify potential partners or investors. If this proves fruitful, then a formal feasibility study or outline business case should be considered to test viability.
- 4.12 Any feasibility study or business case should investigate option variations. For example, outsourcing can take many forms depending on how it is structured. This includes the operation of assets as well as service delivery - much like a long-term franchise agreement. The various permutations should be explored if the Council decide to take further steps in this area.



Shetland Islands Council

Practical Considerations of Status Quo v Sale Options for Sullom Voe

A Brief Supplementary Report by



June 2014

Likely “Real World” Decision Making when Considering Retention v Sale

OVERVIEW

1. This report is supplementary to our recent analysis on the various financial outcomes for the Port at Sullom Voe.
2. It arises from discussions and subsequent emails with the Chief Financial Officer of the Council.
3. The original main report presented the results of potential options on a commercial basis. This used the concept of Net Present Value (NPV) and Discounted Cash Flows (DCF) to arrive at a value for each option presented at today's values. The advantage of this approach is it allows options to be considered on a consistent basis so the most financially advantageous decision can be selected.
4. While the approach is robust, sound and in line with commercial investment appraisal techniques, it does not take a “real world” view of how the various returns will be invested in Shetland Islands Council (SIC).
5. Therefore, we have undertaken some additional work to establish the financial outcomes of comparing the Status Quo v Sale options based on how surpluses will be invested by SIC.
6. Two specific aspects have been brought into the overall financial picture:-
 - **Status Quo Option:** Assume surpluses from the Harbour Account are spent in full in the year in which they are generated; and
 - **Sale Option:** If the Port is sold for c£72m, proceeds would be invested with fund managers to generate an average return on capital of 7.3%. Of the 7.3% generated each year, 2.5% is set aside for inflation, and the balance (equivalent of 4.8% return on capital each year) would be spent. Also, the Council wouldn't spend any of the c£72m sale proceeds.
7. The revised modelling work uses a slightly higher discount rate of 7.3% (in line with the return on capital rate) and 2.5% for real terms calculations.

STATUS QUO OPTION: SURPLUSES SPENT IN FULL

8. A revised Appendix B model has been produced showing the NPV position if all surpluses generated are spent in the year they are earned (this includes “spend” on the creation of an Equalisation Account). On this basis, a negative NPV of £14.5m arises (see worksheet “Sullom Voe Model”). The NPV represents the discounted value of cash deficits arising from 2039/40 onwards totalling £154.1m.



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9. In terms of the funding position (see worksheet “Cash Funding” in Appendix B), it’s effectively neutral for the Council. No interest is receivable as surpluses are spent as they are earned. No interest is payable as it is assumed the Equalisation Reserve will be utilised to finance deficits in later years. In reality, the situation is more complex, but a simple position is outlined here for ease of calculation.
10. Cash Investment in Council services is £101.8m over the period in real terms (includes adjustments for future deficits funded from the Equalisation Account).
11. A list of assumptions is also contained in the “Cash Funding” worksheet along with calculations of the investment in Council services (expressed in cash and real terms).

SALE OPTION: PROCEEDS RETAINED BUT 4.8% NET FUNDS MANAGER RETURN SPENT

12. A revised Appendix F model highlights if the Port is sold for £71.7m and proceeds are invested with fund managers to generate an average return on capital of 7.3%. Of the 7.3% generated each year, 2.5% is set aside for inflation cover, and the balance - equivalent of 4.8% return on capital each year – is spent on Council services. Moreover, the Council wouldn’t spend any of the £71.7m in capital – in other words it is retained in real terms value.
13. In contrast to the status quo, a positive NPV is generated of £12.2m. This approach also allows for a real terms investment of £126.2m in Council services while retaining the real terms value of the original sales proceeds (£71.7m).
14. Again, worksheets “Sullom Voe Model” and “Cash Funding” contain the relevant detail and assumptions made.

CONCLUSION

15. These latest calculations take the previous financial outcomes and consider the results in the context of the “real world” workings of the Council.
16. On the basis of likely reality and on purely financial terms - selling Sullom Voe, investing the proceeds and spending the net investment return (after inflation proofing) on Council services, results in a better financial outcome than retaining the Port and spending all annual surpluses on services.
17. As the Council intends to use an Equalisation Reserve to provide for future deficits, the cash impact is neutral on the status quo basis over the period.
18. In contrast, the sale option is able to fund Council services in real terms of



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£126.2M over 37 years (against £101.8m for the status quo) while retaining a real terms cash balance of £71.7m throughout (the original value of the sale proceeds).



Shetland Islands Council

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**Policy and Resources Committee
Shetland Islands Council**

**26 November 2014
3 December 2014**

Review of Community Grants	
DV045-F	
Executive Manager – Community Planning & Development	Development Services

1.0 Summary

- 1.1 The purpose of this report is to present the findings of the recent review of Community Grants and to seek approval for the proposals that have emerged from this review.
- 1.2 This report was presented to a meeting of Social Services Committee on 30 October 2014. The Social Services Committee deferred the report to the Policy and Resources Committee and the Council for a decision.

2.0 Decision Required

- 2.1 The Policy and Resources Committee RECOMMENDS to Shetland Islands Council to:
 - 2.1.1 Extend the current transitional period of the Support Grant Aid Scheme and Grounds Maintenance Scheme for another year, with a further 25% reduction applied to the level of grant awarded. Please note this decision is subject to approval of anticipated underspend carry forward in line with policy which will form part of a separate report to Council.
 - 2.1.2 Close the Support Grant Aid Scheme and Grounds Maintenance Scheme on 31 March 2016.

3.0 Background

- 3.1 Shetland Islands Council has operated a range of Community grant schemes dating back to the 1990s and earlier. These grant aid schemes, which have been periodically subject to review, are available to assist community groups and voluntary organisations with a range of activities and projects. Over the years a number of the Council's community grant aid schemes have been part funded by Shetland Charitable Trust.

- 3.2 On 2 July 2014 Shetland Islands Council approved its 5 year Medium Term Financial Strategy (Min Ref: 49/14).
- 3.3 On 9 October 2013, Shetland Islands Council approved a report entitled “Community Planning and Development Review” (Min Ref 92/13). This report agreed a number of changes to the Council’s Community Planning and Development (CP&D) Service including significant changes to its community grants function.

- 3.4 As part of the CP&D review the following grant schemes were closed with effect from April 2014:

- Capital grant aid scheme
- Development grant aid scheme
- Feasibility & Design grant aid scheme
- Grants to Voluntary Organisations (General) scheme
- Maintenance of Community Facilities grant aid scheme

In addition to this, it was agreed that the Support Grant Aid Scheme and Ground Maintenance Scheme be continued in 2014/15 but would be reduced by 25% with the intention of both schemes being phased out over a one year transition period.

- 3.5 In May 2014, a Project Board was set up to oversee the Review of Community Grants. The Community Grants Project Board consists:

- Executive Manager – Community Planning & Development
- Executive Manager – Sport & Leisure
- Director – Infrastructure Services
- Chief Executive – Shetland Charitable Trust

- 3.6 Consultation on the changes to community grants commenced in May 2014 and was completed in early July 2014. The consultation process involved a survey of local community groups and voluntary organisations. CP&D staff also held focused workshops with representatives of Youth Centres and rural sport facility committees.

- 3.7 CP&D staff have analysed the consultation feedback. A summary of the main findings are detailed in Appendix A.

- 3.8 An Integrated Impact Assessment has been carried out by CP&D and a copy is attached as Appendix B.

- 3.9 Information has also been gathered from 7 local authorities to examine what other Councils provide in relation to community grant schemes. The criteria and type of schemes vary from Council to Council but it was identified that grant funding was generally only available for “one off” projects.

- 3.10 Members should note that throughout the period of Community Grants Review CP&D staff have continued to be available to community groups and voluntary organisation to provide support and guidance on request. CP&D staff have also been working proactively in relation to encouraging partnership working and promoting external funding opportunities. This work includes:

- Signposting community groups to funding opportunities;
- Regular circulation of funding opportunities via electronic bulletins;
- Assisting community groups to complete external funding applications;
- Organising and hosting a local national lottery funding event that was delivered by Big Lottery Fund and Sportscotland officials;
- Building closer links with external funding bodies and other Local Authorities;
- CP&D staff on funding panels e.g. LEADER, Cashbank in Communities;
- CP&D staff working closely with partners such as local Community Councils, Shetland Charitable Trust, SIC Sport & Leisure and SIC Youth Services.

3.11 The Council's community grants budgets in 2013/14 totalled £322,000. Following closure of grant schemes highlighted in paragraph 3.4, and in line with the Medium Term Financial Strategy, grant budgets were reduced to £123,750 in financial year 2014/15. The current year budget of £123,750 consist of £32,000 core budget plus a £91,750 carry forward from 2013/14 in line with existing Council policy. The Council's indicative community grant budget for 2015/16 is £32,000. It should be noted these budget figures exclude funding to Community Councils and excludes the contribution to community grants made by Shetland Charitable Trust. A breakdown of the yearly budget allocations is attached as Appendix C.

4.0 Proposals

4.1 As a result of the community grants review the following proposals have been developed by the Project Board for consideration by Members.

4.1.1 In recognition of community consultation and discussions held with Council staff and stakeholders it has been identified that more time is required in order to work with community groups to assist them to become self sufficient. In the short term, many community groups continue to need financial assistance to adapt to the planned changes in community grant budgets. However the current level of community grant budgets cannot be sustained going forward. Therefore another year of revenue funding – albeit on a stepped down basis - would help to “soften the landing” for the community groups who have historically received financial assistance towards their annual running costs.

It is therefore proposed that the current transition period on the Support Grant Aid Scheme and Grounds Maintenance Scheme is extended for one more year. It is also proposed the schemes continue in financial year 2015/16 but are reduced by another 25%. It is the intention that both schemes will be phased out after March 2016.

However it should be noted that the proposal for a further transition period is subject to an anticipated underspend by CP&D in financial year 2014/15 being fully achieved and this underspend is approved by Council as a carry forward into financial year 2015/16. The proposal is also subject to Shetland Charitable Trust approving a further transition budget of £40,681 for community grants in financial year 2015/16.

If approved, this proposal will provide more time for community groups to build capacity, identify efficiencies, develop fundraising and income generating plans and/or to access external funding opportunities. Council staff will work closely with community groups to help implement local solutions where possible. The further transition period will also provide more time for CP&D staff to work with communities, community groups and its partners to determine any gaps in provision going forward.

- 4.1.2 It is anticipated by the end of 2015/16 community groups should have become self financing and no longer in need of annual financial support. By extending the transition period for another year as proposed in paragraph 4.1.1 this will enable Council staff and its partners to identify gaps in provision and ensure that future community grant funding goes where it is most needed.

It is proposed that a further report on Community Grants be presented to Council before the end of financial year 2015/16 to propose criteria for a new grant aid scheme. It is envisaged that the new grant criteria would be designed to primarily support “one-off” projects which are designed to meet agreed outcomes, but also targeted to address local needs.

5.0 Implications

Strategic

- 5.1 Delivery on Corporate Priorities – This report links to the Council’s corporate priorities, defined in its corporate plan, specifically in relation to encouraging strong communities and working with all our partners to achieve the best results possible.
- 5.2 Community /Stakeholder Issues – 468 organisations were invited to take part in the community grants survey and a total of 115 responses were received (24.68%). In addition to the survey, grants workshops were held with Youth Centre and rural Sports facilities representatives. Discussions also took place with CP&D staff and other stakeholders including:

- SIC Sport & Leisure
- SIC Youth Services
- Shetland Charitable Trust
- Shetland Recreational Trust

This consultation highlighted that the reduction in community grants will have significant impacts on community groups. It is clear that community groups are at different stages with regards to preparing for the planned reduction in community grants funding. CP&D will continue to work closely with community groups to develop sustainable solutions going forward.

- 5.3 Policy and/or Delegated Authority – In accordance with Section 2.3.1 of the Council’s Scheme of Administration and Delegations, the Social Services Committee has delegated authority to take decisions in relation to those functions within its remit. However, the Policy and Resources Committee has overall responsibility for the management of the Council’s financial affairs, and for advising the Council with regard to policy decisions.

- 5.4 Risk Management – There is a risk that the carry forward proposed by CP&D from 2014/15 into 2015/16 is not fully achieved. There is also a risk that Shetland Charitable Trust will not agree to make a financial contribution to the proposed transition period extension. If either of the above were to happen there would be less resources and time available to assist community groups to become self sufficient.

There is also a risk that the ongoing reduction in grant budgets could lead to some community groups increasing charges and / or struggling to exist. It has been identified that Youth Centre committees and community groups operating rural Sports facilities are particularly vulnerable to funding reductions. Short life working groups have been set up by the Council to work with these community groups to explore and implement local solutions.

- 5.5 Equalities, Health and Human Rights – Current grant aid is targeted towards groups working with young people; therefore young people may be affected more by any changes. However, this and the feedback received from the community grants consultation will be taken into account in drafting proposals for a new grant aid scheme. In addition, there is a wide range of external grant funding which is already targeted at young people.

- 5.6 Environmental – None.

Resources

- 5.7 Financial – The Council's indicative community grant budgets for 2015/16 is £32,000. The additional transition year for the Support Grant Aid Scheme and the Ground Maintenance Scheme will require a Council budget of £92,812. It is anticipated that this difference in budget of £60,812 can be funded by a carry forward of under spend from 2014-15 subject to Council approval in line with Council policy. The additional transition year would also require a community grants budget of £40,681 from Shetland Charitable Trust.

Should this transition budget be unachievable, a report will be taken back to Council regarding the support schemes, and seeking approval for a new grant aid scheme. Shetland Charitable Trust is scheduled to consider its 2015/16 budget strategy in February 2015.

In financial year 2016/17 and beyond the Council's indicative budget for community grants is £32,000. Shetland Charitable Trust budgets for 2016/17 and beyond are not known at this time.

- 5.8 Legal – None.
- 5.9 Human Resources – None.
- 5.10 Assets and Property – None.

6.0 Conclusions

- 6.1 The Community Grants review has identified that closing a number of grant aid schemes in March 2014 is impacting on community groups across Shetland. The reduction in funding to the remaining two schemes in financial year 2014/15 is also impacting on community groups. The consultation process has confirmed that removal of the remaining two schemes will have significant impacts on many community groups going forward.
- 6.2 Community consultation has illustrated that community groups are working on ways to address the planned closure of the remaining schemes. Many groups are seeking to increase income through increased charges and/or fundraising, with other groups looking to bring in external funding. Other measures highlighted were finding internal efficiencies, sharing equipment or premises and exploring possible mergers to achieve economies of scale. However throughout the consultation process, and following discussions with community groups and stakeholders, it has been identified that community groups are at different stages of progressing the changes necessary to become financially self sufficient. Our findings indicate that some groups are well organised and already moving away from the reliance on grant aid, whereas a number of other community groups have made very little progress and are in need of more support to become financially independent.
- 6.3 It is the intention of CP&D to move away from annual revenue grants and introduce a more targeted “one off” project type funding linked to achieving agreed outcomes. However the Community grants review has flagged up that a significant number of community groups would benefit from another transition year. This would provide more time for community groups to prepare and budget for their activities without annual Support or Grounds Maintenance grants. It would also provide CP&D staff with more information and time to analyse what gaps exist. This will ensure that new grant aid criteria and budgets are targeted as effectively as possible going forward.

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List of Appendices:

Appendix A – Summary of Community Consultation Results
Appendix B – Integrated Impact Assessment
Appendix C – Community Grants budget allocations

ENDS

Community Grants Review
Summary of Community Consultation results

A total of 468 survey forms were issued and 115 completed forms were received (24.68%). Responses were received from a good cross section of organisations from all over Shetland.

Main impacts listed below:

- 49.57% of respondents reported closure of schemes has had an impact on their organisation;
- 67.06% of respondents reported that 25% reduction in funding in 2014/15 has had an impact on their organisation;
- 81.71% of respondents indicated that closure of the two remaining schemes would have an impact on their organisation.

A number of community groups commented that they faced an uncertain future. This was particularly evident from the Youth Centre and Sports facility workshops.

Main actions to mitigate impact of Community grants reductions:

- 64.20% of respondents reported they would increase income from fundraising;
- 56.79% of respondents reported they would increase income from charging;
- 38.27% of respondents reported they would seek to reduce running costs.

In addition to this, respondents advised that they would try to offset the reduction in community grants by bringing in more external funding and sponsorship, sharing resources and using more voluntary effort or a combination of the aforementioned.

Summary of future needs:

- 81.44% of respondents reported that future schemes should be targeted;

The areas/activities to be targeted were:

- Children & young people
- Community facilities
- Rural communities
- Vulnerable people, low income families
- Local transport
- Sport

Priorities for future grant aid:

- 56.70% of respondents reported running costs was 1st priority for grant aid;
- 23.15% of respondents reported equipment purchase was 2nd priority for grant aid;
- 20.15% of respondents reported one off projects was 3rd priority for grant aid.

Recurring issues and concerns

- Groups reported the reduction in grant aid will increase the burden on volunteers, with more time and onus on carrying out fundraising activities
- Parents and families will require to pay more to ensure local groups and activities continue
- Parents and families on lower incomes at risk of being excluded due to increased charges
- Developmental projects such as off island sports competitions or coach education will be reduced or stopped
- Maintenance/upgrade of community facilities and replacement of equipment will be postponed or cancelled
- Opportunities and activities for children & young people in particular may begin to decline
- Smaller groups and youth groups (mainly in rural locations) are at risk
- Potential closure of some voluntary groups and community facilities
- Reduction in local grant aid makes it more difficult to lever in external funding

Integrated Impact Assessment

The following is an assessment of the impact of the proposed changes to community grants on the themes detailed in the Council's Integrated Impact Assessment tool.

Theme	Assessment Area / Risk	Assessment of Impact	Impact	Reducing Negative Impacts / Next Steps
Stakeholders	Groups regularly in receipt of support and development grants Groups with buildings e.g. youth centres, pitches Committees / volunteers / parents Smaller communities / groups struggle more as there's less people to provide fundraising in Rural communities	Some groups may be at risk of closing If this happens, young people may have reduced choices for activities. Some groups, especially those with facilities, may be unsustainable without some form of revenue support. Reduced grant funding could lead to increased competitiveness for remaining funding, funding from fundraising. Changes could damage relationships with Council. Groups may not have the capacity to apply for external funding, do more fundraising etc. Risk of increased stress on volunteers in trying to keep things going. Some unknowns re risks / impacts as quite complex how grant funding has benefited groups / facilities.	Negative	Update communication plan. CP&D / HIE to support communities to understand message clearly and work together, with the aim of creating strong support networks for community groups e.g. sports hubs. Support innovation and creativity e.g. sharing good practice, or fundraising ideas on webpage. VAS to support volunteers and continue to work to increase number of volunteers. Clubs to continue to work to recruit volunteers. Groups temporarily struggling – do they need money or support to help them? Feedback would suggest that support is more important.

Theme	Assessment Area / Risk	Assessment of Impact	Impact	Reducing Negative Impacts / Next Steps
Economic	Community buildings Building firms	<p>Little impact in the short term. Longer term, buildings could fall into disrepair as maintenance work decreases. Buildings may become less used, thereby further reducing income, if not fit for purpose.</p> <p>Groups may be unable to improve or upgrade buildings to meet future needs, however external funding may be available for this type of project</p> <p>Potential loss of work to building firms</p> <p>Reduce risk of funding non sustainable facilities and groups</p>	Possible small negative, but wider economic context is likely to balance this out	<p>Tenuous as to how grants are supporting economic aspects of community.</p> <p>Third sector agenda moving from grants to social enterprise.</p> <p>For long term groups needs to be sustainable but speed of change a concern.</p> <p>Communities are resourceful and good at raising own funding.</p>
Culture	Culture of volunteering Community spirit	<p>Shetland's community spirit and volunteering culture has existed for a long time – long before community grant aid was in place. While some community groups do get regular grant aid support, most generate their own income or are funded through other sources.</p>	Neutral - slight positive	<p>Changes to community grants may reduce the inequalities that currently exist, with some organisations generating their own income and being entirely self sufficient, and others regularly receiving grant aid support.</p>
Environment	Community buildings	<p>May fall into disrepair and / or be less well used.</p> <p>Risk of increased travel to alternative venues / activities if some facilities close.</p>	Possible small negative	<p>Making best use of external funding.</p> <p>Communities could choose to rationalise and consolidate assets & share or sell unwanted / unneeded venues.</p> <p>Some benefit to rationalising committees, e.g. sharing information re insurance / hydro deals etc and reducing spend.</p> <p>Concentrating community activities into fewer community buildings could make remaining facilities more self sustainable.</p>

Theme	Assessment Area / Risk	Assessment of Impact	Impact	Reducing Negative Impacts / Next Steps
Health	Young people	Groups might have to reduce frequency / number of activities or close, which could have an impact on exercise and physical activity or learning and skills. Greater impact in more rural areas where there's already less choice. Could widen health inequalities e.g. if lack of transport to access other opportunities.	Possible small negative	Provide support with the aim of creating strong support networks for community groups e.g. sports hubs. VAS to support volunteers and continue to work to increase number of volunteers. Clubs to continue to work to recruit volunteers. One-to-ones re business planning and looking at reducing expenditure and increasing income. Build capacity in relation to completing successful external funding applications. Work with communities to develop sustainable local transport solutions where required.
Equalities & Human Rights	Age – predominantly young people who will be impacted on	Current grant aid is targeted towards young people. Youth clubs supported proportionately more therefore more dependent on funding and impact will be felt greater.	Negative	Target remaining grant aid at projects supporting / working with young people. Wide range of external grant funding already targeted at young people. Offer one-to-one support with youth clubs re business planning. Negotiate costs with other community providers if service looks like it might fold.

Theme	Assessment Area / Risk	Assessment of Impact	Impact	Reducing Negative Impacts / Next Steps
Poverty	Low income households Families with a number of children Households without own transport	Concerns that closure of some clubs could impact on low income households and widen inequality gap. We don't know how many young people from low income households are going to clubs that are grant funded. Some clubs operate a sliding fee scale based on local knowledge – free school meals is a standard way of asking who needs support. Concern re impact if charges are increased on low income households. Grant aid has subsidised travel costs. Risk of impacting on other service's budgets as problem doesn't go away and needs to be met from elsewhere. Money is not the only barrier – social aspects of participating in activities. Anecdotal evidence suggests that some vulnerable households may not access activities anyway - stigma plays a part	Unknown	Promote community connections. GIRFEC could help identify children in need of targeted support. Ask more information of groups being grant aided. If SRT could, using smart card, have free entry then impact would be less. Community Councils could support some local groups / organisations through the Community Development Fund but would need to ensure that this is operated in a similar way in each community, allocated based on an assessment of needs and targeted at reducing inequalities. Less funding / money available – need to make sure it's achieving most.
Staff	CP&D service Youth service Sports & Leisure staff Sports Hub co-ordinator HIE community officer VAS community staff	CP&D & Youth Services reviews have already considered this change and taken account of it in their proposals.	Neutral	Staff resources and time will provide direct and targeted support to community groups in line with CLD guidance. Change may free up time to develop communications e.g. website, face book page. Focus will shift towards maximising external funding and building strong connections with external funders.

Theme	Assessment Area / Risk	Assessment of Impact	Impact	Reducing Negative Impacts / Next Steps
Finance	Revenue budgets	CP&D budgets include £32k for community grants – additional spend has to date been funded through an under spend No impact on capital budgets	Neutral	
Legal	No statutory requirement to provide community grant aid	None	Neutral	
Assets & Property	SIC Schools	May result in increased use of buildings such as a school, outside of normal school hours May also be reduction in use of school buildings due to less funding available	Neutral	

Appendix C

Community Grants budget allocations

Shetland Islands Council – community grants

Scheme	2013/14 (£)	2014/15 (£)	2015/16 (£)
Capital grants (including Feasibility & Design)	122,000	0	0
Development grants	50,000	0	0
Grants to Voluntary Organisations (General)	5,000	0	0
Grounds Maintenance grants	45,000	33,750	*25,312
Maintenance of Community facilities grants	0	0	0
Support grants	100,000	90,000	*67,500
TOTAL	322,000	123,750	*92,812

Community Council funding

Scheme	2013/14 (£)	2014/15 (£)	2015/16 (£)
Community Council core budgets	158,048	158,048	*158,048
Community Development Fund grants	68,000	68,000	*68,000
TOTAL	226,048	226,048	*226,048

Shetland Charitable Trust – community grants

Scheme	2013/14 (£)	2014/15 (£)	2015/16 (£)
Development grants	14,272	0	0
Support grants	72,321	54,241	*40,681
TOTAL	86,593	54,241	*40,681

Combined budgets

Source	2013/14 (£)	2014/15 (£)	2015/16 (£)
Shetland Islands Council – community grants	322,000	123,750	*92,812
Community Council funding	226,048	226,048	*226,048
Shetland Charitable Trust - community grants	86,593	54,241	*40,681
TOTAL	634,641	404,039	359,541

Note:

* Proposed budgets for 2015/16 are subject to Council approval of CP&D underspend carry forward from 2014/15 and Shetland Charitable Trust budget approval for 2015/16.



**Policy & Resources Committee
Shetland Islands Council**

**26 November 2014
3 December 2014**

Shetland Islands Council Budget Book 2015-16

F-072-F

Report Presented by Executive Manager – Finance

Corporate Services

1.0 Summary

- 1.1 The purpose of the Council Budget Book 2015-16 is to set out the spending plans for Shetland Islands Council in the next financial year.
- 1.2 The budget adheres to the Medium Term Financial Plan and therefore contributes towards the strategic aim of realigning more available resources towards Children's Services and Community Care so that a larger percentage of the Council's budget will be spent in those areas by the end of the Council term.
- 1.3 The 2015-16 budget is a financially sustainable budget.

2.0 Decision Required

The Council RESOLVES to approve the 2015-16 budget by:

- 2.1 Approving the Council Budget Book 2015-16 (Appendix 1);
- 2.2 Adopt the Formal Resolutions (Appendix 2);
- 2.3 Agree to freeze the Council Tax at the current level, in line with the Concordat between the Council and the Scottish Government;

3.0 Detail

- 3.1 The detailed Council Budget Book 2015-16 and the Formal Resolution is attached as Appendix 1 and 2 respectively to this report.

- 3.2 The Council Tax Band D for 2015/16 will remain at £1,053. This budget assumes a 98.5% in year collection rate.

4.0 Implications

Strategic

4.1 Delivery On Corporate Priorities

The 2015-16 budget will contribute towards delivering the Medium Term Financial Plan. The Target Operating Budgets proposed within this budget are aligned with the priorities in the Council's Single Outcome Agreement.

4.2 Community/Stakeholder Issues

Each individual service will be responsible for addressing community/stakeholder issues prior to making any changes to the existing level of service delivery.

4.3 Policy And/Or Delegated Authority

The Policy & Resources Committee is required to make recommendations to the Council as to the estimates of capital and revenue expenditure. The decisions required in this report may only be determined by the Council, in accordance with Section 2.1.3 of the SIC Scheme of Administration and Delegations, including the power to fix the Council Tax.

The budget fits within the policies included in the Medium Term Financial Plan. The Chief Executive and Directors will deliver the Council's budget in accordance with the Scheme of Delegations and Financial Regulations.

4.4 Risk Management

There are a number of assumptions around cost pressures (section 5.10) within the budget that are based on the best information available to date.

The budget contains budget savings of £3.326m, there is a risk that should savings not be achieved it will result in an increased draw on reserves.

The 2015-16 budget will require a draw on reserves of £6.946m.

4.5 Equalities, Health And Human Rights – None.

4.6 Environmental – None.

Resources

4.7 Financial

For the first time since the 1990s the Council is setting a sustainable budget that requires a draw on reserves of £6.946m which is an affordable amount, and will protect the capital value of reserves. This represents an 80% decrease on the position that the current Council

inherited, which required a £36m draw on reserves to balance the 2011-12 budget. This has been achieved despite significant reductions in government funding and rising costs.

It is possible for Shetland Islands Council to have a higher level of service than mainland councils because of the reserves at its disposal, and this budget seeks to ensure that the real value of the reserves is protected during 2015-16.

It is important that the Council now continues this responsible budgeting approach into the future and avoid returning back to budgets with unsustainable draws on reserves which have been so damaging to the Council. Previous decisions to spend 60% of the Council's Reserves between 2000 and 2012 mean that today's 2015-16 budget is deprived of £15m of extra spending on services that would have been affordable had a sustainable approach been taken over those 12 years.

Any decision to recommend changes to the budget proposals in this report will result in an increased or decreased draw on the reserves. This will require a formal amendment and be fully quantified in the Committee decision.

4.8 Legal

Each individual service will be responsible for addressing legal issues prior to making any changes to the existing level of service delivery.

4.9 Human Resources

Each individual service will be responsible for addressing human resource issues prior to making any changes to the existing level of service delivery.

4.10 Assets And Property

A key part of the 2015-16 budget is the financing of the new Anderson High School, new Eric Gray Resource Centre and Ferry Vessel Life Extensions. This will create an ongoing revenue pressure of an estimated £1.428m for the next 25 years.

5.0 Conclusions

- 5.1 By adopting this 2015-16 budget Members will have set a sustainable budget.

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18 November 2014

List of Appendices

Appendix 1 – The Council Budget Book 2015-16
Appendix 2 – Formal Resolution

Shetland Islands Council



The Council Budget Book 2015-16

Securing the Best for Shetland

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Executive Summary

- 1.01 Shetland Islands Council's 2015-16 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 £15.095m, which is affordable as a result of the budgeted Harbour Account surplus, budgeted income from the TOTAL gas plant and expected investment returns.
- 1.02 For the first time since the 1990s the Council is setting a sustainable budget that requires a draw on reserves of £6.946m which is an affordable amount, and will protect the capital value of reserves. This represents an 80% decrease on the position that the current Council inherited, which required a £36m draw on reserves to balance the 2011-12 budget. This has been achieved despite significant reductions in government funding and rising costs.
- 1.03 It is possible for Shetland Islands Council to have a higher level of service than mainland councils because of the reserves at its disposal, and this budget seeks to ensure that the real value of the reserves is protected during 2015-16.
- 1.04 It is important that the Council now continues this responsible budgeting approach into the future and avoids returning back to budgets with unsustainable draws on reserves which have been so damaging to the Council. Previous decisions to spend 60% of the Council's reserves between 2000 and 2012 mean that today's 2015-16 budget is deprived of £15m of extra spending on services that would have been affordable had a sustainable approach been taken over those 12 years.
- 1.05 The 2015-16 Budget adheres to the Medium Term Financial Plan, by delivering the required savings of £2.145m and contributing towards the strategic aim of realigning more available resources towards Children's Services and Community Care in particular.
- 1.06 This is demonstrated by the progress made in re-allocating resources between the directorates to meet these priority areas as shown in the table below:

Directorate	2012-13	2015-16	Change
	%	%	%
Children's Services	37.18	39.53	2.35
Corporate & Executive	10.98	9.64	-1.34
Community Care	18.79	19.80	1.01
Development Services	14.41	13.64	-0.77
Infrastructure Services	18.64	17.39	-1.25

- 1.07 Further information on how the 2015-16 Budget will support the delivery of the Council's Corporate Plan is set out in Section 4 of this report.

- 1.08 Financial sustainability is a journey and not a destination and therefore Members will need to continue to set future budgets in line with the Medium Term Financial Plan to ensure that the good work to reach this position continues into the future.

Progress to Date & Future challenges

- 1.09 The Council can take comfort with regard to the deliverability of the 2015-16 Budget. At present it is currently on course to deliver its 2014-15 Budget which included £6.539m of savings. When added to the £12.5m of savings delivered in 2013-14, the £15m in 2012-13 and £11.5m in 2011-12, the Council is demonstrating a track record of budget delivery.
- 1.10 However, it is anticipated that there will be further reductions in the core 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 having to manage cost pressures such as pay awards.
- 1.11 This Budget will keep the Council on track to manage these significant challenges.

Draw on Reserves

- 1.12 The Council is asked to approve an affordable and sustainable draw on reserves to balance the 2015-16 Budget:

Draw on Reserves	Budgeted Draw on/ (contribution to) Reserves (£m)
General Fund	12.982
General fund Carry Forward from 14-15 to meet Contingency Requirements	1.943
Asset Investment Plan	0.170
Harbour Account Surplus	(6.382)
TOTAL Gas Plant	(1.349)
Housing Revenue Account	(0.418)
TOTAL BUDGETED DRAW ON RESERVES 2015-16	6.946

Key Budget Messages

- 1.13 Some of the most significant Budget proposals are as follows:
- The Council is freezing Council Tax for the eighth consecutive year so a Band D property continues to incur an annual charge of £1,053. This means that Shetland Islands Council continues to charge the 4th 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 £3.326m, exceeding the General Fund savings target of £2.145m as set out in the Medium Term Financial Plan. This has largely been achieved through service efficiencies and focussing on eradicating historic over-budgeting for risk items. The over-achievement of budget reductions by each directorate this year will be used to reduce their savings targets for 2016-17 in the Medium Term Financial Plan.
- The budget includes cost pressures and contingencies totalling £6.774m which is significantly higher than in previous years. The reason for this is to ensure that there will be sufficient budget to absorb any unplanned expenditure, as services were asked not to carry risk/contingency budgets in their proposals. At the end of 2015-16 the approach to contingency budgeting will be reviewed to identify whether it is possible to reduce the size of the corporate contingency budget in order to offer up more savings for the Council.
- The TOTAL gas plant is due to come on stream in 2015-16 and it has been estimated that there will be income of £1.349m during the year. This is a welcome new income stream for the Council and it is anticipated that this, and future income, will be utilised to supplement current expenditure on Council services.
- The Housing Revenue Account budget seeks to increase overall rental income by 0.86% in 2015-16 by simplifying the rents charging policy which will eradicate price differences between properties based on attributes such as whether the house has double glazing or central heating. This is possible because all houses will have these attributes in place by next year in order to meet the 2015 housing quality standard.
- The ambitious Asset Investment Plan budget seeks significant investment in the Council's infrastructure and will require borrowing of £17.544m in 2015-16 to meet the funding shortfall. The borrowing is required to finance the new Anderson High School, the Eric Gray Resource Centre and Ferry Vessel Life Extensions.
- It is estimated that the Council will have to forego spending of £1.428m per year on providing day to day services for the next 25 years to fund the costs associated with this borrowing.

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 five year period of the current Council term. The key strategic objectives included within the plan are –

- To maintain the reserves by ensuring expenditure remains at a level that can be met from all available resources so as not to erode the capital value of the reserves;
- Achieving a level of spending that is financially sustainable during the course of the current Council term and beyond, thus safeguarding the future economic viability of Shetland Islands Council;
- To offer a level of protection for day to day revenue services by cutting the draw on reserves for capital expenditure, so that more can be affordably spent on revenue services;
- The Target Operating Budgets set for each Directorate reflect the priorities of the Council. This means that by the end of the 5 year plan, the Children's Services, Community Care Services and Infrastructure Services directorates will each have a larger percentage of the budget than they currently do, whilst Development Services, Corporate Services and Executive Services will each have a smaller share of the budget as a consequence; and
- The Medium Term Financial Plan will be updated annually to reflect external developments and changes in the Council's policy direction.

The 2015-16 Budget

2.02 The 2015-16 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 Members to see the full impact that the spending proposals will have on the Council's reserves during the financial year.

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 Children's Services (with the exception of the schools service), and Community Care voluntarily chose to adopt zero-based budgeting.
- 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 insofar as possible.

Other Aspects of the Budget Report

- 2.06 The objective of the Overall Council Budget 2015-16 Report 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.
- 2.07 The detailed budget proposals for each area of the Council are set out in separate reports which were presented to Special Committee Meetings during November 2014. This report guides Members to those other reports where more detailed information can be found on the General Fund committees' services, the Harbour Account, the Housing Revenue Account and the Asset Investment Plan.

The 2015-16 Budgeted Draw on Reserves

3.01 The 2015-16 budgeted draw on reserves is proposed as follows:

Draw on Reserves	Budgeted Draw on/ (contribution to) Reserves (£m)
General Fund	12.982
General fund Carry Forward from 14-15 to meet Contingency Requirements	1.943
Asset Investment Plan	0.170
Harbour Account Surplus	(6.382)
TOTAL Gas Plant	(1.349)
Housing Revenue Account	(0.418)
TOTAL BUDGETED DRAW ON RESERVES 2015-16	6.946

3.02 The total budgeted draw on reserves for 2015-16 is £6.946m. This is both affordable and sustainable, but further work will be required in future years to ensure that the Council remains on track with regard to setting sustainable budgets.

Spend to Save Budget

3.03 Only £0.070m of new Spend to Save funding has been proposed for 2015-16 to complete the ET and Taing project in the Asset Investment Plan. It is forecast that there will be an under-spend of nearly £0.7m on the Spend to Save budget in 2014-15 and it is proposed that this is carried forward to fund Spend to Save projects in 2015-16.

3.04 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. Given the requirement to make significant savings over the forthcoming years it is important that ring-fenced funds are available to enable changes to take place that will result in future savings.

3.05 In order for a directorate/service to qualify for Spend to Save funding, the following criteria must be met –

- The up-front investment of Spend to Save funds must be recouped from recurring savings within 3 years;
- The budget savings generated by a directorate/service are offered up as a Council saving and not re-invested in other areas of the directorate/service unless agreed by Council;
- The Spend to Save application is signed off as competent by the Executive Manager – Finance.

Linking the 2015-16 Budget to the Council's Corporate Plan

- 4.01 The 2015-16 General Fund Budget proposes to incur net expenditure of £109.660m on services to the people of Shetland during the next financial year.
- 4.02 Although budgets have reduced to get the Council to a position where it is now on a sustainable footing, Shetland Islands Council is still able to provide the best funded services to the public of any local authority in Scotland.
- 4.03 In order to maximise the potential impact of the available funding for services it will be targeted towards achieving the priorities in the Council's Corporate Plan which are –
- Supporting adults to be independent;
 - Providing the best possible start for every child;
 - Providing the transport services we need most;
 - Supporting a healthy economy – strong communities;
 - Supporting vulnerable and disadvantaged people;
 - Working with partners and communities;
 - Being a properly led and well managed council;
 - Dealing with challenges effectively; and
 - Living within our means.
- 4.04 Further detail on how these priorities will be delivered in the 2015-16 financial year can be found in the 5 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:

Community Health & Social Care Directorate	CC-035-F Community Health & Social Care Directorate Plan 2015-16 http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=16913
Development Services Directorate	DV-047-F Development Services Directorate Plan 2015 http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=

Children's Services Directorate	<p>CS-031-F</p> <p>Children's Services Directorate Plan 2015-16</p> <p>http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=16919</p>
Infrastructure Services Directorate	<p>ISD-021-F</p> <p>Infrastructure Services Directorate Plan 2015-16</p> <p>http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=16942</p>
Corporate & Chief Executive Directorates	<p>CRP-021-F</p> <p>Corporate and Chief Executive's Directorate Plan 2015-16</p> <p>http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=</p>

The 2015-16 General Fund Budget

5.01 The 2015-16 General Fund budget is set out in the table below:

Line No.	Description	2015-16 £000s	2015-16 £000s
1	Chief Executive & Cost of Democracy	1,832	
2	Children's Services	39,423	
3	Community Care Services	19,743	
4	Development Services	13,601	
5	Infrastructure Services	20,551	
6	Corporate Services	7,779	
7	Corporate Services (Fund Manager Fees)	700	
8	GENERAL FUND SERVICES NET EXPENDITURE (equals lines 1-7)		103,629
9	Contingencies and Budget Pressures	6,774	
10	Borrowing Support Costs funded corporately for AHS Replacement	1,256	
11	Recharges Out (to Harbour Account , HRA and Capital)	(1,999)	
12	TOTAL NET GENERAL FUND EXPENDITURE (equals line 8 plus lines 9-11)		109,660
	Funded by -		
13	GRG/NNDR (Scottish Government Allocation)	(86,314)	
14	Council Tax	(8,421)	
15	TOTAL CORE FUNDING (equals lines 13-14)		(94,735)
	Deficit to be funded from Reserves		
16	Draw on Reserves – Core Expenditure General Fund 2015-16	(5,251)	
17	Draw on Reserves – Equivalent to Harbour Account Surplus	(6,382)	
18	Draw on Reserves – Carry Forward from 2014-15 to meet Contingency Requirements	(1,943)	
19	TOTAL Gas Plant Contribution	(1,349)	
20	TOTAL FUNDING FROM RESERVES (equals lines 16-19)		(14,925)
21	TOTAL FUNDING (equals line 15 plus line 20)		(109,660)
22	Balanced budget (line 12 plus line 21)		0

5.02 The proposals in the 2015-16 General Fund budget fall within the agreed directorate Target Operating Budgets as agreed by Members in the Medium Term Financial Plan 2014-2019.

5.03 The table below shows directorate proposals compared to revised Target Operating Budgets:

	2015-16 Target £000s	Transfers £000s	Cost Pressures £000s	2015-16 Revised Target £000s	2015-16 Actual Budget £000s	Variance £000s
Corporate & Chief Executive Services	10,629	(963)	0	9,666	9,611	55
Children's Services	39,769	343	104	40,216	39,423	793
Community Care Services	19,551	138	55	19,744	19,743	1
Development Services	12,725	712	500	13,937	13,601	336
Infrastructure Services	20,281	350	(84)	20,547	20,551	(4)
Total directorate budgets	102,955	580	575	104,110	102,929	1,181

Expenditure

5.04 The General Fund Services Net Expenditure is budgeted to be £103.629m in 2015-16 as shown at Line 8 in the table above 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 2014:

Directorate	Development Committee £000	Social Services Committee £000	Education & Families Committee £000	Environment & Transport Committee £000	Policy & Resources Committee £000	Total £000
Executive & Corporate Services					9,611	9,611
Children's Services		1,296	38,127			39,423
Community Care		19,743				19,743
Development	4,852	2,532	674	5,369	174	13,601
Infrastructure				20,551		20,551
TOTAL	4,852	23,571	38,801	25,920	9,785	102,929

5.05 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:

Special Development Committee 24 November 2014	F-066-F 2015-16 Budget and Charging Proposals Development Committee http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=16940
Special Education & Families Committee 24 November 2014	F-070-F 2015-16 Budget & Charging Proposals Education and Families Committee http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=16922
Social Services Committee 25 November 2014	F-067-F 2015-16 Budget and Charging Proposals Social Services Committee http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=16916
Special Environment & Transport Committee 25 November 2014	F-059-F 2015-16 Budget and Charging Proposals Environment and Transport Committee http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=16945
Shetland College Board 26 November 2014	F-071-F 2015-16 Budget Proposals for Shetland College http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=
Policy & Resources Committee 26 November 2014	F-056-F 2015-16 Budget and Charging Proposals Policy & Resources Committee http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=

Contingencies and Cost Pressures

- 5.06 A figure of £6.774m has been included in the General Fund budget to cover contingencies and cost pressures (as set out in Line 9 of the table at 5.01). This figure has been calculated based on the best information known as at November 2014. The Medium Term Financial Plan allowed for cost pressures and contingencies of £4.831m. To fund the remaining £1.943m, the Council is being asked to approve carry forward of the 2014-15 contingency which is projected to be no longer required. This will be removed from the 2014-15 on approval of this report.
- 5.07 This budget line 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.
- 5.08 The following tables show how the figure of £6.774m (£3,162k for cost pressures and £3,612k for contingencies) has been calculated:

Cost Pressures	Description	Allowance for Cost Pressure in 2015-16 budget (£000)
Pay Award	Estimated provision to meet a 2% pay award. There is no agreement with COSLA on pay awards as yet.	1,751
Holiday Pay	This is to meet the cost of holiday pay relating to overtime and additional hours.	300
Free School Meals	The Government has introduced free school meals for primary 1-3. This is to meet the loss of income plus additional food costs.	253
Nursery Places for 2 year olds	The Government has introduced nursery places for some 2 year olds who qualify. There will be additional staff costs in nurseries depending on eligibility and uptake.	110
Demographics Pressures	Based on Shetland's ageing population, it is anticipated that there will be extra demand on Community Care resources in 2015-16.	301
Health & Social Care Integration	To take account of any additional costs as a result of the new Health and Social Care Integration Board.	15
Social Care Workers	To meet the cost of an additional 2 social care workers required to delivery children and family services.	92
Bus & Air Contract Inflation	To cover the cost of inflationary increases in contracts for bus and air services.	120
Rent Review and Legal Fees	To meet the cost the annual rent review for North Ness and to cover legal fees.	80
IT Licences	This is for the additional cost of IT licence fees.	140
TOTAL COST PRESSURES		3,162

Cost Pressures	Description	Allowance for Cost Pressure in 2015-16 budget (£000)
Funded by:	Allowance in Medium Term Financial Plan	(2,643)
	Carry Forward from 2014/15 Cost Pressures and Contingency	(519)
TOTAL FUNDING		(3,162)

Contingencies	Description	Allowance for Contingencies in 2015-16 budget (£000)
Off-Island Placements (Community Care/ Children's Svs)	The need for off-island placements varies significantly from year to year. It is an unpredictable demand led activity.	1,000
Children's Resources	To meet contingent demand across Children's Resources as requested by the service which cannot be met from within budget.	200
Schools/Quality Improvement	To meet contingent demand across Schools/QI as requested by the service which cannot be met from within budget.	140
Supply Teachers/ Reliefs in Schools	The need for supply teachers/reliefs varies year to year. This is to meet any additional demand which cannot be met from within budget.	258
Community Care Income	To meet any shortfall in income as a result of changes to COSLA's charging policy for Community Care services. The Council may not be able to charge at the current level.	150
Ferry Vessel Fuel & Biennial Drydocking	Cost pressure arising from anticipated increases in the price of fuel (6p per litre), and to meet the additional biennial drydocking costs.	252
Electricians for Street Light Maintenance	There may be a need to attract agency electricians to do essential street light maintenance.	105
Infrastructure Equipment Failure	To meet unexpected high cost equipment failure throughout Infrastructure Services.	300
Winter Maintenance	Contingency to meet any unforeseen costs due to a severe winter.	110
Ferry Fare Income	To meet any shortfall in fare income should income levels not be achieved.	80

Contingencies	Description	Allowance for Contingencies in 2015-16 budget (£000)
Infrastructure Staffing Costs from Shortages	Building Maintenance and Ferry staff shortages arising from the buoyant employment position in Shetland at the moment. There may be a need to employ agency staff or mainland contractors.	300
Organisational Change Fund	There is still a need for organisational change to bring the Council into a financially sustainable position over the term of the Council. This may result in the need to supplement the capacity of management with the temporary use of external specialists.	500
External Recruitment for Senior Officers	To meet the cost of a number of senior posts for which recruitment is anticipated to be required in 2015-16.	150
Corporate Training	To meet any additional training requirements to ensure Council services can continue to be provided.	181
CIPFA Trainee Programme	The programme has been put into contingency to use only that required.	70
Valuation Joint Board	There has been a proposed restructuring of the staff within the Board; the full cost of this is not yet agreed.	40
ERVR - Housing	Housing Support Services are to be reviewed which may result in ERVR costs.	50
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
Insurance cost for NAFC/SSQC	This is a one off cost in 2015-16 until the Tertiary Review has been carried out.	50
Tertiary Education Shortfall	Until the review is complete there is likely to be a Tertiary Education budget shortfall.	300
3 rd Sector Funding Shortfall	Contingency to meet possible 3 rd Sector funding shortfalls in 2015/16.	50
TOTAL CONTINGENCIES		4,346
	Reduction based on risk of events occurring - 17%	(734)
REVISED TOTAL CONTINGENCIES		3,612
Funded by:	Allowance in Medium Term Financial Plan	(2,188)
	Carry Forward from 2014/15 Cost Pressures and Contingency Budget	(1,124)
	Carry Forward from 2014/15 Development Department Budget	(300)
TOTAL FUNDING		(3,612)

Funding

- 5.09 The Scottish Government will provide £86.314m of funding for General Fund services to Shetland Islands Council in 2015-16 which is in line with expectations. This funding represents the Council's General Revenue Grant and the level of income that the Council will receive from the National Non-Domestic Rates Pool.
- 5.10 The Council is freezing Council Tax for the eighth consecutive year so a Band D property will incur an annual charge of £1,053. This means that Shetland Islands Council continues to charge the 4th 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 £8.4m from Council Tax during 2015-16.
- 5.11 The remainder of the funding required to balance the General Fund will come from the Council's reserves. This is budgeted to total £14.925m in 2015-16 (Line 20 in the table at 5.01).

The 2015-16 Harbour Account Budget

6.01 The Proposed budgeted surplus for the Harbour Account as follows:

Line No.	Description	2015-16 £000s
	<i>Expenditure</i>	
1	Ports Management & Engineering	170
2	Sullom Voe	10,328
3	Scalloway	689
4	Terminals	804
5	Other Piers	371
6	Jetties & Spur Booms	2,294
7	TOTAL EXPENDITURE (equals lines 1-6)	14,656
	<i>Income</i>	
9	Harbour Fees & Charges	(15,538)
10	Terminal Charges	(3,206)
11	Jetties & Spur Booms	(2,294)
12	TOTAL EXPENDITURE (equals lines 9-11)	(21,038)
13	TOTAL SURPLUS (equals line 8 plus line 12)	(6,382)
	<i>Surplus to contribute to Reserves</i>	
14	Contribution from the Marine Fund	(138)
15	Contribution to the Reserve Fund	6,520
16	Balanced HA budget (line 13 plus lines 14 and 15)	0

6.02 The terminal operator still 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 and therefore charges have had to increase by 6% to cover these costs.

6.03 This has allowed the Council to budget for the surplus on Harbour activities that it required in the Medium Term Financial Plan (after contributing £1.6m to the Pension Fund to cover the towage pension liability). 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.

- 6.04 The shore based ferry terminal assets have been transferred to Ports and Harbours with a charge for inter-island ferries introduced on a “per berthing” basis. The net income from that charge is £3.206m.
- 6.05 Income from the Total Gas Plant throughput activity is anticipated to be £1.349m over and above the surplus identified in the Harbour Account budget for 2015-16.
- 6.06 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 26 November 2014:

**Harbour Board
26 November
2014**

F-062-F

2015-16 Budget and Charging Proposals Harbour Board
<http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=15275>

The 2015-16 Housing Revenue Account Budget

7.01 The 2015-16 Housing Revenue Account budget is set out in the table below:

Line No.	Description	2015-16 £000s
	Expenditure	
1	Supervision & Management	803
2	Repairs & Maintenance	2,474
3	Void Rents & Charges	181
4	Garages	26
5	Capital Funded from Current Revenue	978
6	Capital Charges - Dwellings	1,827
7	TOTAL EXPENDITURE (equals lines 1-6)	6,289
	Income	
8	Interest on Revenue Balances	(4)
9	Rents - Dwellings	(6,526)
10	Rents - Other ie garages/sites etc	(177)
11	TOTAL INCOME (equals lines 8-10)	(6,707)
12	TOTAL SURPLUS (line 7 plus line 11)	(418)
	Surplus to contribute to Reserves	
13	Contribution to Housing Repairs & Renewals Fund (Reserves)	418
14	Balanced HRA budget (line 12 plus line 13)	0

7.02 The objective of the 2015-16 Housing Revenue Account (HRA) budget is to deliver a sustainable position and minimise rent increases for the year. The budget is a one-off stand alone budget whilst the 30 year HRA business plan is under development. It is anticipated that the 2016-17 budget will be prepared in line with the proposals in the 30 year plan.

7.03 The proposal on rents is to remove the disparity in rents between similar properties of the same size and location group as property attributes are no longer valid as a result of stock meeting the Scottish Housing Quality Standards. This will generate an increase in rental income of 0.86%. Properties that are unaffected by these changes will not see an increase in their rents during 2015-16.

7.04 The capital expenditure in the Asset Investment Plan is set at £1.728m in 2015-16. This is a holding position until the 30 year HRA business plan is developed.

7.05 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 26 November 2014:

Policy & Resources Committee 26 November 2014	F-068-F 2015-16 Housing Revenue Account Budget and Charging Proposals http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=15275
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The 2015-16 Asset Investment Plan (Capital Programme) Budget

8.01 The 2015-16 Asset Investment Plan Budget is set out in the table below:

Line No.	Description	2015-16 Budget (£000)
1	New Developments	17,143
2	Maintenance of Existing Assets	7,045
3	Spend to Save Projects	70
4	Housing Revenue Account Projects	1,728
5	Contingency	2,500
6	TOTAL EXPENDITURE (equals lines 1-5)	28,486
7	Scottish Government General Capital Grant	(7,363)
8	Other Capital Grants	(981)
9	Capital Receipts (General Fund and HRA)	(1,150)
10	Capital Funded from Current Revenue (GF, Harbour and HRA)	(1,278)
11	Draw on Reserves – Spend to Save	(70)
12	Draw on Reserves – Second Homes Council Tax	(100)
13	TOTAL FUNDING (equals lines 7-12)	(10,942)
14	FUNDING SHORTFALL (equals line 6 plus line 13)	17,544
15	Borrowing for the AHS Replacement	(15,498)
16	Borrowing for the Eric Gray Replacement	(1,620)
17	Borrowing for Ferry Vessel Life Extensions	(426)
18	TOTAL BORROWING (equals lines 15-17)	(17,544)
19	TOTAL FUNDING AND FINANCING (equals line 13 plus line 18)	(28,486)
20	BALANCED CAPITAL PROGRAMME BUDGET (equals line 6 plus line 19)	0

8.02 There are 11 key implications for capital expenditure included within the Medium Term Financial Plan. These were –

1. No growth in the asset base.
2. All capital expenditure is to be focussed on the maintenance of existing assets (exception new Anderson High School and high-speed broadband).

3. Scottish Government Capital Grant will be applied to short life assets.
4. Capital Receipts will be targeted at core capital maintenance costs.
5. Capital Funded from Current Revenue will be used where appropriate to fund low value, shorter life capital expenditure.
6. All other capital expenditure will be financed by borrowing.
7. The services that benefit from the capital asset will be required to make sufficient revenue savings to free up budget to pay debt charges (interest charges and principal repayments of debt) for the borrowing. The only exception to this will be in relation to the New Anderson High School replacement project as this project was agreed prior to the introduction of the borrowing policy.
8. A full business case, including projected future demand and investment appraisal process should be completed before a project can be considered for inclusion on the Asset Investment Plan.
9. All capital projects clearly demonstrate the revenue consequences arising from a capital spending decision to assist Members in understanding the full financial impact.
10. 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.
11. Focus on selling existing assets that are surplus to requirements to reduce the asset base.

8.03 The proposed capital programme for 2015-16 (as set out in the Asset Investment Plan) adheres to all of these requirements set out in the Medium Term Financial Plan.

8.04 As a result of the Council being successful in securing £31m of external funding for the new Anderson High School and a higher level of capital grants, the 5 year programme can be delivered without requiring significant draws on reserves as previously required.

8.05 However, there is a requirement to borrow £17.544m for the AHS replacement, Eric Gray Resource Centre replacement and Ferry Vessel life extensions. The revenue consequences of which have been built into either the Medium Term Financial Plan or in the 2015-16 service budgets.

Asset Investment Plan 2015-2020

- 8.06 The Asset Investment Plan proposes to spend £94.587m over the next 5 years which represents a significant investment in the Council's infrastructure and this will require borrowing of £21.620m to meet the funding shortfall. The borrowing is required to finance the new Anderson High School, the new Eric Gray Resource Centre and Ferry Vessel Life extensions.
- 8.07 The focus of the Asset Investment Plan over the 5 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.
- 8.08 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 26 November 2014:

Policy & Resources Committee 26 November 2014	CPS-017-F Proposed 5 Year Asset Investment Plan 2015-20 http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=15275
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Shetland Islands Council – Revenue Estimates 2015/16**The Formal Resolutions Required****Recommendation**

It is recommended that to provide for the expenses foreseen in the Revenue Estimates for 2015/16, the Council RESOLVE THAT:-

- 1 they IMPOSE and LEVY the following assessments for the period from 1 April 2015 to 31 March 2016.
 - (i) **RATES**
 - (a) **THE SHETLAND ISLANDS COUNCIL DO DECERN AND ORDAIN** the whole occupiers in Shetland Islands liable for the aforesaid assessments, to make payment thereof to the Executive Manager Finance, either by ten instalments, as near equal amounts as practicable, the first on or before 1 April 2015 and at monthly intervals thereafter, or in a single payment on or before 30 September 2015.
 - (ii) **COUNCIL TAX**
 - (a) **Council Tax:** Council Tax of £1,053.00 – Band D equivalent, on all chargeable dwellings in Shetland and to be paid by the persons liable therefor under the Local Government Finance Act 1992, as amended by the Local Government etc. (Scotland) Act 1994.
 - (b) **THE SHETLAND ISLANDS COUNCIL DO DECERN AND ORDAIN** the persons liable as described in the Local Government Finance Act 1992, in respect of chargeable dwellings referred to in paragraph (ii) (a) for the aforesaid assessments to make payment thereof to the Executive Manager Finance, either by 10 monthly instalments, as near equal in amount as practicable, the first on or before 1 April 2015 and at intervals thereafter, or in a single payment before 1 June 2015.
- 2
 - (a) The Council adopt the following regulations with regard to the lodging and hearing of appeals against rates, in terms of Section 283 of the Local Government (Scotland) Act 1947, viz:
 - (b) persons complaining that they have been improperly charged, must lodge their appeals with the Executive Manager Finance not later than 28 days after receipt of a rates demand note and these appeals will be heard by Council on a date to be notified to appellants. Appellants may appeal personally in support of their appeals or be represented by an agent.
 - (c) no appeal against the valuation entered in the valuation roll is competent.
- 3 The de minimis sum (used to establish whether expenditure of a capital nature should be charged to capital or revenue) for the year commencing 1 April 2015 should be set equal to £10,000.

- 4 To provide the necessary financing supplementary income from taxes, charges and grants, the Executive Manager Finance be authorised to ask the Bank of Scotland, Lerwick Branch to advance by way of overdraft, if and when necessary, a sum not exceeding £800,000.



**Pension Fund Consultative Panel
Policy and Resources Committee
Shetland Islands Council**

**TBC
26 November 2014
3 December 2014**

2015/16 Budget Proposal – Pension Fund

F-055-F

**Report Presented by Executive Manager –
Finance**

Corporate Services

1.0 Summary

- 1.1 The purpose of this report is to enable the Policy and Resources Committee and the Pension Fund Consultative Panel to consider the budget proposals for the Pension Fund.

2.0 Decision Required

- 2.1 The Policy and Resources Committee is asked to RESOLVE to approve the budget proposals for 2015/16 included within this report and RECOMMEND approval by the Council.
- 2.2 The Council is asked to RESOLVE to approve the budget proposals for 2015/16 included within this report.

3.0 Background

- 3.1 This is the second year of budgeting for the Pension Fund. The 2014/15 budget set a net income of £7,291m for the year.

4.0 2014/15 Budget Proposal

- 4.1 The table below shows the proposed 2015/16 budget for the Pension Fund, and includes indicative budgets for 2016/17 and 2017/18.
- 4.2 The budget has been based on existing staffing levels, administrative, support and systems costs, and fees and charges currently being paid, adjusted for known changes including:

- The reduction in actuarial fees as the next triannual valuation will not be required until 2017/18.
 - The pension system upgrade costs in 2014/15 have been removed.
- 4.3 The investment managers' fees and income have been based on the current fund balances, and the expected return on investments in line with the new investment strategy moving from passive to active management.
- 4.4 The benefits payable and contributions received have been based upon the forecast outturn for 2014/15 adjusted for inflation.
- 4.5 The towage contribution is the amount agreed to be paid into the Pension Fund by the Council.

Description	2015/16 £'000	2016/17 £'000	2017/18 £'000
Employee Costs	177	179	181
Support & System Costs	77	79	82
Administration Costs	5	5	5
Actuarial Fees	5	5	30
External Audit Fees	31	32	33
Investment Expenses	1,638	1,680	1,780
Benefits Payable	8,527	8,740	8,959
Total Expenditure	10,460	10,720	11,070
Other income	(28)	(28)	(28)
Contributions Received	(14,609)	(14,609)	(14,609)
Towage Contribution	(1,600)	-	-
Investment Income*	(1,518)	(1,615)	(1,915)
Total Income	(17,755)	(16,252)	(16,552)
Net Income	(7,295)	(5,532)	(5,482)

* Interest on cash deposits and property unit trust dividends.

- 4.6 Budgets for lump sums, death benefits, refunds, and transfers in and out have been removed as these are too unpredictable to estimate. These will be reported on in the quarterly management accounts reports.

5.0 Implications

Strategic

5.1 Delivery On Corporate Priorities

The budget has been produced bearing in mind there is to be financial sustainability.

5.2 Community /Stakeholder Issues – None.

5.3 Policy And/Or Delegated Authority

The Pension Fund Consultative Panel has delegated authority to oversee all aspects of the management of Pension Fund to best value standards. Approval of the budget requires a decision of the Council after taking advice from the Policy and Resources Committee, in terms of Section 2.1.3 of the Council's Scheme of Delegations.

5.4 Risk Management

Going forward, as the Fund reaches maturity there could be a risk where contributions receivable are less than benefits payable.

5.5 Equalities, Health And Human Rights – None.

5.6 Environmental – None.

Resources

5.7 Financial – There is an estimated net income to the Pension Fund of £7.295m in 2015/16. After the removal of the elements of the budget referred to in paragraph 4.6 (£1.5m), this is less than budgeted in 2014/15 mainly due to the reduction in contributions received (£1.1m including towage contribution) and the reduction in investment income net of fees (£0.5m). Whilst the net investment income will reduce in 2015/16 due to increased fees from the addition of three new active fund managers, it is anticipated that the active management of the investments will result in higher growth in value of the investments.

5.8 Legal – The budget detailed in this report will allow the Council to meet its statutory and regulatory requirements in being a pension administering authority.

5.9 Human Resources – None.

5.10 Assets And Property – None.

6.0 Conclusions

- 6.1 The budget proposal contained within this report is to cover the administration of the Shetland Islands Council Pension Fund. There is a budgeted net income to the Pension Fund of £7.295m for 2015/16.

For further information please contact:
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