



## 2025/26 Budget Book

Our revenue and capital budgets for 2025/26

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## 1. Introduction

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Our annual budget is central to everything we do as a Council. We are legally required to set a budget that balances each year that illustrates how our anticipated income will be sufficient to meet our planned expenditure. We are also required to set different budgets for different service areas, such as housing, and for different types of income and expenditure. Our annual 'budget' as we refer to it, is actually comprised of separate budgets for:

- the General Fund – which pays for the majority of Council-provided services,
- the Housing Revenue Account – which covers the income and expenditure relating to us acting as a landlord to tenants and managing our housing stock,
- the Harbour Account – which covers all income and expenditure arising from the Council operating a number of ports and harbours across the isles, and,
- the Asset Investment Plan – which covers our capital investment plans for maintaining and improving our existing assets as well as building or acquiring new assets.

Our revenue budgets include all of our day-to-day running costs, such as salaries, fuel, utility bills and the goods and services required to operate our Council services. Revenue expenditure is funded through revenue income sources, such as general revenue grant, Council Tax or fees and charges. Revenue expenditure cannot ordinarily be financed from capital sources of funding.

Our capital budget includes the costs of maintaining and/or improving existing assets or acquiring new assets. Capital expenditure is funded through capital sources of funding, such as capital grant, capital receipts, from revenue sources and reserves.

The budgets contained in this Budget Book essentially provide the operational plans of each Council service, for the year ahead from 1 April 2025. Approval of these budgets gives the authority for resources to be allocated to each department so that we can continue to deliver a wide range of public services across Shetland, in line with our statutory obligations as well as the priorities outlined in *Our Ambition*.

The Budget Book is designed to summarise all of our individual budgets in one place, for ease of reference. Links have been provided to the committee reports that set out the remit of each committee's budget in more detail, *including*:

- the planned activity to be undertaken by each service;
- the proposed headcount, expressed in Full Time Equivalent (FTE) hours and the proposed budget for 2025/26;
- a comparison of the headcount and budget approved in the prior financial year, 2024/25; and
- how each activity links to *Our Ambition*.

This Budget Book represents the product of an iterative process that began in October 2024 and has been subject to refinement as further information has been made available, including information contained in the Local Government Finance Settlement for 2025/26 (the Settlement). Although the budgeting exercise is now reaching its conclusion, the budgets themselves will become the basis against which our financial performance will be monitored during 2025/26.

### 1.1 Our current financial position

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By 31 December 2024, we had spent almost £117.5m delivering services, which is 70% of the full year's budget. As we approach the end of the financial year, we are still expecting to spend virtually all of the approved net revenue budget of £166.6m in 2024/25.

### 1.2 Changes compared to *Our Medium-Term Financial Plan*

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We published an updated Medium-Term Financial Plan in December 2024 that covered the next five year period, to 2028/29. The financial planning assumptions used in *Our Medium-Term Financial Plan* help us determine what our likely level of income and expenditure might be in the medium-term, in a range of scenarios. We use assumptions to inform our planning because of the uncertainty around the economy, UK and Scottish public finances and likely direction of some national policies, such as pay. Our central planning

scenario indicated an expected General Fund budgetary deficit of £31.6m in 2025/26.

The draft Local Government Finance Settlement (the Settlement) was issued on 12 December 2025. The Settlement and subsequent updates indicate core revenue funding from the Scottish Government, this is £120.3m for 2025/26.

The Scottish Government public sector pay is negotiated centrally by the Scottish Joint Council (SJC), for non-teaching local government employees and the Scottish Negotiating Committee for Teachers (SNCT). We have not changed our assumptions on pay inflation for 2025/26, for either group of staff, however, there is a risk that our pay bill may increase by more than 3.0% included in the Contingency budget depending on the outcome of negotiations.

Our Medium-Term Financial Plan has been prepared on a like-for-like basis and therefore did not take into account any planned changes in service provision. As we have developed our budget, we have identified some £8.2m of savings and increased income across most services in our General Fund budget proposals for 2025/26. These savings and income increases temper the £14.3m of growth in budget compared to 2024/25, much of which is recurring in nature. Additional resources are required as a result of inflationary impacts on services and increased demand for Council services, but also to undertake work required to deliver *Our Ambition*.

The budget proposals contained in this Budget Book are therefore slightly different to the estimates presented in *Our Medium-Term Financial Plan*.

Specific ring-fenced revenue funding now accounts for 25% of the total revenue funding we receive from the Scottish Government.

We acknowledge that expenditure at this level is still unsustainable in the long-term because we need to utilise more from our reserves than both *Our Medium-Term Financial Plan* and Investment Strategy anticipates. We know we have further work to do to achieve long-term financial sustainability. This year's General Fund revenue budget requires an unsustainable draw of **£21m** from reserves compared to the £22.8m required in

2024/25. *Our Ambition* includes a commitment to working towards a smaller base budget from 2022 onwards, and that continues to be a focus in future budget-setting rounds.

We committed to refreshing *Our Medium-Term Financial Plan* every autumn, ahead of the next budgeting cycle. This enables us to refine our financial planning assumptions for the year ahead and develop revenue and capital budgets that are prudent, affordable and sustainable.

### **1.3 Summary of the 2025/26 budget**

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#### **General Fund Revenue:**

Our General Fund revenue budget has been developed in line with the principles and financial planning assumptions that we set out in *Our Medium-Term Financial Plan*, presented in December 2024. We have refined our budget proposals to take into account any changes planned by each directorate that are required to ensure continued provision and delivery of services in 2025/26.

The Settlement indicates the Scottish Government will provide total revenue funding of £120.3m, inclusive of £24.9m of ring-fenced funding for specific purposes in 2025/26. Ring-fenced funding includes £24.7m provided for the operational costs of inter-island ferry services.

Our budget proposal reflects a **10%** increase in 2025/26 Council Tax. We expect to raise **£12.6m** in Council Tax (net of any discounts or exemptions) during the year. The Council Tax rates in Shetland at **£1,386.67** is likely to remain the lowest across Scotland (2024/25 Scottish Band D average: £1,418).

We plan to supplement the income we receive from the Scottish Government, Council Tax and fees and charges by using **£43.9m** from our reserves to meet our total planned revenue expenditure in 2025/26. This amount includes:

- £15.4m of anticipated returns from our long-term investments, which we can afford to draw down on a sustainable basis in line with *Our Medium-Term Financial Plan*, and

- £7.5m of trading income generated from the Harbour Account/Other, including additional income from the Shetland Gas Plant.

We expect to spend £178.4m delivering services funded through the General Fund in 2025/26. Our expected income to amount to **£157.4m**. This leaves a remaining deficit of **£21m** that cannot be met from other sources of funding, and will need to be met from reserves in order to set a balanced General Fund budget.

General Fund net revenue expenditure of £178.4m in 2025/26 is greater than that approved for 2024/25, which was £168.8m, inclusive of expenditure funded by specific ring-fenced revenue grants.

The utilisation of **£21m** from the reserves compares positively to the previous year, with higher than anticipated funding from the Scottish Government. We do still continue to face increasing costs and continue to place reliance on the reserves to finance our annual revenue budgets. The use of **£21m** of reserves, over and above the amounts envisaged in *Our Medium-Term Financial Plan*, mean that we are not yet able to demonstrate the Council is in a financially sustainable position.

The use of reserves does, however, mean we are able to set a balanced budget which is affordable in the short-term, as is our legal obligation, although it cannot be considered sustainable in the longer term.

### **Housing Revenue Account:**

The Housing Revenue Account (HRA) budget has been developed in line with the associated business plan, a proposed increase in housing rent charges of 7%. The HRA budget requires support of £8m from the HRA reserve and the Second Homes Council Tax reserve to meet total planned revenue and capital expenditure. This is greater than the anticipated level of reserves usage in the 30 year plan and accounts for over 50% of the remaining balance in the HRA reserve. This level of reserves usage is affordable for this year, although it cannot be considered sustainable in the longer term and a review of the 30-year model is required to determine a sustainable solution.

### **Harbour Account:**

The Harbour Account budget has been developed with regard to recent levels of harbour activity and is anticipating to generate a surplus of £7.8m in 2025/26 from Harbour Activity and £1.2m from the Shetland Gas Plant. This is a reduction in net income of £555k compared to the current projected outturn position for 2024/25.

### **Asset Investment Plan:**

Our planned capital investment for the year for General Fund, Harbour Account and Housing Revenue Account amounts to £54.2m and largely relates to maintenance of existing assets of £19m. Some £39m capital expenditure relates to new development capital projects (the Fair Isle ferry project is £27.8m of this) with an anticipated slippage offset of £3.8m. The Settlement provides a core capital grant of £5.9m, which means the remainder of our planned capital expenditure needs to be financed by a combination of capital receipts, external grants (£26.7m for Fair Isle project), from revenue funding, and from reserves. The use of reserves in 2025/26 to balance the Plan is £5.1m.

### **Summary:**

We have developed our overall budget for 2025/26 taking consideration of inflationary and service pressures. We have taken a pragmatic approach to setting budgets, by planning for realistic levels of activity, under the expectation that costs may well continue at this level going forward in most cases. The budgets outlined in this Budget Book are balanced and affordable but cannot be considered sustainable in the longer-term.

## 2. Revenue Budgets for 2025/26

### 2.1 General Fund - Revenue Budget

The majority of Council services are funded through the General Fund. The 2025/26 General Fund budget is summarised in the table below:

Line No.	Description	2025/26 Gross Budget £000	2025/26 ISA/ Recharges* £000	2025/26 Net Budget £000
1	Chief Executive & Cost of Democracy	2,188	(4)	2,184
2	Children's Services	63,742	(14)	63,728
3	Community Health & Social Care Services	34,388	4,555	38,943
4	Corporate Services	14,427	(2,764)	11,663
5	Development Svs	19,201	0	19,201
6	Infrastructure Svs	43,679	(1,773)	41,906
<b>7</b>	<b>GENERAL FUND SERVICES NET EXPENDITURE (equals lines 1-6)</b>	<b>177,625</b>	<b>0</b>	<b>177,625</b>
8	Allocation to the Integration Joint Board (IJB)	37,665		37,665
9	Allocation to the Integration Joint Board (Audit Fee)	18		18
10	Contribution from the Integration Joint Board (IJB)	(38,943)		(38,943)
<b>11</b>	<b>NET CONTRIBUTION FROM THE IJB (equals lines 8 - 10)</b>	<b>(1,260)</b>	<b>0</b>	<b>(1,260)</b>
12	Valuation Joint Board	519		519
13	Contingencies & Cost Pressures	5,500		5,500
14	Fund Manager Fees	1,560		1,560
15	Capital Financing Costs	2,815		2,815
16	Crown Estate Income	(1,921)		(1,921)
17	Economic Development Investment Income	(1,100)		(1,100)
18	Interest on Revenue Balances Income	(376)		(376)
19	Support Recharges (to Harbour Account , HRA and Capital)	(4,961)		(4,961)
<b>20</b>	<b>TOTAL NET GENERAL FUND EXPENDITURE (equals line 7 plus lines 11-19)</b>	<b>178,401</b>	<b>0</b>	<b>178,401</b>
	<b>Funded by -</b>			
21	General Revenue Grant/National Non-Domestic Rates Income	(96,343)		(96,343)
22	Specific Ring-Fenced Revenue Grants (net of CFCR)	(25,525)		(25,525)
23	Council Tax	(12,616)		(12,616)
<b>24</b>	<b>TOTAL CORE FUNDING (equals lines 21-23)</b>	<b>(134,484)</b>	<b>0</b>	<b>(134,484)</b>
	<b>Deficit to be funded from Reserves</b>			
25	Reserves - Sustainable Investment Returns	(15,444)		(15,444)
26	Reserves - Other (including Trading Income)	(7,514)		(7,514)
27	Reserves - Unsustainable	(20,959)		(20,959)
<b>28</b>	<b>TOTAL FUNDING FROM RESERVES (equals lines 25-27)</b>	<b>(43,917)</b>	<b>0</b>	<b>(43,917)</b>
<b>29</b>	<b>TOTAL FUNDING (equals line 24 plus line 28)</b>	<b>(178,401)</b>	<b>0</b>	<b>(178,401)</b>
<b>30</b>	<b>BALANCED BUDGET (line 20 plus line 29)</b>	<b>0</b>	<b>0</b>	<b>0</b>

\*ISA – corporate recharges and internal service allocation

A public consultation exercise was carried out in December 2024. Full details are set out in Appendix 5. The public were asked about the level of Council Tax (which will be discussed later in this report) and options for how the Council could change when faced with rising costs. There were 4 questions on which views were sought to

get feedback on how we deal with shortages of staffing, how we deliver services, about asset retention/maintenance, and maximising income.

The majority of respondents agreed with the suggestions put forward, but to varying levels. Directors have pulled together their budgets for 2025/26, making changes which encompass some or all of the ways in the survey to minimise costs. Details of savings/reductions made are set out in the individual committee reports.

### General Fund Expenditure:

Detailed budget proposals for each directorate have been presented to service committees and can be found in the following reports:

Committee	Date	Report Ref.	Report Title
Education & Families	17 February 2025	F-7-25-F	<a href="#">2025-26 Budget &amp; Charging Proposals - Education &amp; Families</a>
Environment & Transport	18 February 2025	F-1-25-F	<a href="#">2025-26 Budget &amp; Charging Proposals - Environment &amp; Transport</a>
Development	19 February 2025	F-5-25-F	<a href="#">2025-26 Budget &amp; Charging Proposals - Development</a>
Policy & Resources	20 February 2025	F-13-25-F	<a href="#">2025-26 Budget &amp; Charging Proposals - CH&amp;SC - P&amp;R</a>
		F-14-25-F	<a href="#">2025-26 Budget &amp; Charging Proposals - Policy &amp; Resources</a>

Day-to-day spending on the delivery of services is considered by the relevant service committee that oversees the performance of directorate(s) that provide services within the committee’s remit. Some committees oversee services provided by different directorates. The matrix below shows which committee has oversight of directorate budgets, and how they reconcile to the total General Fund budget outlined in Table 1.

		Functional Committee				Total
		Develop ment	Education & Families	Environment & Transport	Policy & Resources	
Directorate	Executive & Corporate Services				16,615	<b>16,615</b>
	Children’s Services		63,742			<b>63,742</b>
	Community Health & Social Care				34,388	<b>34,388</b>
	Integration Joint Board				(1,260)	<b>(1,260)</b>
	Development Services	8,605	486	10,110		<b>19,201</b>
	Infrastructure Services			43,679		<b>43,679</b>
	<b>Total</b>	<b>8,605</b>	<b>64,228</b>	<b>53,789</b>	<b>49,743</b>	<b>176,365</b>

## Central budgets, contingency & cost pressures activity:

We know that budget-setting is not an exact science, and we need to allow for some flexibility to meet any unforeseen cost pressures that may arise during the year. To help us manage some of the risks we face, we have included £5.5m within our General Fund revenue budget as a prudent estimate of what may reasonably be required as a contingency during the year, to meet any unforeseen cost pressures. There are a number of other budgets held centrally as these items generally apply across the Council, so we hold this budget centrally e.g. valuation joint board, financing costs, income from Crown Estate, other investments and recharges to other funds. The Executive Manager – Finance has sole discretion to release these funds to offset any corresponding expenditure, should any cost pressure or funding requirement crystallise during the year. The net total of £2.036m can be broken down as follows:

Category	Description	Budgetary provision £000
Contingency – General	Contingency set aside to meet potential costs pressures that <i>may</i> , but are not guaranteed, to arise during 2025/26 this contains a provision for 3% increase for pay award and provision for vacant posts.	5,500
Valuation Joint Board	To meet the Council's share of the Valuation Joint Board.	519
Fund Managers Fees	To meet the cost of fund managers for our investments	1,560
Capital Financing Costs	Funding required to service debt	2,815
Income (Crown Estate/Investments/recharges to other funds)	Net income from Crown Estate, Economic Investments, bank interest, recharges to other funds.	(8,358)
<b>Total Centrally held budgets and contingency:</b>		<b>2,036</b>

## General Fund Financing:

### i. Scottish Government funding

The Scottish Government is providing core revenue funding of £96.3m, excluding specific ring-fenced funding. This funding is the combination of the General Revenue Grant and our share of income from the National Non-Domestic Rates pool and is £5.9m more than the core revenue funding received as part of last year's settlement (2024/25: £90.4m). The Settlement for 2025/26 includes £24.9m of specific ring-fenced revenue funding compared to £23.7m in 2024/25.

### ii. Trading income and use of reserves

We will supplement the funding we receive from the Scottish Government with trading income generated by the Harbour Account and by cashing in some of the investment returns generated from our long-term investments. Withdrawing too much from our long-term investments in any one year will reduce the underlying investment base and reduce future investment returns. Positive investment growth of 5.2% every year is not guaranteed and will fluctuate from month to month, and from year to year. We therefore need to limit how much we withdraw so that we protect and maintain the buying power of our underlying investments, so they continue to generate returns for years and decades to come. In line with *Our Medium-Term Financial Plan*, we can afford to withdraw £15.4m from our long-term investments without adversely affecting future investment performance, and we will use this to supplement the General Fund revenue budget.

The General Fund revenue budget requires *more* than £15.4m in order to achieve financial balance in 2025/26. A further withdrawal of **£21m** to meet the funding gap we have been unable to resolve is affordable in the short term given the relative health of the investments, but it is not sustainable and deviates from *Our Medium-Term Financial Plan*.

### iii. Council Tax

We have a legal obligation to set and collect Council Tax. A public consultation exercise was carried out in December 2024. Full details are set out in Appendix 5. The public were asked to choose what option they thought was best for an increase, 30.84% said 0% with 69.15% saying that either a 3%, 5% or 10% increase. From the consultation, there was a relatively even spread of views, with no strong views for any particular option. Most did vote for no increase, surprisingly there was 42.63% who chose either a 5% or 10% increase.

Indications from other local authorities on the size of their percentage increase ranges from 5-8% with some proposing for higher increases.

The financial impact of the percentage increases consulted on is set out in detail in Appendix 6. A summary of the impact on a Band D property is as follows:

#### Summary of Funding raised from Percentage (%) Increases:

% Increase	Additional Income Raised	Band D Council Tax	Annual Increase	Weekly Increase
0%	£0	£1,260.61	£0	£0
3%	£344,072	£1,298.43	£37.82	£0.72
5%	£573,453	£1,323.64	£63.03	£1.21
10%	£1,146,907	£1,386.67	£126.06	£2.42

#### Evaluation of Impact on Current Council Tax Payers

There are 11,693 properties, an analysis of how they are impacted by Council Tax is set out in Appendix 6 and in the table below. There are 7,114 properties fully affected (61%), 3,175 properties partially affected (27%) i.e. receive some form of discount or and 1,404 properties that are not affected by an increase (12%) as they are either exempt or are on benefits.

Fully Affected	Number of Properties	Partially Affected	Number of Properties	Not Affected	Number of Properties	TOTAL
Full Charge	6,445	Empty Discount	92	Exempt	383	
2 <sup>nd</sup> Home	223	Single Person	3,012	Benefits	1,021	
Long Term Empty	446	Disregards	71			
<b>TOTAL</b>	<b>7,114</b>		<b>3,175</b>		<b>1,404</b>	<b>11,693</b>

The Council Tax rate for 2025/26 is based on a proposal to increase by 10% and the income generated from this percentage increase has been included in the General Fund budget to assist in balancing the budget as set out in section 2.1, the Council Tax for a 10% increase are as follows:

Band	Band Value	Multiplier	No. Properties in Band	Annual Increase	Weekly Increase	2025/26 Council Tax
A	£0 – £27,000	240/360	2,983	£84.04	£1.62	£924.45
B	£27,000 - £35,000	280/360	1,888	£98.05	£1.89	£1,078.52
C	£35,000 - £45,000	320/360	2,928	£112.06	£2.15	£1,232.60
<b>D</b>	<b>£45,000 - £58,000</b>	<b>360/360</b>	<b>1,943</b>	<b>£126.06</b>	<b>£2.42</b>	<b>£1,386.67</b>
E	£58,000 - £80,000	473/360	1,547	£165.63	£3.19	£1,821.93
F	£80,000 - £106,000	585/360	327	£204.85	£3.94	£2,253.34
G	£106,000 - £212,000	705/360	75	£246.87	£4.75	£2,715.56
H	£212,000 +	882/360	2	£308.85	£5.94	£3,397.34

In 2024/25 the Council approved an increase on Second Homes Council Tax to 200% of the charge. For Long Term Empty Property Council Tax, there will be a further 25% increase for 2025/26 resulting in a total levy increase of 50% as approved in the report to Council on 27 March 2024 (Min Ref: 16/24).

Attached as Appendix 8, is a proposal to amend the current scheme to provide the Council with discretionary powers following a period of implementation. A public consultation was carried out to gather views on a variety of discretion options, to try to take account of the local circumstances.

Full details are set out in Appendix 8. The public consultation results are set out in Appendix 9 for information. To be able to consistently and equitably apply these discretions included in the proposal, officers have opted for no additional levy to be applied in those circumstances highlighted in Appendix 8.

## 2.2 The Harbour Account - Revenue and Capital Budget

We operate a number of ports and harbours across Shetland. We are legally required to account for all port and harbour activity separately from the General Fund. We therefore maintain the Harbour Account to ensure clear blue water between Harbour Account activity and other Council services that are funded through the General Fund. The proposed revenue and capital budget for the Harbour Account is summarised in the table below:

Line No.	Description	2025/26 Budget £000
1	Sullom Voe	14,811
2	Scalloway	1427
3	Cullivoe	249
4	Other Piers	1,101
5	Jetties & Spur Booms	3,542
<b>6</b>	<b>TOTAL REVENUE EXPENDITURE (equals lines 1-5)</b>	<b>21,130</b>
7	Harbour Fees & Charges	(25,673)
8	Jetties & Spur Booms	(3,542)
<b>9</b>	<b>TOTAL REVENUE INCOME (equals lines 7-8)</b>	<b>(29,215)</b>
<b>10</b>	<b>HARBOUR ACTIVITY NET REVENUE SURPLUS (equals lines 6 plus 8)</b>	<b>(8,085)</b>
<b>11</b>	<b>TOTAL CAPITAL EXPENDITURE</b>	<b>1,374</b>
12	Capital Receipts	(22)
<b>13</b>	<b>NET CAPITAL DRAW ON RESERVES (equals lines 11 plus 12)</b>	<b>1,352</b>
<b>14</b>	<b>HARBOUR ACTIVITY REVENUE &amp; CAPITAL NET SURPLUS (line 10 plus line 13)</b>	<b>(6,733)</b>
15	Shetland Gas Plant	(1,200)
<b>16</b>	<b>TOTAL SURPLUS (equals line 14 plus line 15)</b>	<b>(7,933)</b>
17	Contribution to the Reserve Fund	7,933
<b>18</b>	<b>BALANCED HARBOUR ACCOUNT (line 16 plus line 17)</b>	<b>0</b>

The primary driver of activity in the Harbour Account is from the Sullom Voe Terminal, which requires harbour services on a 24 hours a day, seven days a week basis, to facilitate tanker movements. Considerable expenditure is required to maintain such a service amidst a gradual decline in harbour traffic.

For 2025/26, we are planning to increase charges by 3.7% on average across all ports and harbours to help offset the increasing cost of providing services. We anticipate that ports and harbour activity will generate a surplus of £6.7m in 2025/26, with a further £1.2m rental income from the Shetland Gas Plant. The net income on the Harbour Account has reduced at a faster rate than anticipated, with costs continuing to rise and tanker numbers falling.

The detailed budget proposal for 2025/26 has been presented to the Harbour Board and can be found in the following report:

Committee	Date	Report Ref.	Report Title
Harbour Board	18 February 2025	F-2-25-F	<a href="#">2025-26 Budget &amp; Charging Proposals - Harbour Board</a>

\* link to be updated

## 2.3 The Housing Revenue Account - Revenue and Capital Budget

As a social landlord, we are legally required to account for any income and expenditure that relates to the provision of housing separately from the General Fund. We maintain the Housing Revenue Account (HRA) to record all the income and expenditure that relates to our activities as a landlord, such as collecting housing rent, paying for maintenance and building or acquiring new housing stock. The proposed revenue and capital budget for 2025/26 is summarised below:

Line No.	Description	2025/26 Budget £000
1	Supervision & Management	1,073
2	Repairs & Maintenance	5,150
3	Void Rents & Charges	253
4	Garages	32
5	Capital Charges - Dwellings	1,153
6	Irrecoverable Debts	147
<b>7</b>	<b>TOTAL REVENUE EXPENDITURE (equals lines 1-6)</b>	<b>7,808</b>
8	Rents - Dwellings	(8,340)
9	Rents - Other i.e. garages/sites etc	(291)
10	Interest on Revenue Balances	(25)
<b>11</b>	<b>TOTAL REVENUE INCOME (equals lines 8-10)</b>	<b>(8,656)</b>
<b>12</b>	<b>NET REVENUE CONTRIBUTION to HRA RESERVE (line 7 plus line 11)</b>	<b>(848)</b>
<b>13</b>	<b>TOTAL CAPITAL EXPENDITURE</b>	<b>10,808</b>
14	Capital Receipts	(45)
15	Grant Income	(1,942)
<b>16</b>	<b>NET DRAW from HRA RESERVE (lines 13-15)</b>	<b>8,821</b>
17	Funding from 2nd Homes Council Tax	(78)
18	Contribution from Housing Revenue Account (Reserves)	(7,895)
<b>19</b>	<b>BALANCED HOUSING REVENUE ACCOUNT BUDGET (lines 12 plus lines 16-18)</b>	<b>0</b>

The HRA budget has been developed in line with the existing HRA business plan. We expect the HRA to achieve a net revenue surplus of £0.8m. This is based on an average rent increase of 7%. Details of the consultation with tenants is set out in the Development budget report to Development Committee.

The surplus on revenue will partially offset total net planned capital expenditure of £10.8m, with the remainder £8m being met from reserves. This level of use of reserves is affordable this year, but is not sustainable in the longer term.

The aim of the HRA is to maintain financial balance between the income received and expenditure defrayed. There are special rules regarding what can and cannot be accounted for within the HRA, and it cannot be subsidised by the General Fund. Accordingly, we maintain a HRA reserve which can be called upon to meet any budgetary deficits that may be anticipated. In 2025/26, the HRA will require £7.9m from the HRA reserve and £0.1m from the Second Homes Council Tax Reserve to achieve financial balance.

It is essential the HRA business plan is updated during the year, underpinned by a refreshed 30-year financial model to ensure the HRA remains self-sustaining while investing in HRA stock. Borrowing will need to be investigated as part of this modelling as the reserves balance is unable to meet capital costs. The business plan

will provide the blueprint for the future maintenance of existing housing stock and any options available to invest in new housing stock.

The detailed budget proposal for 2025/26 has been presented to the Development Committee and can be found in the following report:

Committee	Date	Report Ref.	Report Title
Development	19 February 2025	F-6-25-F	<a href="#">2025-26 Budget &amp; Charging Proposals - Housing Revenue Account</a>

## 2.4 Other Revenue Budgets

### Orkney & Shetland Valuation Joint Board

We contribute towards the funding of the Orkney and Shetland Valuation Joint Board (O&SVJB) as one of two constituent authorities. The O&SVJB provides statutory services relating to the preparation, publication and maintenance of the Valuation Roll, Council Tax List and Electoral Register on our behalf. The revenue funding provided is channelled through our Corporate Services directorate, and is therefore included in budget proposal considered by Policy and Resources Committee.

The O&SVJB sets its own budget to allocate resources to support day-to-day operations and deliver its strategic priorities. From the Budget Book report, we have estimated our contribution to the O&SVJB to be £0.519m for 2025/26 an increase of £18k from 2024/25.

Further information on about the O&SVJB budget proposal can be found in the following report:

Committee	Date	Report Ref.	Report Title
O&S Valuation Joint Board	TBC	TBC	Draft budget 2025/26*

*\*Hyperlink to the report will be updated once available*

### Shetland Health and Social Care Partnership

Along with NHS Shetland, we formally agreed to delegate community health and social care services for adults to a third body: the Shetland Integration Joint Board (IJB). The IJB is a joint venture between the Council and NHS Shetland, and is responsible for the operational management and main decision making for the Shetland Health and Social Care Partnership.

We provide funding to the IJB, along with the NHS. The IJB then issues directions to both us and the NHS, instructing us to provide adult health and social care services. These services are paid for by the IJB, using the funding it receives from us and the NHS. The IJB prepares its own budget that set out how it will fund the provision of health and social care funding on behalf of the Shetland Health and Social Care Partnership.

Further information about the IJB's budget can be found in the following report:

Committee	Date	Report Ref.	Report Title
Integration Joint Board	TBC	TBC	2025/26 Budget*

*\*Hyperlinks to reports will be updated once agenda packs have been published*

## Zetland Transport Partnership

We provide funding to the Zetland Transport Partnership, known as ZetTrans, as the sole participating local authority in those partnership arrangements. The revenue funding provided is channelled through our Development Services directorate, and is therefore included in budget proposal considered by the Development Committee. The Partnership is required to set its own budget to allocate resources to support day-to-day operations and deliver the Partnership’s strategic priorities.

Further information about ZetTrans’ budget proposal can be found in the following report:

Committee	Date	Report Ref.	Report Title
ZetTrans	27 February 2025	ZTP-3-25-F	<a href="#">2025-26 Budget &amp; Charging Proposals - ZetTrans</a>

### 3. Capital Budgets for 2025/26

#### Asset Investment Plan

We summarise our capital investment plans for the next five years in our Asset Investment Plan (AIP). Our AIP sets out what we plan to invest in the year ahead and subsequent years for each of the General Fund, Harbour Account and Housing Revenue Account so that interested parties can understand the scale and scope of our capital investment plans in different parts of the Council. Our proposed capital budget for 2025/26 is set out below:

Line No.	Description	2025/26 Budget £000
1	New Developments	39,001
2	Maintenance of Existing Assets	19,013
3	In Year Slippage	(3,769)
<b>4</b>	<b>TOTAL EXPENDITURE (equals lines 1-3)</b>	<b>54,245</b>
5	Scottish Government General Capital Grant	(5,853)
6	Other Capital Grants	(29,724)
7	Capital Receipts	(660)
<b>8</b>	<b>TOTAL FUNDING (equals lines 5-7)</b>	<b>(36,237)</b>
<b>9</b>	<b>FUNDING SHORTFALL (equals line 4 plus line 8)</b>	<b>18,008</b>
10	Borrowing	(1,025)
11	Capital Funded from Current Revenue (General Fund, Harbour and HRA)	(11,885)
12	Draw on Reserves	(5,098)
<b>13</b>	<b>TOTAL FINANCING (equals lines 10-12)</b>	<b>(18,008)</b>
<b>14</b>	<b>TOTAL FUNDING AND FINANCING (equals line 8 plus line 13)</b>	<b>(54,245)</b>
<b>15</b>	<b>BALANCED ASSET INVESTMENT PLAN (equals line 4 plus line 14)</b>	<b>0</b>

Our capital investment plans have been developed in line with our capital strategy and follow our capital expenditure and capital funding policies. These strategies and policies are set out in the Treasury Management Strategy Statement and Annual Investment Strategy, which is updated annually and will be presented to Council in March 2025.

Allocations for some projects within the AIP are provisional estimates at this stage and will be subject to further review once design and/or tendering processes have been concluded. As delivery of the AIP progresses, some projects may require less funding and some projects may require more funding than anticipated. Regular progress updates are provided to Elected Members through the year, summarising any differences between the estimated costs and actual or projected costs of individual projects, along with any budgetary adjustments or re-profiling that may be required.

The proposed capital budget for 2025/26 has been revised after taking into consideration the likely level of activity that we can reasonably expect to achieve, including an expectation of slippage of £3.8m. The proposed expenditure budget amounts to £54.2m; this is a higher value programme than in 2024/25 due to the Fair Isle Project, which accounts of £26.8m of the total. The programme will be financed by a combination of:

- Scottish Government general capital grant (£5.9m);

- Scottish Government/Central Government & other specific capital grants (£29.7m);
- capital receipts (£0.7m);
- capital financed from current revenue (CFCR) (£11.9m);
- borrowing (£1m); and
- draw on Reserves (£5.1m).

Over the five-year period, we plan to spend £126.7m on the maintenance, acquisition and construction of assets. This will require funding from reserves of £16.8m, revenue funding of £17.7m and borrowing of £31m. The capital grant received from the Scottish Government is insufficient to meet our planned capital investment, so we will need to finance our AIP through other sources. Our five-year plan will require us to use capital grants, capital receipts, funding capital from revenue sources, borrowing and the use of our reserves. We will need to prioritise which projects are taken forward with regard to the Prudential Code, which requires local authorities to:

*'look at capital expenditure plans, investments and debt in the light of overall organisational strategy and resources and ensure that decisions are being made with sufficient regard to the long-run financing implications and potential risks to the authority. Effective financial planning, option appraisal, risk management and governance processes are essential in achieving a prudential approach to capital expenditure, investments and debt.'*

*(CIPFA Prudential Code for Capital Finance in Local Authorities, 2021 edition)*

Further detail about how we plan to finance the AIP is included in Appendix 2 to this Budget Book. In addition to the AIP, there is a need to approve a procurement commitment budget of £834k for purchase of vehicles and plant in 2025/26 due to the long lead time to receive the vehicles. Expenditure will only be incurred in 2026/27 but a budget requires to be approved in 2025/26 to allow the Service to commit to the purchases.

Set out in Appendix 3 are potential projects which are awaiting Gateway approval and prioritisation for your information. For 2025/26, those that have already been costed amount to £37.7m and would require a draw on reserves of £22.9m and funding capital through revenue sources of £3.5m should these projects get approval to go ahead. The total over the 5 years amounts to £94m, which would require a total from reserves of £65.5m along with £5.9m from revenue sources and £2m from borrowing to fund all projects, along with £20.6m of external funding.

We cannot afford to proceed with every capital project on our own without external support and without taking action to address our financial sustainability. The Council is actively pursuing potential funding streams that could be used to facilitate capital investments that will help further the delivery of *Our Ambition*. The use of potential grant funding is, however, unlikely to fully resolve the issues of affordability and sustainability in the medium- to long-term. The Council will need to prioritise which projects it takes forward in the future to ensure that our limited capital resources are invested in projects that will deliver the most benefit to Shetland's community.