



Special Shetland Islands Council

20 February 2013

Chair's Reports - 2013-14 Budget Proposals

Report No. Exec-1402

Chair's Report – Executive Committee – 14 February 2013

1.0 Summary

- 1.1 The purpose of this report is to consider the recommendations from the Chair of the Executive Committee in relation to reports requiring a Council decision.

2.0 Decision Required

- 2.1 That the Council RESOLVES to approve the recommendations from the Executive Committee, including the review reports, overall budget proposals and charge setting, as part of the SIC Budget 2013/14.

3.0 Report

3.1 Executive Committee – Chair's Report

The Committee agreed to recommend the following decisions to the Council:

3.1.1 Progress Report: Asset Investment Plan

that the Council approve the re-allocation of budgets relating to slippage, savings and transfers related to the 2012/13 Asset Investment Plan.

3.1.2 2013-14 Budget and Charging Proposals Executive Committee

that the Council should approve the budget proposals and carry forwards for 2013-14 included within the report and set out in detail in the budget activity sheet and charging sheet.

3.2 Social Services Committee – Chair's Report

The Committee agreed to accept the recommendations from the Social Services Committee without amendment, and therefore recommend the following decisions to the Council:

3.2.1 Housing Revenue Account 2013-14 Budget and Charging Proposals

that the Council should approve the budget proposals and rent levels for 2013-14 and that the Executive Manager – Finance undertakes a review into externalising and restructuring the Housing Revenue Account debt.

3.2.2 2013-14 Budget and Charging Proposals Social Services Committee

that the Council should approve the budget proposals and carry forwards for 2013-14 included within the report and set out in detail in the budget activity sheet and charging sheet.

3.3 **Development Committee – Chair’s Report**

The Committee agreed to accept the recommendations from the Development Committee without amendment, and therefore recommend the following decisions to the Council:

3.3.1 2013-14 Budget and Charging Proposals Development Committee

that the Council should approve the budget proposals and carry forwards for 2013-14 included within the report and set out in detail in the budget activity sheet and charging sheet.

3.4 **Education and Families Committee – Chair’s Report**

The Committee agreed to accept the recommendations from the Education and Families Committee without amendment, and therefore recommend the following decisions to the Council:

3.4.1 Review: Grant Per Place to Partners Providers

that the Council should not approve the proposed freeze on the grant per place, and that the required saving of £9k be found from within the Nursery Education budget.

3.4.2 Review: Provision of Youth Services in Shetland

that the Council should note the progress made.

3.4.3 2013-14 Budget and Charging Proposals Education & Families Committee

that the Council should approve the budget proposals and carry forwards for 2013-14 included within the report and set out in detail in the budget activity sheet and charging sheet.

3.5 **Environment and Transport Committee – Chair’s Report**

The Committee agreed to accept the recommendations from the Environment and Transport Committee without amendment, and therefore recommend the following decisions to the Council:

3.5.1 Viking Bus Station/Rural Freight Centre Review

that the Council should resolve to defer a decision on the bus station and freight and in the meantime: seek a change of use for food or other retail activities compatible with a waiting room; Offer for sale or lease to test the market and report back to Council; and until such time the bus station and freight remain open.

3.5.2 Tingwall Airport Review

that the Council should resolve to increase landing charges to cover the full additional costs of accommodating Scottish Ambulance Service at Tingwall Airport.

3.5.3 Community Council Skips Review – SR-R024

that the Council should stop the Community Council Skip Service and introduce a chargeable bulky uplift service charging £30 per collection with a £10 discounted rate for householders on means tested benefit.

3.5.4 Closure of Rural Toilets – Savings Review – SR-R022

that the Council should approve the proposals, as amended, and described in the following table:

Item 6	Recommendation	Toilet
1	Close and dispose of by sale or demolition	Mid Yell and Uyeasound
2 and 3	Offer in the first instance to transfer to local business or recognised community group to keep open, manage, clean and maintain. If no transfer achieved report back to Committee.	Knab, Brae, Bressay (Mail) and Sandness. Bigton, Hamnavoe, Burra (Meal), Hillswick, Jarlshof, Sandwick, and Skeld. Aith, Baltasound, Eshaness, Hermaness, Ollaberry and Walls.
4	Keep toilet open - transfer to other Council service to manage, clean and maintain	Belmont, Gutter, Hamar's Ness, Ulsta, Toft, Laxo, Vidlin, Symbister, Skerries, Maryfield, West Burrafirth, Papa Stour, and Grutness: to Ferry Operations; Walls Pier (under construction), Foula to Transport Service; Cullivoe Pier Industrial site: to Ports and Harbours Operations.
5	Keep Toilet Open	Esplanade, Scalloway (Burn Beach), Voe, Cunningsburgh, and Bixter

3.5.5 The Executive Committee approved the above for recommending to the Council. However, it was noted after the meeting that the recommendation from the Environment and Transport Committee had been reported incorrectly in the Chair's report. The recommendation from the Environment and Transport Committee, in relation to items 2 and 3 above, should have read as follows:

2	Offer in the first instance to transfer to local business or recognised community group to keep open, manage, clean and maintain. If no transfer achieved report back to Committee.	Knab, Brae, Bressay (Mail) and Sandness. Bigton, Hamnavoe, Burra (Meal), Hillswick, Jarlshof, Sandwick, and Skeld.
3	Cease commitment to pay for cleaning and maintaining the toilets attached to commercial business premises/Community Group premises.	Aith, Baltasound, Eshaness, Hermaness, Ollaberry and Walls.

3.5.6 The Council is therefore asked to approve the recommendation from the Environment and Transport Committee, which had been the intention of the Chair's report to the Executive Committee.

3.5.7 2013-14 Budget and Charging Proposals Environment and Transport Committee

That the Council should approve the budget proposals and carry forwards for 2013-14 included within the report and set out in detail in the budget activity sheet and charging sheet, to the Executive Committee.

3.6 **Harbour Board – Chair's Report**

The Committee agreed to accept the recommendations from the Harbour Board without amendment, and therefore recommend the following decisions to the Council:

3.6.1 2013-14 Budget and Charging Proposals Harbour Board

that the Council should resolve to approve the budget proposals and charges for 2013-14 included in the report and set out in detail in the budget activity sheet and Tables of Dues for 2013-14, with an amendment to Appendix 3 Scale D to increase the Rates on Goods for Farmed Fish per tonne from £8.61 to £13.50.

3.7 **Shetland College Board – Chair's Report**

The Committee agreed to accept the recommendations from the Shetland College Board without amendment, and therefore recommend the following decision to the Council:

3.7.1 2013-14 Budget and Charging Proposals Shetland College Board

that the Council should approve the budget proposals for 2013-14, included within the report.

3.8 **Executive Committee – 2013/14 Budget Book**

The Committee considered a report by the Executive Manager – Finance, and agreed to accept the recommendations in the report, without amendment, and therefore recommend the following decisions to the Council:

The Council RESOLVES to approve the 2013-14 budget by:

- 3.8.1 Approving the Council Budget Book 2013-14 (Appendix 1);
 - 3.8.2 Adopt the Formal Resolutions (Appendix 2);
 - 3.8.3 Agree to freeze the Council Tax at the current level, in line with the Concordat between the Council and the Scottish Government;
 - 3.8.4 Agree to maintain the Council Tax Second Homes Property discount at 10%; and
 - 3.8.5 Note the Future Budget Planning for 2014-15 and beyond.
- 3.7 Copies of each of the above reports have been previously circulated or can be accessed via the Council's website at the link shown, or by contacting Committee Services.
- 3.8 The Chair will present any information to the Committee as to the debate or the 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 Executive Committee are contained in the SIC Budget 2013/14 report on the agenda today.

For further information please contact:

Mr G Robinson, Leader and Chair of Executive Committee
15 February 2013

List of Appendices

None

Background documents:

Executive Committee – 14 February 2013

<http://www.shetland.gov.uk/coins/agenda.asp?meetingid=3994>

END



**Special Executive Committee
Special Shetland Islands Council**

**14 February 2013
20 February 2013**

Shetland Islands Council Budget Book 2013-14

F-011-F

Report Presented by Executive Manager – Finance

Corporate Services

1.0 Summary

- 1.1 The purpose of the Council Budget Book 2013-14 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, Community Care and Infrastructure 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 2013-14 budget will move the organisation towards achieving financial sustainability within the lifetime of the current Council.

2.0 Decision Required

The Council RESOLVES to approve the 2013-14 budget by:

- 2.1 Approving the Council Budget Book 2013-14 (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;
- 2.4 Agree to maintain the Council Tax Second Homes Property discount at 10%; and
- 2.5 Note the Future Budget Planning for 2014-15 and beyond.

3.0 Detail

- 3.1 The detailed Council Budget Book 2013-14, the Formal Resolution and the Future Budget Planning 2014-15 and Beyond is attached as Appendix 1, 2 and 3 respectively to this report.
- 3.2 The Council Tax Band D for 2012/13 will remain at £1,053. This budget assumes a 95.5% in year collection rate after the contribution to the Second Homes Property Reserve has been deducted. The Council has the ability, from 2013/14 under the 2012 Local Government Finance (Unoccupied Properties etc.) (Scotland) Bill, to charge up to 100% (double Council Tax) on long term empty properties and second homes. In line with other local authorities, the Finance Service intends to evaluate the options during 2013/14. It is therefore proposed that for 2013/14 that the Second Homes Property discount remains at 10%.

4.0 Implications

Strategic

- 4.1 Delivery On Corporate Priorities
The 2013-14 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 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 4.07) within the budget that are based on the best information available to date.

The budget contains challenging budget reductions of £12.527m (particularly in Community Care), there is a risk that should there be slippage on service reductions and service re-designs it will mean that these targets are not in full during the year and this will result in an increased draw on reserves.

The 2013-14 budget will require an unsustainable draw on reserves of £27.7m which if coupled with a poor year's performance on the stock markets could result decrease in reserves by 31 March 2014.

4.5 Equalities, Health And Human Rights – None.

4.6 Environmental – None.

Resources

4.7 Financial

This report presents a budget that is consistent with the budget strategy contained within the Medium Term Financial Plan. It will contribute towards the Council becoming financially sustainable and retaining a level of reserves no lower than £125m.

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 – The focus of the budget is to reduce capital expenditure on new developments, rationalise the Council's assets and instead focus on the maintenance of existing assets.

The revenue maintenance budgets across the Council have been reduced in order to help deliver the budget reductions required by the Medium Term Financial Plan.

5.0 **Conclusions**

5.1 In order to preserve a minimum level of £125m in the Council's reserves, and eradicate the organisation's structural deficit, savings of £38.360m are required between 2012-13 and 2016-17. By achieving this, the Council will become financially sustainable.

5.2 By adopting this budget Members will have accepted proposals that will ensure that by the end of 2013-14 the Council is nearly 70% of the way towards becoming financially sustainable.

For further information please contact:
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List of Appendices

Appendix 1 – The Council Budget Book 2013-14

Appendix 2 – Formal Resolution

Appendix 3 - Future Budget Planning 2014-15 and Beyond

Shetland Islands Council



The Council Budget Book

2013-14

Securing the Best for Shetland

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Executive Summary

- 1.01 The 2013-14 Council Budget report is the culmination of over six months of information gathering, seminars and prioritising services in line with the Council's adopted Single Outcome Agreement.
- 1.02 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, Community Care and Infrastructure so that a larger percentage of the Council's budget will be spent in those areas by the end of the Council term.
- 1.03 This budget, which is recommended to Members, has been built from the bottom up – known as Zero Based Budgeting – and is capped by a top down Target Operating Budget which was set for each directorate within the Medium Term Financial Plan. A significant amount of work has been required from officers from all across the Council in order to undertake this exercise.
- 1.04 The reason for taking such a detailed approach was because of the scale of the financial challenges facing the Council as detailed in the Medium Term Financial Plan. In order to preserve a minimum level of £125m in the Council's reserves, and eradicate the organisation's structural deficit, savings of £38.360m are required between 2012-13 and 2016-17. By achieving this, the Council will become financially sustainable.
- 1.05 By adopting this budget Members will have accepted proposals that will ensure that by the end of 2013-14 the Council is nearly 70% of the way towards becoming financially sustainable.

Draw on Reserves

- 1.06 However, despite the challenging proposals included within this budget, the Council is again asked to approve an unsustainable draw on reserves to balance the 2013-14 budget:

Budgeting area	Budgeted Draw on/(contribution to) Reserves (£m)
General Fund	20.999
Harbour Account	(0.222)
Housing Revenue Account	2.473
Asset Investment Plan (Capital Programme)	2.450
Spend to Save	2.000
TOTAL BUDGETED DRAW ON RESERVES 2013-14	27.700
Split between -	
Recurring Draw on Reserves	13.830
Non-Recurring Draw on Reserves (previously built in to MTFP)	13.870

- 1.07 It is encouraging to note that the Recurring Draw on Reserves, which indicates the Council's underlying need to use reserves to fund services on an ongoing basis, is £13.830m which is ahead of the Medium Term Financial Plan. The reason for this is because the aggregated budget proposals put forward by directorates exceed the targets that were set for directorates in the Medium Term Financial Plan. For comparative purposes the projected recurring draw on reserves for 2012-13 is likely to be in the region of £23m. This shows that the underlying need to use reserves to balance the Council budget will reduce by approximately £9m in 2013-14, which represents good progress.
- 1.08 The Non-recurring Draw on Reserves represents a one-off use of reserves in 2013-14, all of which has been built into the Medium Term Financial Plan, with a significant proportion being a one-off carry forward of budgets not spent in 2012-13. Therefore the non-recurring draw on reserves in 2013-14 of £13.870m will not require the need for savings to be found to compensate for them.

Key Budget Messages

- 1.09 Some of the most significant budget proposals are as follows:
- The Council is freezing Council Tax for the sixth 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.
 - The Housing Revenue Account Budget for 2013-14 is a one year holding budget which secures a further 12 months to find a resolution to the housing debt. The budget requires an unsustainable draw on reserves in order to minimise the increase in housing rents. However, rents will still need to increase by 5% (RPI plus 1.9%) in 2013-14 in order to balance the budget.
 - An increase of 30% in the consolidated Sullom Voe Port charge in order to mitigate against the Harbour Account making a loss as a result of the reduced throughput expected at the port during 2013-14.
 - Minimal funding (£0.1m) from the reserves to finance capital expenditure during 2013-14. This allows the Council to afford to spend more on its day to day revenue services.
 - A £12.5m real terms budget reduction on recurring General Fund services. This has been achieved through a combination of increased/new charges such as those proposed for Community Care, service re-designs such as the one proposed for the Ferries Service and service reductions such as the significant reduction in the Economic Development Service proposals.

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 set the Tolerable Reserves Floor at £125m (at 2012 Prices). This means that the Council's externally invested reserves should not be allowed to drop below £125m;
- 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 to 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 and Infrastructure 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 2013-14 Budget

2.02 The 2013-14 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 for the first time; 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 General Fund

- 2.04 There has been a significant change to the way in which the General Fund Budget has been prepared. Traditionally it has been developed through a process of incremental budgeting whereby the previous year's budget was rolled forward, cost pressures were added on, and then savings were removed to get to the following year's proposed budget.
- 2.05 For the 2013-14 budget setting exercise, each service within the Council has prepared its budget proposals from scratch based on each activity undertaken by the service. This approach is called Zero Based Budgeting. Each activity was scored within the directorate against the scale of its contribution towards delivering the outcomes in the Council's Single Outcome Agreement.
- 2.06 The directorate then undertook steps to ensure that the highest scoring activities (i.e. those that contribute most to the delivery of the Council's Single Outcome Agreement) were prioritised when collating proposals into the directorate's budget activity sheets which were required to fall within the Target Operating Budget set by the Council in the Medium Term Financial Plan.
- 2.07 The reason for taking such a detailed approach was because of the scale of the financial challenges facing the Council as detailed in the Medium Term Financial Plan. The Council must reduce net expenditure by £38.360m between 2012-13 and 2016-17 in order to meet the objectives of the Medium Term Financial Plan. Therefore a full root and branch review of the Council's budgets was required in order to best meet this challenge.
- 2.08 The outcome of this budgeting exercise is that the aggregated budget proposals put forward by directorates exceed 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

- 2.09 The objective of the Overall Council Budget 2013-14 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.
- 2.10 The detailed budget proposals for each area of the Council are set out in separate reports which were presented to Special Committee Meetings during late January and early February 2013. 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.
- 2.11 By adopting this budget Members will have accepted proposals that will ensure that by the end of 2013-14 the Council is nearly 70% of the way towards becoming financially sustainable.

The 2013-14 Budgeted Draw on Reserves

3.01 The 2013-14 budgeted draw on reserves is proposed as follows:

Budgeting area	Budgeted Draw on/(contribution to) Reserves (£m)
General Fund	20.999
Harbour Account	(0.222)
Housing Revenue Account	2.473
Asset Investment Plan (Capital Programme)	2.450
Spend to Save	2.000
TOTAL BUDGETED DRAW ON RESERVES 2013-14	27.700
Split between -	
Recurring Draw on Reserves	13.830
Non-Recurring Draw on Reserves (previously built in to MTFP)	13.870

3.02 The total budgeted draw on reserves for 2013-14 is £27.700m. It should be noted that the draw on reserves in 2013-14 continues to be unsustainably high, but the 2013-14 budget is part of the phased approach set out in the Medium Term Financial Plan to achieve a financially sustainable position over a period of 5 years. This budget is consistent with delivering that strategic objective.

Recurring versus Non-Recurring Draws on Reserves

- 3.04 It is important to make the distinction between a **recurring** draw on reserves and a **non-recurring** draw on reserves.
- 3.05 A recurring draw on reserves represents the Council's need to use reserves to fund services on an ongoing basis as a draw on reserves will be required each and every year. An example would be the use of reserves to subsidise a service on an ongoing basis. A non-recurring draw on reserves is a one-off draw on reserves which is required in one financial year only. An example of this is the £1.9m set aside for exit packages in 2013-14.
- 3.06 The focus is therefore to reduce the recurring draw on reserves so that it reaches a sustainable level. The recurring draw on reserves for 2013-14 is budgeted at £13.830m which is ahead of the Medium Term Financial Plan. The reason for this is because the aggregated budget proposals put forward by directorates exceed the targets that were set for directorates in the Medium Term Financial Plan.
- 3.07 The non-recurring draw on reserves is broken down in the table as follows –

Type of Expenditure	Amount (£m)
Budget Carry-Forwards from 2012-13 (Revenue)	3.488
Budget Carry-Forwards from 2012-13 (Capital)	2.450
Spend to Save	2.000
Unsustainable Draw on Housing Repairs and Renewals Fund	2.473
Contingencies (Exit Packages, Change Fund and Slippage with budget reductions)	3.459
TOTAL	13.870

Spend to Save Budget

- 3.08 A figure of £2m has been budgeted from the Reserves in 2013-14 in order to fund Spend to Save projects. This was agreed as the amount that would be made available for 2013-14 in the Medium Term Financial Plan.
- 3.09 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.
- 3.10 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.

Investing Council reserves in Economic Development loans

- 3.11 In line with the Medium Term Financial Plan there is a £3m provision in 2013-14 for investing reserves in local businesses. In order to issue a loan to a local business it must be agreed between the Director of Development Services and Executive Manager – Finance that:
- The loan will generate the Council a rate of return at least equal to the markets in which the Council currently invests; and
 - Due diligence work has been undertaken to ensure that any loan granted is at an acceptable risk level to the Council.

The 2013-14 General Fund Budget

4.01 The 2013-14 General Fund budget is set out in the table below:

Line No.	Description	2013-14 £000s	2013-14 £000s
1	Chief Executive & Cost of Democracy	1,486	
2	Children's Services	41,262	
3	Community Care Services	20,524	
4	Corporate Services	10,586	
5	Development Services	13,878	
6	Infrastructure Services	21,530	
7	Budget Carry Forwards from 2012-13	3,488	
8	Fund Manager Fees	834	
9	GENERAL FUND SERVICES NET EXPENDITURE (equals lines 1-8)		113,588
10	Contingencies and Budget Pressures	5,694	
11	Recharges Out (to Harbour Account and HRA)	(3,164)	
12	TOTAL NET GENERAL FUND EXPENDITURE (equals line 9 plus lines 10-11)		116,118
13	Funded by -		
14	GRG/NNDR (Scottish Government Allocation)	(85,955)	
15	Council Tax	(8,600)	
16	DLO	(564)	
17	TOTAL CORE FUNDING (equals lines 14-16)	(95,119)	
18	Deficit to be funded from Reserves		
19	Draw on Reserves – Core Expenditure General Fund 2013-14	(11,817)	
20	Draw on Reserves – Carry forward from 2012-13 (line 7)	(3,488)	
21	Draw on Reserves – Contingencies and Cost Pressures (line 10)	(5,694)	
22	TOTAL FUNDING FROM RESERVES (equals lines 19-21)	(20,999)	
23	TOTAL FUNDING (equals line 17 plus line 22)		(116,118)
24	Balanced budget (line 12 plus line 23)		0

Expenditure

- 4.02 The General Fund Services Net Expenditure is budgeted to be £113.588m in 2013-14 as shown at Line 9 in the table above. This expenditure represents the spending on day to day council services which has been budgeted for within the limits of the directorate Target Operating Budgets set by the Council, as well as containing £3.488m of budget that has been carried forward from 2012-13.
- 4.03 The table below shows how the directorate Target Operating Budgets (including carry-forwards and fund manager's fees) reconcile to the detailed budget proposal reports that have been through the 5 Special Committee meetings in late January and early February 2013:

Directorate	Development Committee £000	Social Services Committee £000	Education & Families Committee £000	Environment & Transport Committee £000	Executive Committee £000	Total £000
Executive & Corporate Services					12,940	12,940
Children's Services		1,393	40,365			41,758
Community Care		20,661				20,661
Development	10,631	5,065	1,003			16,699
Infrastructure				21,530		21,530
TOTAL	10,631	27,119	41,368	21,530	12,940	113,588

- 4.04 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 Social Services Committee 31 January 2013	<p>F-007-F</p> <p>2013-14 Budget and Charging Proposals Social Services Committee</p> <p>http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=14019</p>
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Special Development Committee 31 January 2013	F-006-F 2013-14 Budget and Charging Proposals Development Committee http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=14037
Special Education & Families Committee 1 February 2013	F-008-F 2013-14 Budget Proposals Education and Families Committee http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=14030
Special Environment & Transport Committee 1 February 2013	F-009-F 2013-14 Budget and Charging Proposals Environment and Transport Committee http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=14047
Special Executive Committee 14 February 2013	F-010-F 2013-14 Budget and Charging Proposals Executive Committee ADD LINK

Contingencies and Cost Pressures

- 4.05 A figure of £5.694m has been included in the General Fund budget to cover contingencies and cost pressures (as set out in Line 10 of the table at 4.01). This figure has been calculated based on the best information known as at February 2013 and it fits within the parameters of the Medium Term Financial Plan.
- 4.06 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.
- 4.07 The table on the next page shows how the figure of £5.694m has been calculated:

Cost Pressures and Contingencies	Description	Allowance for Cost Pressure in 2013-14 budget (£)
Exit Packages	<p>The budget proposals that have been put forward will lead to instances whereby services will be re-designed or service levels are reduced. This will result in reductions in staffing numbers. This cost pressure is the estimated cost of funding exit packages for staff to leave the organisation.</p> <p>The £1.9m has been split between directorates based on likely requirements and will be used to fund directorates up to the level that they have indicated necessary. Any additional costs that might arise will be borne by the directorates' budgets.</p>	£1,900,000
Implementation of service changes within Community Care	A significant amount of work is still required in order to implement the proposed changes to the Council's policies on charging for community care, discretionary top-ups and direct payments. There is a risk that these proposals which would close the Community Care budget gap by £0.955m in 2013-14 may not be achieved, and therefore a contingency has been set aside to account for this risk.	£955,000
Pay Award	It is anticipated that there will be a pay award of 1% in 2013-14. This represents a cost pressure of £0.95m to the Council based on the current pay bill.	£950,000
Pension Auto-enrolment	A change in legislation means that all staff members will automatically be enrolled in one of the Council's pension schemes as opposed to actively having to seek membership. Staff will in future have to actively seek to opt out. As a result of this it is anticipated that only 10% will opt out, pushing up costs, as currently a significant number of part time/casual workers are not members of a pension scheme.	£700,000
Organisational Change Fund	The scale of the organisational change required to bring the Council into a financially sustainable position exceeds the existing capacity of the management team. It will therefore be necessary in certain instances to supplement the capacity of management with the temporary use of external specialists.	£500,000
Demographic Pressures	This recognises the ever increasing cost pressure on Community Care resources as Shetland's population demographic continues to show higher numbers of older people.	£260,000
Utilities	Anticipated level of price increases on utility bills during 2013-14.	£225,000
Council Tax Benefit Administration	The new Scottish Government Council Tax Benefit replacement scheme has a £40m funding gap. The Scottish Government has agreed to contribute £23m with the remainder coming from Local Authorities. SIC's share of this cost is approximately £100,000.	£100,000
COPE	A total of £80,000 is required to fund COPE for 6 months during 2013-14 until alternative arrangements are put in place for proposed changes.	£80,000
Public Toilets	Following the Environment & Transport Special Committee meeting additional funding for 3 months of all public toilets has been added.	£24,000
TOTAL	The total budget required to cover cost pressures and contingencies in 2013-14.	£5,694,000

Funding

- 4.08 The Scottish Government has confirmed that it will make £85.955m of funding available for General Fund services to Shetland Islands Council in 2013-14 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.
- 4.09 The Council is freezing Council Tax for the sixth 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.
- 4.10 At this rate of taxation it is expected that the Council will generate £8.6m from Council Tax during 2013-14.
- 4.11 The remainder of the funding required to balance the General Fund will come from the Council's reserves. This is budgeted to total £20.999m in 2013-14 (Line 22 in the table at 4.01).

The 2013-14 Harbour Account Budget

5.01 The Proposed budgeted surplus for the Harbour Account in 2013-14 compared to the current year is as follows:

2012-13 Budgeted Surplus £000s	2013-14 Budgeted Surplus £000s	Reduction in Surplus £000s
(3,396)	(222)	(3,174)

5.02 The main reason for the significant decrease in the Harbour Account budgeted surplus for 2013-14 is a reduction in income totalling £2.932m.

5.03 There has been a significant reduction in the throughput of oil at Sullom Voe as a result of the temporary suspension of production at the Schiehallion field. This accounted for approximately 40% of throughput.

5.04 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, but the income has dropped significantly to finance it.

5.05 Unless there is a significant increase in charges at the Sullom Voe Harbour to mitigate the loss of income from Schiehallion tanker movements, the Harbour Account will run at a loss in 2013-14 which will result in a draw in reserves to meet this shortfall. The Council must be careful not to find itself in a position whereby it is using Shetland Islands Council reserves to subsidise services to oil companies.

5.06 Therefore, the most significant aspect of the Harbour Account budget is to apply an increase of 30% to the consolidated Sullom Voe Port charges. However, as throughput levels recover in future years the level of the consolidated charge will be reviewed.

5.07 The detailed Harbour Account budgetary information which underpins this section of the budget report can be found in the following Budget Proposals Report (including appendices) which was presented to the Harbour Board on 7 February 2013:

Harbour Board 7 February 2013	<p style="text-align: center;">F-005-F</p> <p style="text-align: center;">2013-14 Budget and Charging Proposals Harbour Board</p> <p style="text-align: center;">http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=14078</p>
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The 2013-14 Housing Revenue Account Budget

6.01 The 2013-14 Housing Revenue Account budget is set out in the table below:

Line No.	Description	2013-14 £000s	2013-14 £000s
	<u>Expenditure</u>		
1	Supervision & Management	675	
2	Repairs & Maintenance	2,522	
3	Void Rents & Charges	196	
4	Garages	30	
5	Capital Funded from Current Revenue	1,733	
6	Capital Charges - Dwellings	4,461	
7	TOTAL EXPENDITURE (equals lines 1-6)		9,617
	<u>Income</u>		
8	HSG - General	(840)	
9	Interest on Revenue Balances	(18)	
10	Rents - Dwellings	(6,166)	
11	Rents - Other ie garages/sites etc	(120)	
12	Contribution from Housing Repairs & Renewals Fund (Reserves)	(2,473)	
13	TOTAL FUNDING (equals lines 8-12)		(9,617)
14	Balanced HRA budget (line 7 plus line 13)		0

6.02 The objective of the 2013-14 Housing Revenue Account (HRA) budget is to achieve a one year “holding” position that provides 12 months to find a solution to the HRA debt issue. This will mean that it is necessary to operate an unsustainable balanced budget in 2013-14.

6.03 The key budget proposals are to draw £2.5m from reserves in 2013-14 in order to minimise the rent increases required to deliver a balanced budget. Nonetheless, rents are required to be increased by 5% in order to balance the budget. This represents an increase equivalent to RPI plus 1.9%.

6.04 The main reason that the HRA debt has become such an acute issue is that the Scottish Government is going to end Housing Support Grant on 31 March 2013. Shetland Islands Council is a current beneficiary of this grant, and its purpose is to cover the interest costs paid on housing debt. Without this grant, if the debt remains at £40m it will result in a cost pressure in the region of £800,000 per year which equates to approximately a 12% increase in housing rents.

6.05 The Council has been in negotiations with the Scottish Government for reasonable transitional arrangements for when the Housing Support Grant is abolished on 31 March 2013. The outcome of these negotiations is that the Council will receive a one-off payment

of £0.840m in 2013/14. However, beyond 2013-14 the financial viability of the HRA is in a perilous state.

- 6.06 The Council is now seeking to begin tripartite negotiations with HM Treasury and the Scottish Government to find a solution to the unsustainable debt level that the HRA is burdened with. It is essential to the future financial health of the HRA that a solution is found within the next 12 months to allow for proper forward planning over a 30 year period.
- 6.07 As a result of the uncertainties over the financial future of the HRA, the 2013-14 budget proposals represent a one year holding position. It should be made clear that these budget proposals are completely unsustainable beyond the short term, with 20% of the entire balance of the Housing Repairs and Renewals Reserve being required to balance the budget.
- 6.08 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 Special Social Services Committee on 31 January 2013:

Special Social Services Committee 31 January 2013	F-004-F Housing Revenue Account 2013-14 Budget and Charging Proposals http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=14020
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The 2013-14 Asset Investment Plan (Capital Programme) Budget

7.01 The 2013-14 Asset Investment Plan Budget is set out in the table below:

Description	2013-14 Budget (£)
<u>Expenditure</u>	
New Developments - Contractually Committed Projects	4,465
New Developments	1,082
Maintenance of Existing Assets	3,957
Spend to Save Projects	1,100
Housing Revenue Account Projects	3,109
TOTAL EXPENDITURE	13,713
<u>Income</u>	
Capital Grants/External Funding	(6,311)
Capital Funded from Current Revenue (Harbour and HRA)	(1,873)
Capital Receipts (General Fund and HRA)	(1,750)
Carry Forward of 2012-13 Projects (inc spend to save) – Draw on Reserves	(2,350)
Draw on Reserves	(100)
Borrowing – Harbour Account	(1,003)
HRA – Council Tax Second Home Receipts	(326)
TOTAL FUNDING	(13,713)
Balanced Capital Programme for 2013-14	0

7.02 There were 5 key implications for capital expenditure included within the Medium Term Financial Plan. These were –

1. All capital expenditure to be focussed on the maintenance of existing assets rather than the creation/purchase of new assets, (with the exception of a new Anderson High School and high-speed broadband).
2. To only use income from the Scottish Government, other capital grants and capital receipts to fund the Asset Investment Plan.
3. To only make a draw on reserves for specific capital projects that are consistent with the priorities of the Council, i.e. a new Anderson High School and high-speed broadband.
4. Before making a draw on reserves for capital projects, a full investment appraisal process should be completed considering whether use of reserves or borrowing provides the Council with the best value for money option.

5. Focus on selling existing assets that are surplus to requirements to free up resources to fund new capital projects.
- 7.03 The proposed capital programme for 2013-14 (as set out in the Asset Investment Plan) adheres to all of these requirements set out in the Medium Term Financial Plan.
- 7.04 The 2013-14 Asset Investment Plan only requires £0.1m of new funding from the reserves for the AHS. A total of £2.350m will be funded from reserves in 2013-14 but this is budget carried forward from 2012-13 for projects that have slipped during the year, as opposed to new money.
- 7.05 The Asset Investment Plan also requires the Council to dispose of £1.75m of its existing assets in order to balance the capital budget. This is a challenging target which will require a clear programme of disposals.
- 7.06 The 2013-14 budget contains £5.5m of new developments but it should be noted that £4.5m had already been committed, and the remaining £1m was also well advanced, before the adoption of the Medium Term Financial Plan. In future years, there is a shift in balance from new developments to the maintenance of existing assets.

Asset Investment Plan 2013-2018

- 7.07 The Asset Investment Plan proposes to spend £77.230m over the next 5 years which represents a significant investment in the Council's infrastructure.
- 7.08 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 exception to this rule is the building of a new Anderson High School. Once this is excluded along with projects that are already contractually committed, there will only be £1.422m available for new developments over the next 5 years.
- 7.09 As a result of the Council being successful in securing £24m of external funding for the new Anderson High School, as well as securing funding for other specific projects such as the Happyhansel School extension, the 5 year capital programme can be delivered without requiring such significant draws on reserves as previously required.
- 7.10 The Council's £12m contribution to the new Anderson High School will either come from the Council's reserves or from external borrowing depending on which option is the most cost effective for the Council at the time a decision is required.

7.11 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 Special Executive Committee on 14 February 2013:

Special Executive Committee 14 February 2013	CPS-02-13-F 5 Year Asset Investment Plan 2013-18 ADD LINK
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Shetland Islands Council – Revenue Estimates 2013/14**The Formal Resolutions Required****Recommendation**

It is recommended that to provide for the expenses foreseen in the Revenue Estimates for 2013/14, the Council RESOLVE THAT:-

- 1 they IMPOSE and LEVY the following assessments for the period from 1 April 2013 to 31 March 2014.
 - (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 2013 and at monthly intervals thereafter, or in a single payment on or before 30 September 2013.
 - (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 2013 and at intervals thereafter, or in a single payment before 1 June 2013.
- 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 2013 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.

Future Budget Planning: 2014-15 and Beyond

1. The Medium Term Financial Plan sets out the Target Operating Budgets for each of the Council's directorates each year until 2017-18. By that point the Council will be in a financially sustainable position and will not be required to make any further budget reductions.
2. The Target Operating Budgets for each directorate also attempt to reflect the Council's priorities in that a larger percentage of the budget will be spent on Children's Services, Community Care Services and Infrastructure Services by 2017-18 with reductions in Development Services, Executive Services and Corporate Services.
3. The table below shows the budget reductions that are being proposed for each directorate in 2013-14 and the budget reductions that are still to be found in future years in order to deliver the Target Operating Budgets set in the Medium Term Financial Plan for 2017-18:

Directorate	2012-13 Budget £000s	2013-14 budget reductions £000s	2013-14 Proposed Budget £000s	Budget reductions still to be found in future years £000s	2017-18 Target Operating Budgets £000s
Executive Services & Cost of Democracy	1,586	(100)	1,486	(240)	1,246
Children's Services	45,278	(4,016)	41,262	(3,155)	38,107
Community Care Services	22,886	(2,362)	20,524	(813)	19,711
Corporate Services	11,791	(1,205)	10,586	(1,076)	9,510
Development Services	17,545	(3,667)	13,878	(2,277)	11,601
Infrastructure Services	22,707	(1,177)	21,530	(2,922)	18,608
TOTAL		(12,527)		(10,483)	

4. The table clearly shows that the budget proposals in the 2013-14 budget include reductions totalling £12.527m, and that leaves further budget reductions of £10.483m to be found in future years. It is also clear to see the level of budget reductions required in future years for each directorate.

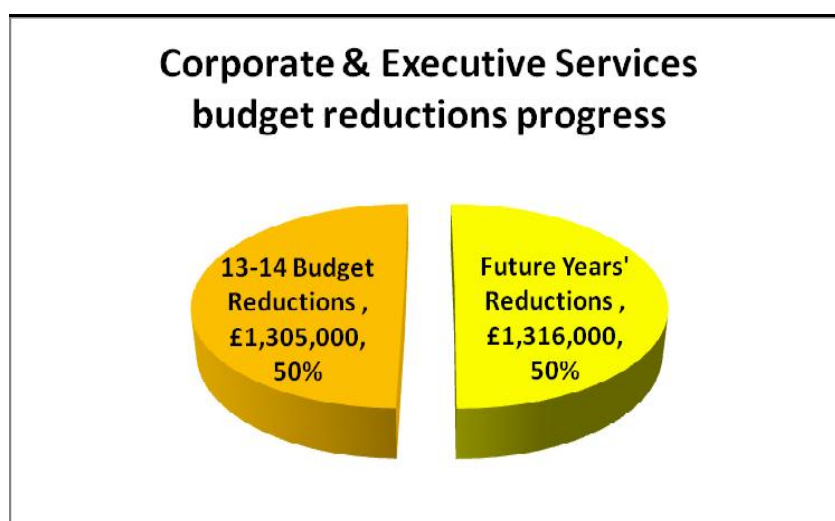
5. It is not possible to accurately set out detailed budget proposals for future years to address the future budget reductions as a result of the number of uncertainties around future funding levels, future cost pressures and changes in the regulatory and statutory requirements placed upon the Council.
6. However, the next section provides Members with an indication of the high level proposals for each directorate to achieve the budget reductions in the Medium Term Financial Plan.

Future Budget Reductions

7. The information below is provided as an outline draft to Members as to the future service changes required for directorates to meet the Target Operating Budgets in the Medium Term Financial plan.

Corporate and Executive Services

8. The Pie chart below shows that the 2013-14 budget contains 50% of the savings required to deliver the Target Operating Budget with £1.3m still to secure in future financial years:

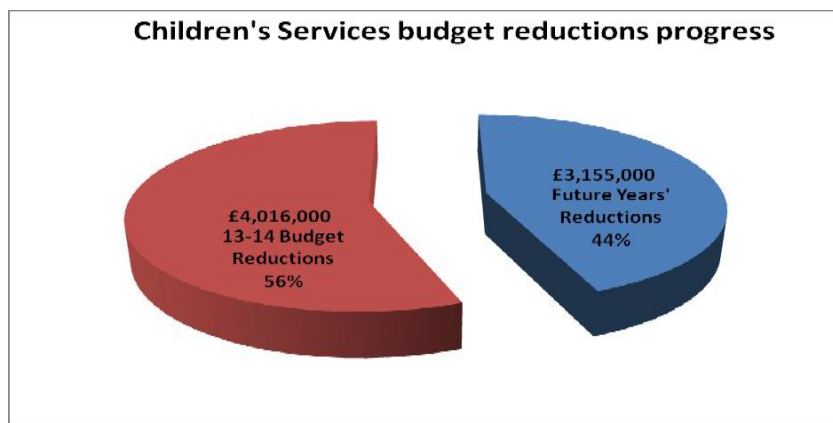


9. The remaining £1.3m of budget reductions to be found in future financial years will come from:
 - Reductions in the office accommodation;
 - Reductions in building maintenance funding to Shetland College;

- Increased use of electronic systems and processes; and
- Reductions in staffing levels to reflect the overall reduction in the size of the organisation.

Children's Services

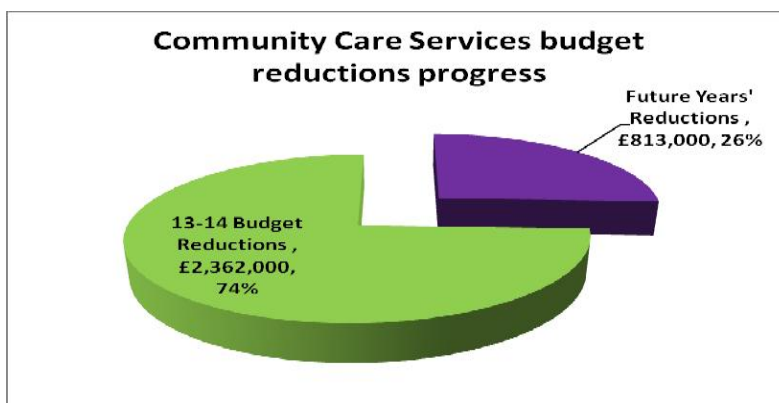
10. The Pie chart below shows that the 2013-14 budget contains 56% of the savings required to deliver the Target Operating Budget with £3.2m still to secure in future financial years:



11. The remaining £3.2m of budget reductions to be found in future financial years will come from:
- Implementation of the Blueprint for Education

Community Care Services

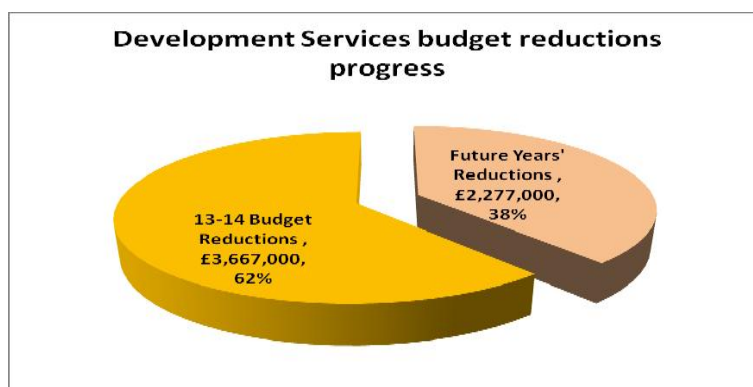
12. The Pie chart below shows that the 2013-14 budget contains 74% of the savings required to deliver the Target Operating Budget with £0.8m still to secure in future financial years:



13. The remaining £0.8m of budget reductions to be found in future financial years will come from:
- The continuing shift of care towards supporting people from home; and
 - Increasing charges.

Development Services

14. The Pie chart below shows that the 2013-14 budget contains 62% of the savings required to deliver the Target Operating Budget with £2.3m still to secure in future financial years:

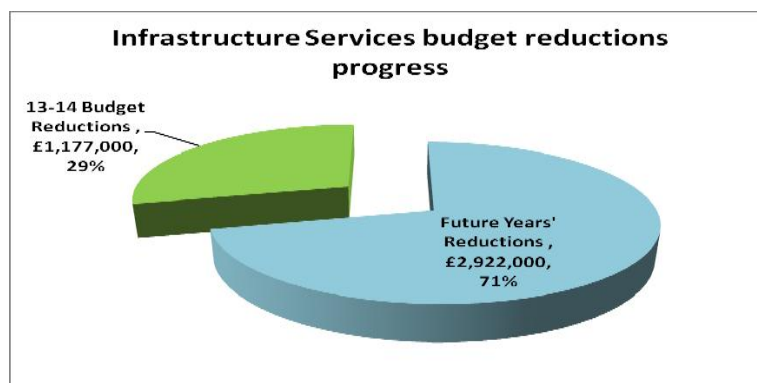


The remaining £2.3m of budget reductions to be found in future financial years will come from:

- Further reductions in grants to external bodies;
- A reduction in the budget for bus services; and
- A reduced level of service provision for community planning.

Infrastructure Services

15. The Pie chart below shows that the 2013-14 budget contains 29% of the savings required to deliver the Target Operating Budget with £2.9m still to secure in future financial years:



16. The remaining £2.9m of budget reductions to be found in future financial years will come from:

- Full implementation of service changes following the acceptance of proposals set out in the ferries review; and
- Further reductions in roads budgets, environmental services and buildings maintenance.

Conclusion

17. In order to preserve a minimum level of £125m in the Council's reserves, and eradicate the organisation's structural deficit, savings of £38.360m are required between 2012-13 and 2016-17. By achieving this, the Council will become financially sustainable.
18. By adopting this budget Members will have accepted proposals that will ensure that by the end of 2013-14 the Council is nearly 70% of the way towards becoming financially sustainable.
19. A clear set of outline proposals are in place in order to deliver the remainder of the budget reductions in the Medium Term Financial Plan. However as the financial and regulatory and statutory landscape develops each year, the Medium Term Financial Plan will be updated to reflect this.
20. Any changes in the level of funding available to the Council in future years will be reflected in subsequent budget reduction proposals.