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Date: 7 February 2018

Dear Sir/Madam

You are invited to the following meeting:

**Special Shetland Islands Council
Council Chamber, Town Hall, Lerwick
Wednesday 14 February 2018 at 10.00am**

Apologies for absence should be notified to Lynne Geddes at the above number.

Yours faithfully

Executive Manager – Governance and Law

Convener: M Bell
Depute Convener: B Wishart

AGENDA

- (a) Hold circular calling the meeting as read.
- (b) Apologies for absence, if any.
- (c) Declarations of Interest - Members are asked to consider whether they have an interest to declare in relation to any item on the agenda for this meeting. Any Member making a declaration of interest should indicate whether it is a financial or non-financial interest and include some information on the nature of the interest. Advice may be sought from Officers prior to the meeting taking place.

1. SIC Budget Book 2018/19
F-014
2. 2018/19 Housing Revenue Account Budget and Charging Proposals
F-013
3. Five Year Asset Investment Plan 2018-2023
F-016



Shetland Islands Council

Agenda Item

1

Meeting(s):	Policy & Resources Committee Shetland Islands Council	12 February 2018 14 February 2018
Report Title:	Shetland Islands Council Budget Book 2018/19	
Reference Number:	F-014-F	
Author / Job Title:	Jonathan Belford, Executive Manager - Finance	

1.0 Decisions / Action required:

- 1.1 That the Policy and Resources Committee CONSIDER information provided by the Chairs of Service Committees/Boards in relation to the 2018/19 Budget recommendations made by their Committees and, as amended, contained in the Budget Book;
- 1.2 That the Council CONSIDER information provided by the Chair of Policy and Resources Committee in relation to the 2018/19 Budget recommendations made by the Committee and contained in the Budget Book;
- 1.3 That the Policy and Resources Committee RECOMMEND that the Council RESOLVE to approve the 2018/19 Budget by:
 - a. Approving the Council Budget Book 2018/19 (Appendix 1);
 - b. Adopting the Formal Resolutions (Appendix 2);
 - c. Agreeing to increase the Council Tax by 3%; and
- 1.4 The Policy and Resources Committee RECOMMEND that the Council RESOLVE to instruct the Corporate Management Team to develop proposals and options for Service redesign/change in the form of Strategic Outline Cases to address the continuous improvement and financial challenges that lie ahead. That this should be done in the context of Council priorities and its contribution to local outcome aspirations, national policy and statutory duties, in a timescale of no more than 3 months (mid May).

2.0 High Level Summary:

- 2.1 The purpose of this report, and the 2018/19 Budget Book that accompanies it, is to set out a summary of the spending plans for Shetland Islands Council in the next financial year.
- 2.2 The 2018/19 Budget Book covers the General Fund, the Harbour Account, the Housing Revenue Account (HRA) and also incorporates the Capital programme for each, as part of a 5-year Asset Investment Plan.
- 2.3 Overall the budgeted use of Council reserves is affordable in 2018/19.

- 2.4 The General Fund budget has been set in the context of the Medium Term Financial Plan 2016/17-2021/22, however it fails to deliver the level of savings that had been anticipated.
- 2.5 Offsetting this has been a substantially improved financial package for Shetland Islands Council for 2018/19 than had been forecast, the final Scottish Government Grant is now expected to be at a similar level to that received in the current year, plus an additional specific grant of £5m towards the revenue costs of ferry operations. This package is for a single year.
- 2.6 Continuing discussions on the future funding of ferries is expected to be taken forward following the approval of the Scottish Budget Bill.
- 2.7 The consequence of the funding package is that the Council is able to present a balanced budget for approval that does not make use of any one-off funding from reserves, an improvement on the last two financial years.
- 2.8 The budget is, however not without savings options, £1.1m that have been incorporated into the budget and service redesign savings of £1.9m have either already been approved or will be taken forward for final decision making by the Council in due course.
- 2.9 The greatest challenge facing the Council remains the constant increase in cost, either through, for example, national conditions or local decisions. Growth included in the budget from pay and price inflation and service demand amounts to an unsustainable £5.6m – equivalent to over 5% of the 2017/18 budget.
- 2.10 The Council, following the additional funding announced on 31 January 2018, is now expected to receive a Scottish Government Grant of £80.5m. On a comparative basis this is £0.2m more than it will receive in 2017/18. Over and above this the funding for ferries will be received as a specific grant and will therefore reduce the net cost of ferry operations within the budget for 2018/19.
- 2.11 The Harbour Account is budgeted to make a surplus during the year and for £6m to be used to deliver day to day General Fund services, with a further £1m being applied to the General Fund from anticipated income from the Shetland Gas Plant agreements.
- 2.12 The Housing Revenue Account (HRA) proposes to increase rents by an inflation rate of 2% plus an additional £1 per week for one and two bedroom properties. This is in line with the HRA Business Plan 2017-2022 and current rent strategy. The planned investment in the housing stock is supported by a £1m draw from HRA Balances.
- 2.13 The Asset Investment Plan for 2017/18 proposes capital investment of over £28.2m in 2018/19, as part of a 5 year Plan that outlines projects to the value of £135m.
- 2.14 In capital terms due to the scale and timing of capital projects, which are delivered over a period of years, the funding is calculated over a five year planning cycle. As such the funding that is re-profiled is estimated to be sufficient to balance the 5-year Asset Investment Plan for 2018-23. The 5-year Asset Investment Plan is

reviewed on an annual basis to ensure that the plan, year on year, remains affordable.

- 2.15 The next meeting of the Policy and Resources Committee, on 6 March 2018, will consider a report on the Investment Strategy and Prudential Indicators, which will present the Council's prudential indicators that are required following the approval of the budget.
- 2.16 Appendices 1 and 2 of this report provide the 2018/19 Budget Book, which incorporates all of the budgets proposed for revenue and capital, and the formal resolutions in relation to the setting of the Council's budget for financial year 2018/19, respectively.

3.0 Corporate Priorities and Joint Working:

- 3.1 There is a specific objective in the Corporate Plan that the Council will have excellent financial management arrangements to ensure that it continues to keep a balanced and sustainable budget, and is living within its means; and that the Council continues to pursue a range of measures which will enable effective and successful management of its finances over the medium to long term. This involves correct alignment of the Council's resources with its priorities and expected outcomes, and maintaining a strong and resilient balance sheet.
- 3.2 Despite the work done so far, sustainability in particular is extremely challenging at this time with reducing Scottish Government funding continuing to be the underlying trend since 2011/12. A one year grant for ferries provides time for the Council to continue to prepare what changes it needs to make and to continue the discussions to secure permanent funding arrangements for both revenue and capital investment needed in the ferry services.
- 3.3 With a medium term forecast of a substantial gap between income and expenditure it remains the case that the Council should take action on improving the Council's approach to identifying and implementing sustainable solutions for the future and Directorate plans identify core priority areas for action between now and 2020.
- 3.4 The Council must address the underlying challenges that have already been highlighted in the Medium Term Financial Plan, including the anticipation of continued reductions in grant funding, to reduce expenditure and to recognise the need for service redesign that successfully responds to the financial realities that it faces. The report recommends that the Council instruct the Corporate Management Team to develop proposals and options for Service redesign/change in the form of Strategic Outline Cases to address the continuous improvement and financial challenges that lie ahead. This should be done in the context of Council priorities and its contribution to local outcome aspirations, national policy and statutory duties, in a timescale of no more than 3 months (mid May).

4.0 Key Issues:

- 4.1 Each of the Council's service committees, the Harbour Board and Shetland College Board considered the budget and charging proposals for 2018/19 for the services in their remit at meetings as follows:

Education and Families Committee	5 February 2018
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Development Committee	5 February 2018
Environment and Transport Committee	6 February 2018
Harbour Board	7 February 2018
Shetland College Board	8 February 2018

- 4.2 Earlier on this agenda, the Policy & Resources Committee (12 February 2018) has considered the budget and charging proposals for Corporate and Executive Services.
- 4.3 Similarly, the Policy & Resources Committee (12 February 2018) has considered the budget and charging proposals for the Community Health & Social Care services delivered by the Council that are delegated to the Shetland Islands Health & Social Care Partnership Integration Joint Board (IJB). The Committee also made a recommendation in relation to the funding that the IJB is to receive from the Council.
- 4.4 The IJB is due to meet on 22 February 2018 and will discuss the funding that it will receive from its partners and provide comment thereafter. If those comments are significant then a further report will be prepared for the Committee.
- 4.5 The budget and charging proposals were originally prepared in line with the budget targets for 2018/19 as set out in the Council's Medium Term Financial Plan 2016/17-2021/22 (MTFP) and included measures to address cost pressures from a number of sources including, for the General Fund, an estimated reduction in funding from the Scottish Government of 2%. The announcement of the Scottish Government's 2018/19 financial settlement for Shetland Islands Council presents a flat-cash settlement when compared to 2017/18, and provides an improved funding scenario of increased Scottish Government Grant of £2.2m when compared to the MTFP forecast for 2018/19.
- 4.6 The Council's Budget Book 2018/19 and Formal Resolutions are attached as Appendices 1 and 2 respectively to this report.
- 4.7 It is recommended that the Council Tax Band D for 2018/19 increase by 3% to £1,117.13. The budget proposals assume a 98.5% collection rate.

Brief Summary of the 2018/19 Local Government Financial Settlement

- 4.8 A report was presented to the Special Shetland Islands Council meeting on 17 January 2018 to consider the draft financial package announced on 14 December 2017 for the Shetland Islands Council. This contained a 1.8% reduction in Scottish Government Grant funding and additional cost burdens.
- 4.9 Since then, on 23 January 2018, revisions were made to the local authority allocations following the checking and consultation process. This has been followed on 31 January 2018 by the Scottish Government announcing further funding for Local Government. An additional sum of £1.636m (revenue) has been added to the Scottish Government Grant for 2018/19 and most importantly a specific grant to support ferry revenue costs that amounts to £5m.

- 4.10 Shetland Islands Council therefore is benefiting to the value of £6.636m compared to the draft settlement announced in December 2017.
- 4.11 Having taken into account this additional funding the comparative figures for the settlement are shown in the table below and indicate a Scotland wide funding increase of 2.4% from the current year. The announcement by the Cabinet Secretary for Finance and the Constitution on 14 December 2017 identified that funding allocated through the National Health Service budget for the purpose of providing funding for Integration Joint Boards to deliver on Social Care outcomes would continue at the same level.

	2017/18 £m	2018/19 £m	Movement £m	Movement %
Total Scotland Funding	10,434	10,688	254	2.4%
Revenue	9,647	9,812	165	1.7%
Capital	787	876	89	11.3%
Shetland				
Revenue Distributed	80.744	85,685	4.941	6.1%
Less Specific Grants	0.482	5.234		
SG Revenue Grant	80.262	80.451	0.189	0.2%
Capital	7.209	6.643	-0.566	-7.9%
Total Shetland	89.459	87.095	-0.377	-0.4%

- 4.12 The specific grants referred to in the table above amount to £5m for ferries and £0.234 for pupil equity funding to go directly to schools to close the gap in the educational attainment of young people from Scotland's most and least deprived areas.
- 4.13 The total package for Shetland Islands Council in 2018/19, confirmed as a single year package, is almost £5m more than in the current year representing additional funding of 6%.

Revenue

- 4.14 Although the revenue funding in Scotland has increased by 2.4%, the impact of the hugely complex allocation methodology is not the same for each local authority. Add to this the specific funding for ferries and clearly the Council is receiving a particularly high proportion of the total Local Government package.
- 4.15 This does not mean that the Council avoids the conditions, which if not accepted will result in a revised offer being made by the Scottish Government. The conditions are:
- Nationally the Pupil/Teacher ratios are to be maintained at 13.7:1;
 - Secure places for all probationers who require one under the teacher induction scheme.
- 4.16 Funding has been maintained for Community Health and Social Care through the NHS and a further sum of £0.26m for Shetland Islands Council has been incorporated into the financial settlement to meet new costs.
- 4.17 Additional burdens arise from the settlement, the greatest burden being the lifting of the public sector 1% pay cap, which it is anticipated will cost the Council over £2.5m in 2018/19.

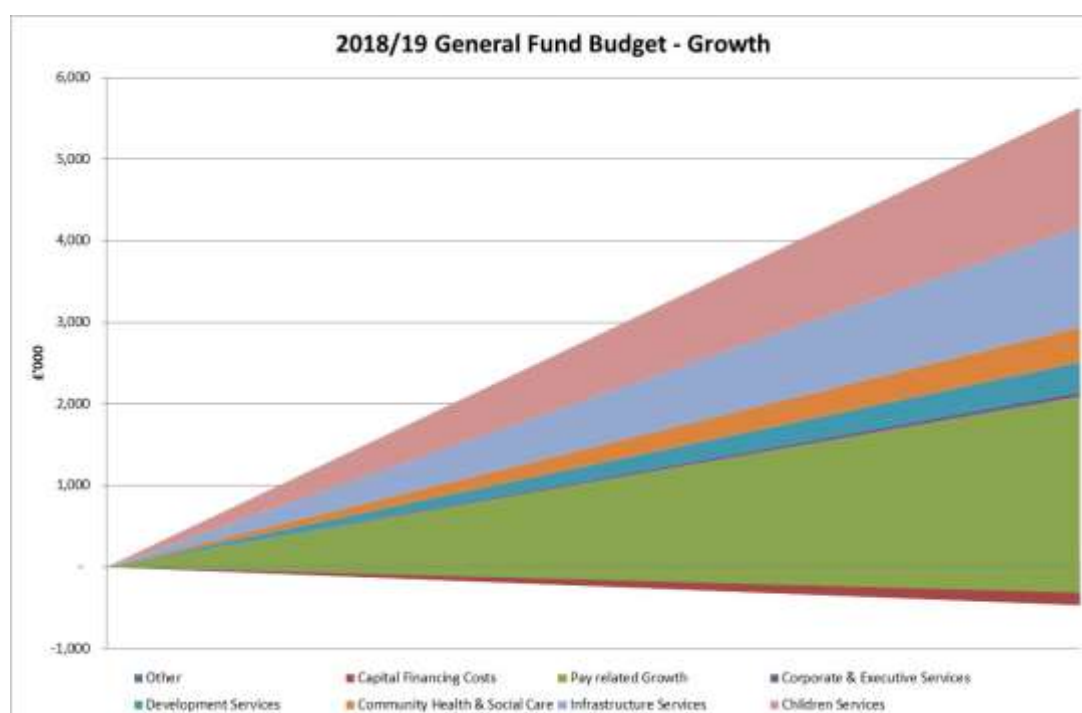
- 4.18 Further information can be obtained on the financial settlement in the report that was presented to Council on 17 January 2018.

Capital

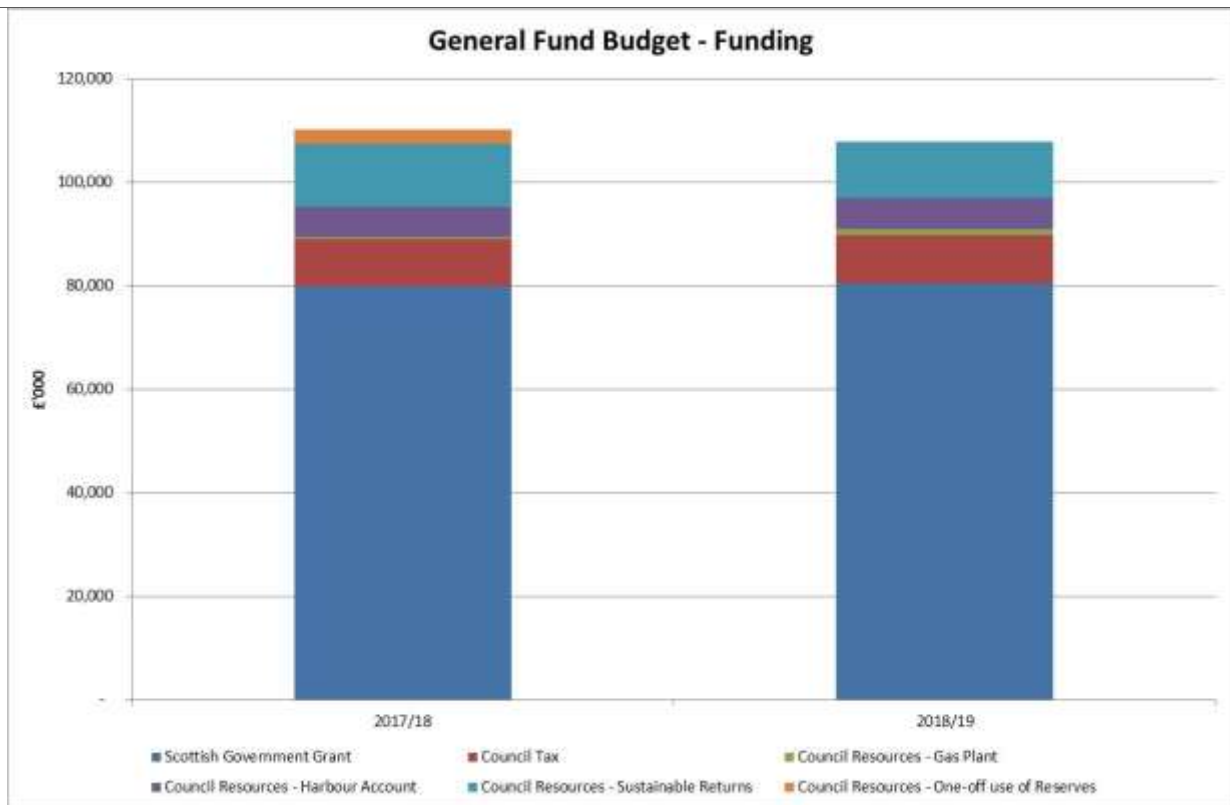
- 4.19 Capital funding was forecast to reduce in the current 5 Year Asset Investment Plan. The financial settlement confirms that funding that was withheld from 2016/17 will not be released until 2019/20, when it will be paid in full. This amounts to £1.25m for the Council and has been incorporated into the revised 5 Year Asset Investment Plan.

Balancing the General Fund Revenue Budget for 2018/19

- 4.20 Preparation for the revenue budget started last summer and was subject to scrutiny by the Corporate Management Team on a number of occasions, with information sharing and ideas generation being done with Councillors at seminars during September and October 2017. In addition detailed proposals were presented at Members' Seminars in November 2017 and January 2018. As stated above the proposals were considered by all Service Committees earlier this month.
- 4.21 Arriving at the balanced budget proposals has been achieved primarily as a result of the additional funding that has been made available to the Council from the Scottish Government for 2018/19, the Local Government Settlement delivering a flat cash position for Shetland Islands Council and an additional £5m being granted specifically to support the revenue costs of inter-island ferry services.
- 4.22 The Council has faced growth in cost of services, children services and ferry operations as well as the additional burden of a pay, which has now been costed on the basis of a public sector settlement at 3% (salary £30k and under), 2% (over £30k) and £1,600 (cap over £80k).
- 4.23 The cost of all of these elements and upward cost pressures in the 2018/19 Budget is £5.634m and is represented in the chart below.



- 4.24 The Council, in the absence of any clear commitment or indication of additional funding in 2018/19 has prepared its budget, initially looking for clear and achievable efficiency savings. This achieved £1.1m across the Council. In addition there was a continued emphasis on Service Redesign and during the year the Council has approved £0.54m of project savings that have been incorporated into the budget proposal, as well as the identification of £1.4m further savings for which final decisions will be required by the Council.
- 4.25 This has aided achieving a balanced budget but it is clear that the additional costs of £5.634m that were added to current service costs are in no way funded by the savings proposals – which only amount to £3m in total.
- 4.26 It is fortunate therefore that the financial settlement in terms of core Scottish Government Grant is effectively a flat cash position, and of even greater importance is the allocation of a grant of £5m to support the ferry services.
- 4.27 This improved financial settlement for the Council has been vital in preparing a balanced, affordable budget, that provides the opportunity for the Council to ensure that it is prepared for a future that will inevitably include cost increases and where it is expected to experience a continuing downward trend in core Scottish Government Grant funding.
- 4.28 Despite this the Council must consider its budget proposals and set a balanced budget that includes deciding the rate of Council Tax that will apply for the financial year. It is recommended that Council Tax is increased by 3%, the maximum, in accordance with guidance included in the financial settlement received from the Scottish Government.
- 4.29 The reason for this is that Shetland Islands Council currently charges the 4th lowest level of Council Tax in Scotland and while there may be additional funding for 2018/19 it is clear there is no certainty over the value of funding in the future. With limited flexibility annually to increase the Council Tax and having a low Council Tax base and rate it is important to ensure this funding stream is maintained for the future and that it covers some of the cost increases the Council is experiencing.
- 4.30 The recommendation to increase Council Tax by 3% will generate approximately £0.270m on a recurring basis. The increase will be in addition to a small rise (1%) in the number of properties that will be charged in 2018/19. A total income from Council Tax is forecast to be £9.363m based on the approval of a 3% increase.
- 4.31 Overall, the General Fund budget, presented in the 2018/19 Budget Book is balanced, is prudent and is affordable.
- 4.32 The funding package ensures that there is no use of one-off reserves in 2018/19, as shown in the chart below.



Balance Sheet

- 4.33 The balance sheet as at 31 March 2017 had Net Assets of £479m, supported by Useable Reserves of £244m, which is broadly in line with the MTFP requirements.
- 4.34 Long-term assets amounted to £739m with approximately 45% of the value being the form of long-term investments, which have been built up over the years and are based on the useable reserves that the Council has created over that time plus the growth that has been achieved on those investments.
- 4.35 The Council had long-term external borrowing of £31m and this is expected to increase both during this year, by a further £10m and in accordance with the Asset Investment Plan for 2018-2023 an additional £12m will be required. It is estimated that long-term borrowing will be around £53m by the 31 March 2019.
- 4.36 During 2017/18 long-term liabilities have increased following the opening of the new Anderson High School. These liabilities will be predominantly paid for by income from the Scottish Government as part of the agreements signed for the building of the school and halls of residence. The revenue implications for the Council of the school have been incorporated into the General Fund budget proposals for 2018/19.
- 4.37 Earmarked commitments to fund specific projects and funding obligations, for example the Housing Revenue Account working balances, amounted in total to £54.2m as at 31 March 2017. These reserves are required in the short to long-term and as such have to be preserved so that the funds are available to meet those obligations as they arise. For this reason their value is not included in the investment returns base, used for calculating the sustainable use of investment returns.

- 4.38 The budget proposals are in line with the Financial strategy that maintains useable reserves, does not undermine the long-term investment return assumptions and ensures that long-term borrowing is prudent, affordable and sustainable.

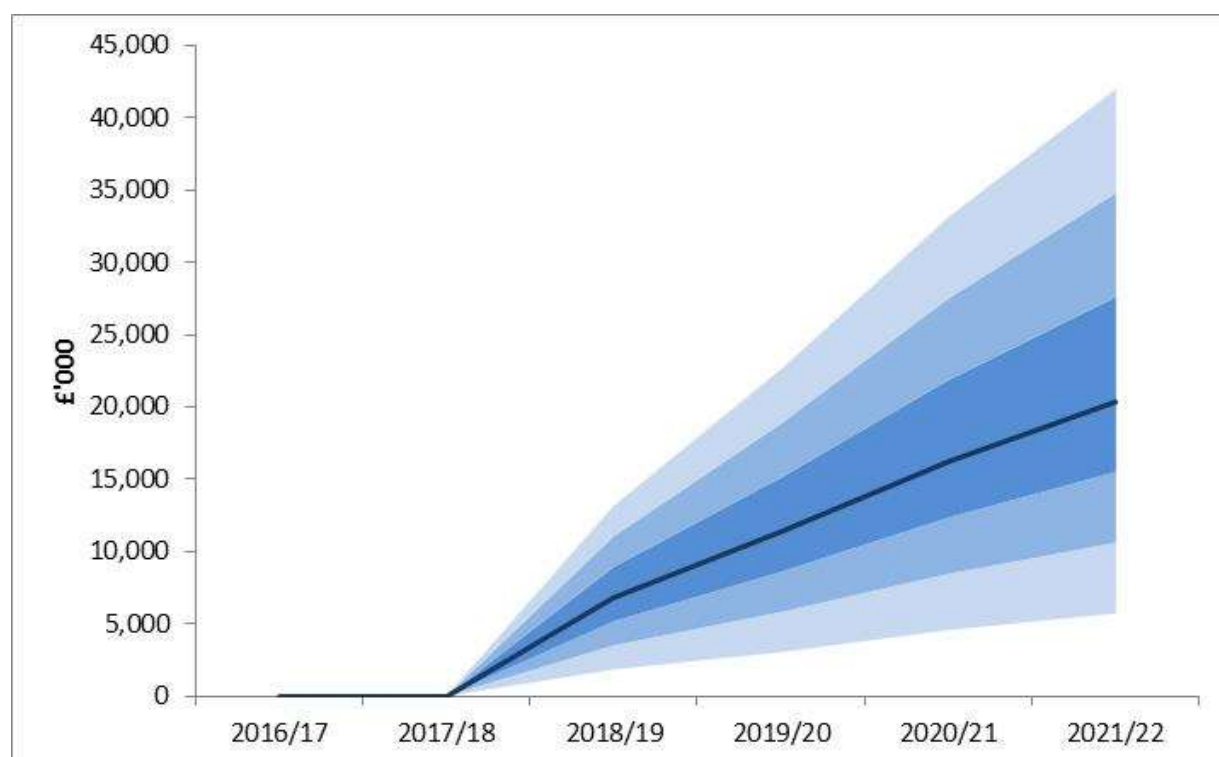
Sustainability – the case for change

- 4.39 The question of the extent to which the budget is sustainable remains less clear, due to the uncertainty over rising costs and the anticipated falling income in the future. These two features of public service service delivery mean that new and creative options for transforming the way we do things as a Council are essential. Service redesign needs to be carried out in the context of how the business can transform and the Council must take the opportunity to embrace this and to move services forward with the express understanding that there are financial limitations. Future budgets need to adapt and take account of this and Directorate Plans, while in line with the Corporate Plan priorities, must consider the financial consequences of not addressing the continuing reduction in resources available.
- 4.40 The funding package for the Council in 2018/19 is a step forward, as services receive funding that has been sought for many years, but it is not the end of the work, it does not resolve the sustainability issue and there is no certainty, if there ever can be, of the value of future funding either for revenue or capital investment in the inter-island ferry services.
- 4.41 It remains important to address the rising costs of services and to seek sustainable ways of achieving the outcomes that are sought.

Preparing for 2019/20 and beyond

- 4.42 In March 2017 the Council approved the 2016/17-2021/22 Medium Term Financial Plan and recognised the future challenges of rising costs and falling income. At that time it was forecast that a gap of £20m (within a range of £6m to £40m) would exist between income and expenditure if nothing was done about the current service delivery models.

Shetland Islands Council, Medium Term Funding Gap to 2021/22



4.43	<p>Despite the increased funding, and assuming that funding for ferries continues into the future it is not estimated that the gap of £20m will be addressed therefore the effort needs to continue to find the right solutions for Shetland in a way that allows the Council to remain financially sound for the long-term and directs resources to the activities that are of greatest priority, measured against local outcome aspirations, national policy and statutory duties.</p> <p>The report, as well as seeking approval of the 2018/19 Budget recommends that the Council instruct the Corporate Management Team to develop proposals and options for Service redesign/change in the form of Strategic Outline Cases to address the continuous improvement and financial challenges that lie ahead. This should be done in the context of Council priorities and its contribution to local outcome aspirations, national policy and statutory duties, in a timescale of no more than 3 months (mid May).</p>
5.0 Exempt and/or confidential information:	
5.1	None
6.0 Implications :	
6.1 Service Users, Patients and Communities:	The proposed budgets ensure that there is limited impact on users and communities. Where proposals for service change require it then an equalities impact assessment will require to be carried out and relevant consultation undertaken.
6.2 Human Resources and Organisational Development:	Each individual service will be responsible for addressing human resource issues prior to making any changes to the existing level of service delivery.
6.3 Equality, Diversity and Human Rights:	The proposed budgets ensure that there is limited impact on users and communities. Where proposals for service change require it then an equalities impact assessment will require to be carried out and relevant consultation undertaken.
6.4 Legal:	<p>Under Section 95 of the Local Government (Scotland) Act 1973, there is a requirement for each local authority to make arrangements for the proper administration of their financial affairs and that the chief financial officer/Section 95 officer has responsibility for the administration of those affairs, and Section 93 of the Local Government Finance Act 1992 requires the Council to set a balanced budget.</p> <p>Each individual service will be responsible for obtaining the necessary legal advice from Governance and Law prior to making any changes to the existing level of service delivery.</p>
6.5 Finance:	<p>The Council is setting a budget which is affordable.</p> <p>The Council has reached a positive position through responsible decision-making and taking action on its costs in recent years. This has enabled it to continue to support the General Fund</p>

	<p>budget with a sustainable use of reserves, which rely on global investment returns.</p> <p>An affordable draw from reserves has been calculated at approximately £14m, the proposals are within this sum.</p> <p>As a result of the investment returns generated it is possible for the Council to have a higher cost base for service delivery than mainland councils. This budget seeks to ensure that the real value of the reserves is protected during 2018/19.</p> <p>It is important that the Council continues this responsible budgeting approach into the future and starts planning how to meet future years' budget challenges.</p> <p>A decision to recommend changes to the budget proposals in this report that would result in an increased or decreased draw on the reserves which would mean that the affordable draw from reserves would have to be reconsidered.</p> <p>Changes to the budget proposals will require a formal amendment and would have to be fully quantified in the Committee decision.</p>
6.6 Assets and Property:	<p>The Medium Term Financial Plan recommends that the Council focus on effective asset management and a reduction in the number of operational properties used by the Council. The Executive Manager – Capital Programme will determine the opportunities for maximising revenue income and capital receipts from the property estate.</p> <p>There is an assumption in the Asset Investment Plan that capital receipts will be generated during the year.</p>
6.7 ICT and new technologies:	<p>Business transformation is a crucial element of the Council adapting to the current financial and technological environment. Corporate and Executive Services, in conjunction with Service led redesign, are leading a programme of work that seeks to maximise the benefits that can be achieved from ICT and new technologies.</p>
6.8 Environmental:	<p>This budget proposes continuing work on reducing carbon emissions to support the Council's duty under the Climate Change (Scotland) Act 2009.</p> <p>Each individual service will be responsible for assessing environmental issues prior to making any changes to the existing level of service delivery.</p>
6.9 Risk Management:	<p>There are numerous risks involved in planning the delivery of services for the future and the awareness of these risks is critical to successful financial management.</p>

	<p>These budgeted assumptions can be affected by many internal and external factors, such as supply and demand, which may have a detrimental financial impact.</p> <p>There are a number of assumptions around anticipated income levels, returns on investments and cost pressures within the budget that are based on the latest information available and these may vary throughout the year.</p> <p>There is a significant risk around financial sustainability as there is no certainty of the value of future funding either for revenue or capital investment in the inter-island ferry services. This will have a significant impact if not secured for 2019/20 onwards. The Council will continue negotiations with the Scottish Government and Transport Scotland.</p> <p>A significant financial risk exists in relation to the income projections from the Harbour Account, as a result of the volatility around oil tanker volumes, and from the Shetland Gas Plant because of the impact on income from the price of oil and gas.</p> <p>The budget provides for a net 5.2% return on reserves annually which results in an estimated return of over £14m. Taking a long term view of investment returns is vital to providing assurance that this level of return can be achieved as the value of investments will go down as well as up. A net 5.2% return has been based upon a gross return of 7.3% per annum, and is at the upper end of the range over the last 20 years that has seen longer term rates of between 3.56% and 8.49% per annum.</p> <p>Managing the Council's investments through a diversified investment strategy and monitoring performance ensures the Council remains in a position to achieve this level of investment return over the long term.</p> <p>The budget contains savings of over £3m; there is a risk that should savings not be achieved it will result in an increased draw on reserves. The 2018/19 budget will require a net draw on reserves of £11.684m.</p> <p>These risks are mitigated by using a realistic approach and the most up-to-date information when setting the budget. Also, the inclusion in the overall Council budget of a corporate cost pressure and contingency budget to support volatile and unexpected additional costs.</p> <p>A strong balance sheet and the availability of usable reserves ensure that the Council is prepared for other significant unforeseen events. As at 31 March 2017 an uncommitted General Fund balance of more than £24m is available.</p>
6.10 Policy and Delegated Authority:	<p>The Policy & Resources Committee is required to make recommendations to the Council as to the estimates of capital and revenue expenditure. The decisions required in this report</p>

	<p>may only be determined by the Council, in accordance with Section 2.1.3 of the Council's Scheme of Administration and Delegations, including the power to fix the Council Tax.</p> <p>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.</p>	
6.11 Previously considered by:	Service Committees, as notified in section 4 of the report	

Contact Details:

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5 February 2018

Appendices:

Appendix 1 – 2018/19 Budget Book
Appendix 2 – Formal Resolutions

Background Documents:

Shetland Islands Council



The Council Budget Book 2018/19

Corporate Plan Vision:
By the end of this plan (2020),
we want to be known as
an excellent organisation
that works well with our partners
to deliver sustainable services
for the people of Shetland.

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Executive Summary

Introduction

- 1.01 Shetland Islands Council's 2018/19 budget will ensure that public services in Shetland continue to be better funded than any other local authority in Scotland. This is because the Council will top up its Council Tax income and core Scottish Government grant with an additional £17.897m, which is affordable as a result of the budgeted Harbour Account surplus, budgeted income from the Shetland Gas Plant and drawing from expected long-term investment returns.
- 1.02 The Council is setting a budget that requires a draw from investment returns (underpinned by Council reserves) of £10.873m, this is an affordable amount and is under the estimated maximum usable return of £14.265m, whilst still protecting the capital value of reserves. This has enabled the Council to offset the trend of reducing government funding since 2010/11.
- 1.03 The budget proposes a 3% increase in the rate of Council Tax and is expected to continue to have one of the lowest Council Tax rates in Scotland.
- 1.04 The financial settlement for Shetland Islands Council, although only for a single year, does represent a shift in the resources it has available, with specific funding being allocated to it for the first time to support the revenue costs of inter-island ferry services. This provides the opportunity for the Council to take a period of time (the next six to nine months) to set out what and how it changes its services to target its priorities and outcome aspirations so they are sustainable and fits into the medium term financial planning framework. Crucial to this will be the continuing discussions on the long-term revenue funding for inter-island ferries and capital funding needed to replace vessels and terminals.
- 1.05 The Harbour Account is expected to operate with a surplus and has in general applied a 2.5% increase in fees and charges.
- 1.06 The Housing Revenue Account has a 5 year business plan on which the budget for 2018/19 has been based, and is underpinned by a 30 year financial model. A rent increase on dwellings of 2% has been applied with an additional £1 per week added to the rental of one and two bedroom properties. An average rent rise of 2.59%.
- 1.07 The 5 year Asset Investment Plan is balanced and affordable, with the relevant costs of borrowing and revenue impact of capital projects having been taken into account when preparing the 2018/19 budget.

Progress to Date & Financial Outlook

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

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

- 1.09 This does not mean it is guaranteed for the future. The medium term is fundamental to how the Council goes about its business, the trend in core Scottish Government Grant remains downwards, despite a flat cash funding level for 2018/19, and costs are set to rise year on year, with greater risk of pay and price inflation being above previous expectations.
- 1.10 For this reason, the Corporate Management Team should be expected to produce a programme of proposals and options for service redesign. This exercise should be conducted over the next three months and be set out using the business case methodology that the Council has adopted – initially preparing Strategic Outline Cases for each option. The proposals and options will take account of the duty to continuously improve while achieving best value and be set in the context of local outcome aspirations, national policy and statutory obligations.
- 1.11 There is an absolute requirement for different ways of working to be identified that can work in Shetland and to move towards implementation of solutions that make better use of modern technology and digital improvements that are planned by 2020. The budget for 2018/19 includes £1.940m of redesign projects, £0.540m have already been approved. The remaining projects will require to be fully worked up before final decisions are made by the Council to implement.
- 1.12 The Council is extremely fortunate to be able to supplement its annual budget from funds generated by its own resources, but these are not limitless, and it is important that the Council continues its responsible budgeting approach into the future as this represents the greatest benefit over the long term for the delivery of Council services in Shetland.
- 1.13 The one-off nature of the ferry funding and the unexpectedly positive Scottish Government Grant settlement will have to be taken into account when looking forward at the financial sustainability of the Council, which needs to be reviewed in light of the latest data and forecasts available. Therefore, Councillors will need to continue to receive updates to the Medium Term Financial Plan annually and set future budgets in line with it to ensure that the responsible and positive approach taken in recent years continues into the future.
- 1.14 The Community Empowerment (Scotland) Act 2015 places Community Planning on a statutory footing therefore it is more important than ever before for there to be a process to engage with communities and involve them in decision making.
- 1.15 Within Shetland Community Choices one of the workstreams remains to progress towards a more mainstream approach to participatory budgeting encouraging and facilitating idea generation, debate and discussion around ideas for improving the community and also in relation to different ways of delivering services efficiently and effectively.

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

Draw on Reserves

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

Draw from Reserves 2018/19	Budgeted Draw from / (Contribution to) Reserves £m
General Fund	17.897
Harbour Account Surplus	(10.449)
Housing Revenue Account	1.052
Asset Investment Plan	3.184
NET BUDGETED DRAW FROM RESERVES 2018/19	11.684

1.18 The total net budgeted draw on reserves for 2018/19 is £11.684m. This is achievable on the basis of anticipated returns (from growth and income) from Council investments of over £300m, and an operational surplus being achieved on the Harbour Account.

1.19 The Medium Term Financial Plan outlines the challenges that the Council faces in relation to the next 5 years in terms of delivering a balanced and affordable budget and incorporates appropriate long-term assumptions about investment returns that can be achieved annually, while at the same time ensuring that the Council has funds to meet its financial commitments which are of a medium and long-term nature.

Key Budget Messages

1.20 General Fund

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

- In 2016/17 and 2017/18 funding for Social Care has been channelled through NHS Shetland to the Shetland Community Health and Social Care Integration Joint Board (IJB). This is to continue at the same level in 2018/19. It results in £1.3m being received by the Council from the IJB for the delivery of Social Care services.
- The Local Government Financial Settlement includes the distribution of £66m for Social Care in 2018/19 to fund the implications of, for example, the Carers Act. For Shetland Islands Council this amounts to a sum of £0.26m, and this has been included in the proposed allocation to the IJB for 2018/19. Additional funding is also proposed to cover the cost of pay and price inflation for which savings have not been identified, while a Service Redesign proposal for Mental Health Services is anticipated to create a saving of £0.2m.
- The total impact of Service Redesign projects in 2018/19 is expected to be £1.94m, with £0.54m implemented or in the process of implementation.
- The financial settlement for Local Government brings with it new costs, for example, pay award expectations, the 1% pay cap having been lifted. As such the proposed budget takes account of a settlement for 2018/19 of 3% (£30k salary and under), 2% (over £30k), £1,600 (over £80k) – in line with the settlement that the Cabinet Secretary for Finance and the Constitution announced for other public sector workers.
- The Medium Term Financial Plan had forecast growth in service costs from 2017/18 of £4.6m (4.2%) however, the actual growth that has been incorporated into the 2018/19 budget is £5.6m (5.1%). Growth of this value is unsustainable.
- The management of financial risk has a range of components, one of which is the budget has a contingency sum built in. In 2018/19 the value of that contingency is £0.45m, the same as in 2017/18.
- Budgets to fund Capital Financing Costs, change projects and a sum for the continuing cost of the apprenticeship levy are managed centrally. In total, this amounts to £2.647m.
- The budget recommends a 3% increase in the rate of Council Tax, which will generate £0.27m in 2018/19.

1.21 Harbour Account

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

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

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

1.22 Housing Revenue Account

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

1.23 Asset Investment Plan

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

Introduction to the Budget Report

Medium Term Financial Plan 2016/17 – 2021/22

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

- To take action on costs over the life of this Plan on the basis that Scottish Government funding will not increase for years to come and that it is likely to never return to the funding level (in real terms) that it has now to deliver services;
- To seek all opportunities to enter into dialogue with the Scottish Government in relation to services for which the Council does not receive its fair share of funding, or where inconsistency exists between Shetland and other local authorities;
- To take a prudent approach to core Scottish Government funding projections for the next five years; to take a cautious approach to the benefits that may be generated from fluctuating oil and gas prices; and to take a measured approach to the long-term investment returns that will be generated, to determine the overall value of Council income;
- To treat all non-specific grants received as a corporate resource despite the implied treatment described in funding award letters / Scottish Government circulars;
- To apply the Charging Framework in considering, setting and applying charge for services, recognising the important place income has in addressing rising costs;
- To continue to adopt the Investment Returns Withdrawal Policy, which includes a long-term investment return rate of 7.3% and long-term inflation rate of 2.1%, resulting in an affordable draw from investment returns of 5.2% of the investment returns base;
- To maintain an investment returns base of £252.4m as at 1 April 2017;
- To focus investment returns on supporting revenue expenditure;
- To capture savings from improved and robust procurement and commissioning processes, including the re-negotiation of contracts;
- To maintain a revenue budget contingency and maintain an uncommitted General Fund Reserve to mitigate the risk of unplanned and one-off events that the Council may face;
- To acknowledge rising costs and falling income from the Scottish Government, and agree to respond to the gap that exists between income and expenditure in the future;

- To structure services in a way that maximises productivity and operates as efficiently and effectively as is possible;
- To prioritise service delivery that is identified as being most likely to successfully achieve the Corporate Plan objectives and outcomes in the long term or is required to fulfil the Council's statutory duties, and to agree to stop discretionary services that do not contribute to that achievement;
- To build upon the financial management improvements that have already been made, and continue to base decision making on evidence based reporting, following the building better business cases methodology, demanding fully costed options and recognition that the use of Council resources all come with a cost;
- To continue to set aside an annual sum of Funding for Change, alongside a scheme for Spend to Save and Improvement, earmarked within the Council's Usable Reserves;
- To limit capital expenditure to a programme that is deliverable and affordable based on the estimated level of Scottish Government Capital Grant, supplemented by capital receipts;
- To borrow in specific circumstances for capital investment, that cannot be funded from Capital Grant or capital receipts, the cost of which will be borne by the service that the investment benefits. Borrowing will be carried out under the Prudential Code framework of prudence, sustainability and affordability in line with the Council's Annual Investment and Treasury Strategy;

The 2018/19 Budget

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

2.03 The Budget Book encapsulates all aspects of the Council's business; the General Fund, the Harbour Account, the Housing Revenue Account and the Capital Programme (Asset Investment Plan). This means it is clearer for Elected Members to see the full impact that the spending proposals will have on the Council's reserves during the financial year. This is important because the Council relies upon drawing an affordable sum from its invested reserves to fund the delivery of services.

The Approach to Setting the 2018/19 Budget

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

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

£1.94m (1.8%) has been identified under Service Redesign programme, with £0.54m already approved by the Council and a further opportunity for £1.4m to be achieved with further work still required for decisions then to be made. Together these do not compensate for the anticipated growth in costs.

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

Other Aspects of the Budget Report

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

Spend to Save and Improvement Fund

- 2.12 The Council has a Spend to Save and Improvement Fund. The purpose of the scheme is to provide up front funding to a service in order to effect a change that will result in recurring savings in the future. It is expected to work in conjunction with the Funding for Change budget included annually in the revenue budget. The Funding for Change

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

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

- 3.01 The 2018/19 General Fund budget proposes to incur net expenditure of £107.711m on services to the people of Shetland during the next financial year, included redesign projects of £1.940m.
- 3.02 Although budgets have reduced in recent years to move the Council to a position where it is closer to a sustainable footing, Shetland Islands Council is still providing some of the highest funded services to the public of any local authority in Scotland.
- 3.03 During that time the Council has sought to maximise the potential impact of the available funding for services by targeting resources towards the key priorities of the Council as set out in its Corporate Plan. In line with the new MTFP, the opportunity should be taken by Directors to prioritise the delivery of services that contribute most effectively to the successful delivery of the Corporate Plan objectives and outcomes in the long term or are required to fulfil the Council's statutory duties. This should be taken forward by Directors in planning for the future beyond 2018/19.

The 2018/19 General Fund Budget

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

Line No.	Description	2018/19 £000	2018/19 £000
1	Chief Executive & Cost of Democracy	1,701	
2	Children's Services	42,180	
3	Community Health & Social Care Services	21,053	
4	Development Services	14,143	
5	Infrastructure Services	19,864	
6	Corporate Services	10,750	
7	Corporate Services (Fund Manager Fees)	895	
8	GENERAL FUND SERVICES NET EXPENDITURE (equals lines 1 - 7)		110,586
9	Allocation to the Integration Joint Board (IJB)	19,775	
10	Allocation to the Integration Joint Board (Audit Fee)	15	
11	Contribution from the Integrated Joint Board (IJB)	(21,053)	
12	NET CONTRIBUTION FROM THE IJB (equals lines 9 - 11)		(1,263)
13	Insurance Redesign (previously approved)	(500)	
14	Accommodation Rationalisation	(750)	
15	Mental Health Redesign	(200)	
16	Tertiary Sector Redesign	(250)	
17	Promote Shetland Redesign (previously approved)	(40)	
18	Waste Recycling Redesign	(150)	
19	Gritting Review	(50)	
20	REDESIGN PROJECTS (equals lines 13 – 19)		(1,940)
21	Contingencies, Funding for Change and Budget Pressures		1,517
22	Capital Financing Costs		1,580
23	Support Recharges to Harbour Account , HRA and Capital		(1,675)
24	Interest on Revenue Balances		(14)
25	Economic Development Investment Income		(1,080)
26	TOTAL NET GENERAL FUND EXPENDITURE (equals line 8 plus line 12 plus lines 20 - 25)		107,711
	FUNDED BY:		
27	General Revenue Grant/NNDR (Scottish Government Allocation)	(80,451)	
28	Council Tax	(9,363)	
29	TOTAL CORE FUNDING (equals lines 27 - 28)		(89,814)
	Deficit to be funded from Reserves		
30	Draw on Reserves – Core Expenditure General Fund	(10,873)	
31	Draw on Reserves – Equivalent to Harbour Account Surplus	(6,000)	
32	Shetland Gas Plant Contribution	(1,024)	
33	TOTAL FUNDING FROM RESERVES (equals lines 30 - 32)		(17,897)
34	TOTAL FUNDING (equals line 29 plus line 33)		(107,711)
35	BALANCED BUDGET (line 26 plus line 34)		0

Expenditure

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

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

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

4.05 The detailed General Fund budgetary information which underpins this section of the budget report can be found in the following Budget Proposals Reports (including appendices) which were presented to Service Committee Meetings.

Education & Families Committee 5 February 2018	F-009-F 2018/19 Budget & Charging Proposals Education and Families Committee http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=
Environment & Transport Committee 6 February 2018	F-010-F 2018/19 Budget and Charging Proposals Environment and Transport Committee http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=
Development Committee 5 February 2018	F-011-F 2018/19 Budget and Charging Proposals Development Committee http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=
Shetland College Board 8 February 2018	F-006-F 2018/19 Budget Proposals for Shetland College http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=

Policy and Resources Committee 12 February 2018	F-008-F 2018/19 Budget and Charging Proposals Community Health and Social Care Integration Joint Board http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=
Policy & Resources Committee 12 February 2018	F-012-F 2018/19 Budget and Charging Proposals Policy & Resources Committee http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=

Council-wide Budgets and Contingency

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

4.07 As this budget line covers Council-wide issues they are held centrally by the Executive Manager – Finance. Funds will only be released when the Executive Manager – Finance is satisfied that the cost pressure has materialised or the conditions exist to legitimately release contingency monies.

4.08 The following tables show how the figure of £3.097m has been calculated:

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

Funding

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

The 2018/19 Harbour Account Budget

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

Line No.	Description	2018/19 £000
	<i>Expenditure</i>	
1	Sullom Voe	12,237
2	Scalloway	979
3	Other Piers	1,417
4	Jetties & Spur Booms	4,931
5	Terminals	1,979
6	TOTAL EXPENDITURE (equals lines 1 - 5)	21,543
	<i>Income</i>	
7	Harbour Fees & Charges	(22,992)
8	Jetties & Spur Booms	(4,931)
9	TOTAL INCOME (equals lines 7 - 8)	(27,923)
10	HARBOUR ACTIVITY NET SURPLUS (equals lines 6 - 9)	(6,380)
11	Internal contribution from the General Fund for terminal berthing charges	(3,045)
12	Shetland Gas Plant	(1,024)
13	TOTAL SURPLUS (equals line 10 - 12)	(10,449)
	<i>Contributions to/(from) Reserves</i>	
14	Contribution to the Reserve Fund	10,449
15	BALANCED HARBOUR ACCOUNT (line 13 plus line 14)	0

5.02 The Sullom Voe Terminal operator requires a 24 hour, 7 day per week harbour operation to facilitate tanker movements. From the point of view of the Council, this means that there is a requirement to continue to incur a high level of expenditure to maintain this level of service against what has been a trend of reducing tanker numbers, leaving the risk of financial loss with the Council. Charges are set in this context and have been increased by 2.5% for 2018/19.

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

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

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

- 5.06 Income from the Shetland Gas Plant throughput activity is anticipated to increase in 2018/19 due to fluctuating gas and oil prices, therefore it has been estimated that there will be additional income of £0.474m over the ground rent of £0.550m.
- 5.07 The detailed Harbour Account budgetary information, which underpins this section of the budget report, can be found in the following budget proposals report (including appendices) which was presented to the Harbour Board on 7 February 2018:

Harbour Board
7 February
2018

F-007-F

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

The 2018/19 Housing Revenue Account Budget

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

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

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

6.03 The proposal on rents is to remove the disparity in rents between smaller and larger properties as the distinction is no longer reasonable, and this is in line with tenant feedback. Rents are due to increase by 2%, with an additional £1 per week being added to rents for one and two bedroom properties for 2018/19.

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

6.05 The detailed HRA budgetary information, which underpins this section of the budget report, can be found in the following budget proposals report (including appendices) which was presented to the Policy and Resources Committee on 12 February 2018:

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

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

Line No.	Description	2018/19 Budget £000
1	New Developments	3,273
2	Maintenance of Existing Assets	7,218
3	Housing Revenue Account Projects	3,512
4	Potential Projects	11,505
5	Fairer Funding for Ferries Projects	2,700
6	TOTAL EXPENDITURE (equals lines 1 - 5)	28,208
7	Scottish Government General Capital Grant	(6,612)
8	Other Capital Grants	(1,733)
9	Capital Receipts (General Fund and HRA)	(300)
10	Capital Funded from Current Revenue (Harbour and HRA)	(4,737)
11	Draw on Reserves – Spend to Save Reserve	(326)
12	Draw on Reserves – General Capital Reserve	(2,858)
13	Fair Funding for Ferries	(2,700)
14	TOTAL FUNDING (equals lines 7 - 13)	(19,266)
15	FUNDING SHORTFALL (equals line 6 plus line 14)	8,942
16	Borrowing	(8,942)
17	TOTAL BORROWING (equals lines 16)	(8,942)
18	TOTAL FUNDING AND FINANCING (equals line 14 plus line 17)	(28,208)
19	BALANCED ASSET INVESTMENT PLAN (equals line 6 plus line 18)	0

7.02 There are 13 key criteria for capital investment planning included within the Medium Term Financial Plan. These are:

- No growth in the operational asset base;
- Capital expenditure is primarily focussed on the capital maintenance of existing assets;
- A gateway process will ensure strategic fit is demonstrated early and decisions are taken at key stages. This will be supported by a full business case, including projected future demand, and options and investment appraisal process before a project can be considered for inclusion on the Asset Investment Plan;

- No project will be considered for inclusion on the Asset Investment Plan, and existing projects will be removed, unless they have a robust financial estimate of cost. The Executive Manager – Finance will determine whether the financial estimates of cost is robust;
- All capital projects must clearly demonstrate the revenue consequences arising from a capital spending decision to assist Elected Members in understanding the full financial impact;
- The focus will be on effective asset management, driven forward through the Asset Strategy and Implementation Plan. This will ensure that the Council occupies a reduced number of properties in the future.
- Scottish Government Capital Grant will be applied initially to short life assets (e.g. vehicles, ICT, certain maintenance);
- Capital Receipts will be targeted at core capital maintenance costs.
- Capital Funded from Current Revenue (CFCR) will be used where appropriate to fund low value, shorter life capital expenditure.
- Where available and determined as appropriate by the Executive Manager – Finance, other assets may be funded from Capital Grants, Capital Receipts and CFCR;
- All other capital expenditure will be financed by borrowing. If interest rates are lower than the return on the long-term investments described in the Medium Term Financial Plan, external borrowing will be undertaken. If interest rates are higher than investment returns, internal borrowing will be undertaken;
- The service(s) that benefit from the capital asset will be required to make sufficient revenue savings to free up budget to pay for the cost of capital (interest charges and principal repayments of debt) based on the amount borrowed. This will be calculated on the amount borrowed;
- Capital financing products are affected by external and financial market factors and can develop in a way that may enable the Council to achieve its Corporate Plan outcomes through alternative means. Where new capital financial opportunities arise, such as Scottish Government Initiatives like the National Housing Trust models, then the Executive Manger Finance will give consideration to such products, subjecting them to financial viability, affordability and risk tests, and make a recommendation prior to proceeding.

7.03 The level of borrowing required to finance the Asset Investment Plan is called the Capital Financing Requirement (CFR). The Council will be able to manage limits for borrowing based on what it thinks is prudent, affordable and sustainable through annually agreeing Prudential Indicators as part of the Annual Borrowing and Investment Strategy.

Asset Investment Plan 2018/19 to 2022/23

- 7.04 The Asset Investment Plan proposes to spend £135.019m over the next five years, which represents a significant investment in the Council's infrastructure and this will require borrowing of £12.469m to meet the funding shortfall.
- 7.05 The focus of the Asset Investment Plan over the five years is on the maintenance of existing assets rather than the creation of new assets.
- 7.06 Over a third of the Plan focuses on the vessels and terminals that are required to support inter-island ferry services. The funding for the vessel and terminal replacement programme is subject to ongoing dialogue with Transport Scotland and a successful conclusion to that dialogue, with the Scottish Government meeting its commitment to fair funding for the inter-island ferry services being fundamental to the affordability of this programme.
- 7.07 The detailed Capital Programme (Asset Investment Plan) budgetary information, which underpins this section of the budget report, can be found in the following budget proposals report (including appendices) which was presented to the Policy & Resources Committee on 12 February 2018.

Policy & Resources Committee 12 February 2018	F-016-F Proposed 5 Year Asset Investment Plan 2018/19-2022/23 http://www.shetland.gov.uk/coins/Agenda.asp?meetingid=
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Shetland Islands Council – Budget Estimates 2018/19**The Formal Resolutions Required:****Recommendation**

It is recommended that to provide for the expenses foreseen in the Budget Estimates for 2018/19, the Council RESOLVE THAT:-

1. they IMPOSE and LEVY the following assessments for the period from 1 April 2018 to 31 March 2019.

NON DOMESTIC 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 2018 and at monthly intervals thereafter, or in a single payment on or before 30 September 2018.

COUNCIL TAX

- (b) **Council Tax:** Council Tax of £1,117.13 – 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.
- (c) **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 1 (b) 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 2018 and at intervals thereafter, or in a single payment before 1 June 2018.

2. NON DOMESTIC RATES APPEALS

- (a) The Council adopt the following regulations with regard to the lodging and hearing of appeals against rates, in terms of Section 238 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 2018 should be set equal to £10,000.



Meeting(s):	Development Committee Policy and Resources Committee Shetland Islands Council	5 February 2018 12 February 2018 14 February 2018
Report Title:	2018/19 Housing Revenue Account Budget and Charging Proposals	
Reference Number:	F-013	
Author / Job Title:	Jonathan Belford, Executive Manager - Finance	

1.0 Decisions / Action required:

- 1.1 That the Development Committee RECOMMEND to Policy and Resources Committee and Council approval of the budget proposals for 2018/19 for the Housing Revenue Account included in this report and the proposed charges detailed at Appendix 1.

2.0 High Level Summary:

- 2.1 The purpose of this report is to enable the Development Committee to consider the controllable budget proposals for the Housing Revenue Account (HRA).
- 2.2 The proposed position for the Housing Revenue Account for 2018/19 is a contribution from the Housing Repairs and Renewals Fund of £1,052k.
- 2.3 The 2018/19 proposed schedule of charges for the HRA is attached as Appendix 1.

3.0 Corporate Priorities and Joint Working:

- 3.1 There is a specific objective in the Corporate Plan that the Council will have excellent financial management arrangements to ensure that it continues to keep a balanced and sustainable budget, and is living within its means; and that the Council continues to pursue a range of measures which will enable effective and successful management of its finances over the medium to long term. This involves correct alignment of the Council's resources with its priorities and expected outcomes, and maintaining a strong and resilient balance sheet.

4.0 Key Issues:

- 4.1 The budget has been prepared taking account of the following:
- the key financial assumptions and principles adopted in the HRA Business Plan.
 - estimated pay award of 3% for staff under £30k, 2% for staff over £30k and £1600 for staff over £80k in line with that being included in the Scottish Government draft budget;

- pension contributions remaining at the 2017/18 level of 20.8%;

The table below sets out the proposed 2018/19 budget for the HRA

2017-18 Approved Budget (£000)	Description	2018-19 Proposed Budget (£000)
	<u>Expenditure</u>	
817	Supervision & Management	808
1,884	Repair & Maintenance	2,178
165	Void Rents & Charges	168
30	Garages	31
2,692	Capital Funded from Current Revenue	3,497
1,711	Debt Charges – Dwellings	1,330
7,299	Total: Expenditure	8,012
	<u>Income:</u>	
(1)	Interest on Revenue Balances	(1)
(6,623)	Rents – Dwellings	(6,730)
(191)	Rents - Other ie garages/sites etc	(229)
(6,815)	Total: Income	(6,960)
484	Total (Surplus)/Deficit	1,052
(484)	Contribution (from) / to Housing R & R Fund	(1,052)
0	HRA Balanced Budget	0

- 4.2 An underlying inflation factor of 2% has been assumed over the coming 30 years, and a further 0.5% growth above inflation has been used to recognise the increased costs associated with managing and maintain housing services in a remote community.
- 4.3 It has been recognised in the rent modelling work that there is a disparity between the rent on the smaller properties compared to the larger properties. To address this issue and bring the weekly rental on smaller properties closer to the equivalent benchmark, it is proposed that only 2% inflation be applied to the rental on all properties, but that £1 per week is added to the rental on one and two bedroom properties in addition to inflation. This means that an average rent rise of 2.59% is proposed for 2018/19. The full Schedule of Charges for 2018/19 is included in Appendix 1.
- Rents – Dwellings, is expected to increase by £107k to £6,730m in 2018/19. The proposed increase recognises a reduction in housing stock numbers of 18 through Right To Buy sales. The Right to Buy Scheme has now ended.
- 4.4 Rents – Other ie garages and sites, is proposed to increase by £38k overall to £229k in 2018/19. Weekly rental charges for garage sites were subject to the final increase of a phased review in 2017/18. The proposal for 2018/19 is to revert to inflationary increases only for the next three years. Garage rents are also proposed to increase by inflation only for 2018/19.

4.5	Void rents and charges are proposed to increase by £2k to £168k in 2018/19. These costs are estimated as 2.4% of general housing rental income and 3% sheltered housing rental income, based on historic rates of void costs.
4.6	Employee costs are incorporated into the budgets within Supervision and Management and Repairs and Maintenance. A pay uplift have been applied as detailed at paragraph 4.1.
4.7	An integral part of the business planning process has been the detailed work that has gone into the Housing Asset Management Strategy. The Council supplemented its own stock information with an externally commissioned survey of 20% of the stock to allow the planning of both capital and revenue expenditure required to maintain Council housing stock into the long-term. The budget assumes the underlying inflation factor and growth on repairs and maintenance costs and takes into account the reduced overall stock numbers due to Right To Buy sales.
4.8	The HRA capital programme included in the Council's Asset Investment Plan for 2018/19 is £3.512m, which takes reference from the Housing Asset Management Strategy and business planning process. It is proposed that the capital expenditure is funded through Capital Funded from Current Revenue, £3.497m and estimated capital receipts from vehicle sales of £15k in 2018/19. A separate report to set out the detailed capital programme for the HRA is to be prepared for approval by Members.
4.9	Debt levels within the HRA have reduced substantially through the successful negotiations with Government in 2013, after which the remaining debt was externalised. The HRA is expected to have borrowing costs on the existing debt of £1.330m in 2018/19, which includes the principal repayment, interest and expenses.
4.10	The purpose of the Housing Repairs and Renewals Reserve is to ensure the HRA is financially sustainable and has funds available to smooth out the peaks and troughs in HRA expenditure in specific years. It must be maintained at a level which can meet any unforeseen or exceptional circumstances and this has been tested in the financial modelling which underpins the HRA Business Plan 2017.
4.11	The Housing Repairs and Renewals Fund as at 31 March 2017 had a balance of £15.614m. There will be a need to draw £1.052m from this Reserve to support the proposed HRA budget for 2018/19. This is in line with the financial assumptions within the HRA Business Plan and therefore deemed a sustainable draw on reserves.

5.0 Exempt and/or confidential information:

5.1 None

6.0 Implications :

6.1 Service Users, Patients and Communities:	<p>The proposed budgets ensure that there is no reduction in service for users and communities.</p> <p>There is a statutory obligation to consult with tenants annually on the rent increases and proposed changes to service levels.</p>
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	<p>The 2018/19 annual survey of tenants showed that fewer tenants than the previous year expressed concern about the affordability of the proposed increase, as detailed below. It is hoped that this is due the work done on the business plan to provide tenants with a degree of certainty about future increases.</p> <p>Do you think the proposed increase is affordable to you?</p> <table><tr><th>Response</th><th>2017/18</th><th>2018/19</th></tr><tr><td>Yes</td><td>34.1%</td><td>40.6%</td></tr><tr><td>I would have some concerns about affordability</td><td>48.6%</td><td>44.2%</td></tr><tr><td>No, not affordable</td><td>17.3%</td><td>15.1%</td></tr></table>	Response	2017/18	2018/19	Yes	34.1%	40.6%	I would have some concerns about affordability	48.6%	44.2%	No, not affordable	17.3%	15.1%
Response	2017/18	2018/19											
Yes	34.1%	40.6%											
I would have some concerns about affordability	48.6%	44.2%											
No, not affordable	17.3%	15.1%											
6.2 Human Resources and Organisational Development:	All budget proposals with staffing implications will be actioned in line with relevant Council policies and with HR advice.												
6.3 Equality, Diversity and Human Rights:	The Local Housing Strategy has had a full equalities impact assessment carried out.												
6.4 Legal:	<p>Under Section 95 of the Local Government (Scotland) Act 1973, there is a requirement for each local authority to make arrangements for the proper administration of their financial affairs. That officer in Shetland Islands Council is the Executive Manager – Finance responsible for the presentation of budget proposals as part of appropriate financial management arrangements.</p> <p>Income and expenditure in relation to a local authority’s own direct provision of housing must be recorded separately within a Housing Revenue Account as laid out in Section 203 of the Housing (Scotland) Act 1987.</p>												
6.5 Finance:	<p>The 2018/19 HRA budget is based on the detailed financial modelling which underpins the HRA Business Plan 2017.</p> <p>The HRA requires a transfer from the Housing Repairs and Renewals Fund of £1.052m to balance the budget. This is deemed a sustainable draw on reserves.</p>												
6.6 Assets and Property:	The Housing Stock Asset Management Strategy is to ensure that housing stock is maintained to current standards and procurement of component replacements is done in the most cost effective way.												
6.7 ICT and new technologies:	This budget will ensure continuing analysis, and search for new technology which can be implemented to ensure effectiveness and efficiency in provision of services.												

6.8 Environmental:	The Local Housing Strategy was screened for Strategic Environmental Assessment.	
6.9 Risk Management:	<p>There are numerous risks involved in the delivery of services and the awareness of these risks is critical to successful financial management.</p> <p>From a financial perspective, risks are an integral part of planning for the future, as assumptions are required to be made. These assumptions can be affected by many internal and external factors, such as supply and demand, which may have a detrimental financial impact.</p> <p>The main financial risk for the Housing Revenue Account is that the draw on the Housing Repairs and Renewal Fund becomes unsustainable. The risk has been mitigated by the detailed work carried out on the HRA Business Plan 2017, which gives assurance of the longer term financial stability of the HRA.</p>	
6.10 Policy and Delegated Authority:	The Development Committee has delegated authority to advise Policy and Resources Committee and the Council in the development of services and objectives, policy and plans concerned with service delivery. Approval of the revenue budgets requires a decision of Council, under the terms of Section 2.1.3 of the Council's Scheme of Administration and Delegation.	
6.11 Previously considered by:	n/a	n/a

Contact Details:

Sheila Duncan, Management Accountant, sheila.duncan@shetland.gov.uk, 5 February 2018

Appendices:

Appendix 1- 2018/19 Housing Revenue Account Schedule of Charges

Schedule of Charges 2018-19Rent levels – Summary per Property Size 2018-19

Property size	Area	2017/18 Rent Per Week £	2018/19 Rent Per Week £	Weekly Increase £
5 Apartment	Lerwick	106.24	108.36	2.00
4 Apartment	Lerwick	91.17	92.99	2.00
3 Apartment	Lerwick	75.71	77.22	2.00
2 Apartment	Lerwick	63.07	65.33	3.59
1 Apartment	Lerwick	47.61	49.56	4.10
8 Apartment	Non Lerwick	144.23	147.11	2.00
6 Apartment	Non Lerwick	115.61	117.92	2.00
5 Apartment	Non Lerwick	100.92	102.94	2.00
4 Apartment	Non Lerwick	86.61	88.34	2.00
3 Apartment	Non Lerwick	71.93	73.37	2.00
2 Apartment	Non Lerwick	60.01	62.21	3.67
1 Apartment	Non Lerwick	45.33	47.24	4.21
AVERAGE RENT LEVELS		75.63	77.59	2.59%

NOTES A 2% inflationary uplift is proposed to all properties, together with £1 per week additional charge added to all one and two apartment properties to address the disparity in pricing between small and large property rentals against appropriate benchmarks.

Garages & Site Charges 2018/19

TYPE OF CHARGE	2017/18 CHARGE £	2018/19 CHARGE £	VARIANCE %
GARAGES:			
Garage Rents (no electricity)	11.00	11.20	1.82
Garage Rents (electricity)	15.70	16.00	1.91
Double Garage (electricity)	23.60	24.05	1.91
Garage Site Rent	5.00	5.10	2.00



Meeting(s):	Policy & Resources Committee Shetland Islands Council	12 February 2017 14 February 2017
Report Title:	5 Year Asset Investment Plan 2018-23	
Reference Number:	F-016-F	
Author / Job Title:	Jonathan Belford, Executive Manager - Finance	

1.0 Decisions / Action required:

- 1.1 That the Policy and Resources Committee RECOMMENDS that the Council RESOLVES to:
 - 1.1.1 approve the capital budget proposals for 2018/19 included in this report, and set out in detail in Appendix 1; and
 - 1.1.2 adopt Appendix 1 as the Council's 5 Year Asset Investment Plan 2018-23, subject to any requirements of the Council's Gateway Process for the Management of Capital Projects.

2.0 High Level Summary:

- 2.1 The purpose of this report is to set out the proposed sustainable capital budget for the Council over a five year period from 2018-23 in line with the Capital Investment Planning policy set out in the 2017-22 Medium Term Financial Plan.
- 2.2 The proposed capital budget for 2018/19 totals £28.2m, and the full 5 year total from 2018-23 is projected to be £135m.
- 2.3 There is substantial provision for ferry vessel and terminal replacements over the 5 years (£54.2m). The delivery of these projects is the subject, and a key element, of discussions with Transport Scotland in relation to the Government's commitment to fair funding for the inter-island ferry services. The Plan assumes that grant funding will be received to support the replacements, pending the outcome of work with Transport Scotland and the Scottish Government.
- 2.4 Although there is a section in the Plan for potential projects, only after business cases have been developed in accordance with the Council's Gateway Process for the Management of Capital Projects, and have been given appropriate consideration and the necessary approvals, will funding be committed. More information is provided in section 4 below.
- 2.5 Appendix 1 of this report details the projects and funding requirements over the 5 year period and also details the anticipated funding sources.

3.0 Corporate Priorities and Joint Working:

- 3.1 There is a specific objective in the Corporate Plan that the Council will have excellent financial management arrangements to ensure that it continues to keep a balanced and sustainable budget, and is living within its means; and that the Council continues to pursue a range of measures which will enable effective and successful management of its finances over the medium to long term. This involves correct alignment of the Council's resources with its priorities and expected outcomes, and maintaining a strong and resilient balance sheet.
- 3.2 Despite the work done so far, sustainability in particular is extremely challenging at this time with reducing Scottish Government funding being the trend since 2011/12. It is expected that this will continue while the UK and Scottish Governments seek to balance their budgets and prioritise their spending.

4.0 Key Issues:

- 4.1 The capital budget proposals for the Council for the period 2018-2023 are summarised in the following table:

Description	2018-23 Budget £000
Maintenance of Existing Assets	31,522
New Developments	5,701
Housing Revenue Account Projects	26,154
Potential Projects	17,392
Fair Funding for Ferry Projects	54,250
Expenditure	135,019
Scottish Government General Capital Grant	(30,362)
External Grant Funding	(58,887)
Capital Receipts	(1,596)
Funded from Revenue	(30,757)
Draw from Reserves	(998)
External Borrowing	(12,469)
Funding	(135,069)
Net Surplus	(50)

- 4.2 At present the forecast for the current financial year is that there will be an underspend on the Asset Investment Plan. A report will be presented to Members at the end of the financial year, which will address any proposals for carry forward of existing approved 2017/18 budgets due to project slippage, and they are therefore not addressed in this report.
- 4.3 Although there is continuing focus on the maintenance and life extension of existing assets as recommended in the Capital Expenditure Policy, there is a significant focus in the Plan on new developments and potential projects, namely:

4.3.1 New Developments

- Anderson High School Halls of Residence replacement;
- Eric Gray Resource Centre replacement;

- Scalloway Fishmarket replacement;

The funding for these projects has been determined and approved through the Council's Gateway Process for the Management of Capital Projects, including Committee approval.

4.3.2 Potential Projects

- Knab Site demolition;
- Streetlighting LED upgrade;
- Children's Supported Accommodation new build;
- Toft Pier replacement;
- Tug replacement;
- Ferry Vessels & Terminals replacement.

The inclusion of these projects is predicated on the basis that work has already been undertaken to define them using the Council's Gateway Process, however any decision to proceed to implementation has not yet been taken.

The funding for these projects will therefore only be confirmed following approval through the Council's Gateway Process and until then these projects do not represent a firm commitment in the Plan.

- 4.4 Funding sources for projects can include specific capital grants and capital receipts, and in addition a further funding option is the Council's Spend to Save scheme where the relevant criteria are met. Projects that cannot be met by other funding would have to be met by borrowing. The cost of that borrowing is a direct cost to the relevant Council Account, whether that be the Harbour Account, HRA or General Fund and has to be affordable, sustainable and prudent.
- 4.5 The Scottish Government has not specified the level of core capital grant that it will provide to the Council over the next five years, but the indications are that there will be a reduction in the level of the grant over the period, after an initial increase in 2019/20 which relates to a lump sum of delayed funding from previous years. Therefore, a figure of £5.5m has been forecast for the later years of the Plan. This will be updated at each annual review of the Plan.
- 4.6 As referred to in section 2 above, a significant part of the Plan focuses on the vessels and terminals that are required to support the inter-island ferry services. Approximately half of the total expenditure in the Plan relates to either life extension or replacement works for vessels and terminals and is a critical component of capital investment for the Council. However paying for all of these works is not affordable to the Council, the cost of borrowing for the 5 years of ferry vessel and terminal replacement cost identified in the Plan is approximately £3.7m per annum for 30 years. The work with Transport Scotland and the Scottish Government is therefore fundamental to the affordability of these projects. The Plan incorporates the replacement programme in light of the knowledge that action is required to address an ageing fleet of vessels.
- 4.7 The General Fund revenue budget for 2018/19 has provision within it to pay for the level of borrowing that the Plan requires in connection with the current projects to build the AHS and Halls of Residence. Budgets for the borrowing costs in relation the new Scalloway Fishmarket have also been included in the Harbour Account,

with provisional borrowing costs in relation to the Toft Pier and new Multratug pending Gateway approval as stated above.	
4.8	Appendix 1 to this report details the proposed capital expenditure budgets for the 5 Year Plan from 2018-23, along with the proposed funding sources.
5.0 Exempt and/or confidential information:	
5.1	None
6.0 Implications :	
6.1 Service Users, Patients and Communities:	None arising directly from this report, the detailed implications will be addressed through the Council's Gateway Process using the 5 case business model.
6.2 Human Resources and Organisational Development:	None arising directly from this report, the detailed implications will be addressed through the Council's Gateway Process using the 5 case business model and in adherence to the Council's approved Human Resources and Organisational Development policies and procedures.
6.3 Equality, Diversity and Human Rights:	None arising directly from this report, the detailed implications will be addressed through the Council's Gateway Process using the 5 case business model.
6.4 Legal:	Under Section 95 of the Local Government (Scotland) Act 1973, there is a requirement for each local authority to make arrangements for the proper administration of their financial affairs and that the chief financial officer/Section 95 officer has responsibility for the administration of those affairs.
6.5 Finance:	<p>Any decision to recommend changes to the budget proposals in this report could result in an increased or decreased draw on reserves, and may result in not meeting the affordable position set out in the Medium Term Financial Plan. This will require a formal amendment and be fully quantified in the Committee decision.</p> <p>The proposed Asset Investment Plan 2018-23 is affordable over the five year period based on the assumptions made in relation to the availability of future funding and the profiling of projects. The Council is required to approve an annual update to the Plan based on the latest information available.</p>
6.6 Assets and Property:	This budget proposes a risk based approach for the maintenance of assets to minimise deterioration and potential failure.
6.7 ICT and new technologies:	This budget includes provision for the annual maintenance and replacement of existing ICT equipment, as required.

6.8 Environmental:	None arising directly from this report, the detailed implications will be addressed through the Council's Gateway Process using the 5 case business model.	
6.9 Risk Management:	<p>The main budget risks for the delivery of the Asset Investment Plan are:</p> <ul style="list-style-type: none"> • the level of Scottish Government capital grant that will be received during the five years of the Plan, as there has been no specific forecast; • the anticipated level of capital receipts is not realised from the sale of existing assets; • a negative outcome from the Scottish Government/ Transport Scotland in relation to the Fair Funding for Ferries for ferry terminal and vessel replacements – the costs of replacing these assets is not affordable to the Council without support; • cost projections for future year projects are adversely affected by external factors such as construction inflation and contractor availability; <p>These risks are mitigated by using a realistic approach and the most up-to-date information when setting the budget.</p> <p>A strong balance sheet and the availability of usable reserves ensure that the Council is prepared for other significant unforeseen events.</p> <p>The borrowing level proposed in the Asset Investment Plan is within the borrowing limits approved in the update of the Prudential Indicators for the Council (Min Ref 79/17) and therefore ensures that the Council's capital financing requirement is affordable at this time. The next annual review of the Council's Prudential Indicators will take place at the start of the new financial year 2018/19 to ensure continuing affordability in future years.</p>	
6.10 Policy and Delegated Authority:	The Policy and Resources Committee is required to make recommendations to the Council as to the estimates of capital expenditure. Approval of the capital budget requires a decision of Council, in terms of Section 2.1.3 of the Council's Scheme of Administration and Delegations.	
6.11 Previously considered by:	n/a	n/a

Contact Details:

Brenda Robb, Management Accountant, brenda.robbs@shetland.gov.uk, 1 February, 2018

Appendices:

Appendix 1 - 5 Year Asset Investment Plan 2018-23

5 Year Asset Investment Plan 2018-2023

F-016 - Appendix 1

Directorate	Project	Year 1 2018/19 £	Year 2 2019/20 £	Year 3 2020/21 £	Year 4 2021/22 £	Year 5 2022/23 £	5 Year Total £	Gateway Requirements Outstanding
Corporate	Lerwick Library Redevelopment	50,000					50,000	
Infrastructure	Building Maintenance Capital Works	896,150	1,000,000	1,000,000	1,000,000	1,000,000	4,896,150	
Infrastructure	Landfill Capping	170,000		210,000		110,000	490,000	
Infrastructure	Energy Recovery Plant	50,000	50,000	50,000	50,000	50,000	250,000	
Infrastructure	Tingwall Airport Hangar Door Replacement	100,000					100,000	Awaiting Business Case to be presented for approval
Infrastructure	Vehicle & Plant Replacement Programme	1,045,000	1,144,000	1,130,000	1,144,000	1,100,000	5,563,000	
Building Maintenance & Vehicle Replacement		2,311,150	2,194,000	2,390,000	2,194,000	2,260,000	11,349,150	
Corporate	PC & LAN Replacement	134,000	134,000	134,000	134,000	184,000	720,000	
Corporate	Schools ICT Equipment	276,500	276,500	276,500	276,500	276,500	1,382,500	Awaiting 18/19 Annual Programme Update to be presented for approval
Corporate	Photocopier Replacement	81,000	81,000	81,000	81,000	81,000	405,000	
Corporate	Shetland Public Sector Network	155,800	195,800	195,800	195,800	195,800	939,000	
ICT Equipment		647,300	687,300	687,300	687,300	737,300	3,446,500	
Infrastructure	Ferry Life Extension Works	1,450,000	800,000	800,000	800,000	800,000	4,650,000	Awaiting Business Case to be presented for approval
Ferry Vessel Life Extensions		1,450,000	800,000	800,000	800,000	800,000	4,650,000	
Infrastructure	Cycling, Walking, Safer Streets	31,000	25,000	25,000	25,000	25,000	131,000	
Infrastructure	Bridge Repairs/ Replacement	375,000	161,000	200,000	200,000	200,000	1,136,000	
Infrastructure	Streetlighting Replacement/Removals	125,000	99,000	99,000	200,000	100,000	623,000	
Infrastructure	Road Reconstruction	590,000	590,000	590,000	590,000	590,000	2,950,000	
Infrastructure	Pelican Crossings	35,000	20,000	20,000	20,000	15,000	110,000	
Infrastructure	Road Safety Barrier Replacement	120,000	120,000	120,000	120,000	120,000	600,000	
Infrastructure	Traffic Management	50,000	50,000	50,000	50,000	50,000	250,000	
Infrastructure	Road Accident Investigation & Prevention	35,000	35,000	35,000	35,000	35,000	175,000	
Infrastructure	Scord Quarry Plant Replacement	205,000	160,000	200,000	200,000	200,000	965,000	
Infrastructure	Burra Bridge Painting	0	25,000	365,000	5,000		395,000	
Infrastructure	Hillhead Railing Replacement	0			34,000		34,000	
Infrastructure	Muckle Roe Bridge Painting	3,000					3,000	
Roads Repairs & Maintenance		1,569,000	1,285,000	1,704,000	1,479,000	1,335,000	7,372,000	
Infrastructure	P&H Plant, Vehicles & Equipment	70,000	70,000	70,000	70,000	70,000	350,000	
Infrastructure	P&H Navigational Aids	70,000	70,000	70,000	70,000	70,000	350,000	
Infrastructure	Terminal Life Extension Works		700,000	700,000			1,400,000	
Infrastructure	Piers Cathodic Protection	250,000	250,000	220,000	134,000	200,000	1,054,000	
Infrastructure	Tug Jetty - Cathodic Protection	500,000					500,000	
Infrastructure	Hamarsness Ferry Terminal Painting	350,000					350,000	
Infrastructure	Toft Ferry Terminal Painting			350,000			350,000	
Infrastructure	Ulsta Ferry Terminal Painting				350,000		350,000	
Ports & Harbours Repairs & Maintenance		1,240,000	1,090,000	1,410,000	624,000	340,000	4,704,000	
TOTAL MAINTENANCE OF EXISTING ASSETS		7,217,450	6,056,300	6,991,300	5,784,300	5,472,300	31,521,650	
Children's Services	Anderson High School Replacement	22,268					22,268	
Children's Services	Anderson High School Halls of Residence	412,000					412,000	
Community Health & Social Care	Eric Gray Replacement - General Capital Grant	1,724,400	73,000				1,797,400	
Infrastructure	Scalloway Fishmarket Rebuild	1,114,736	2,285,564	69,000			3,469,300	
TOTAL NEW DEVELOPMENTS		3,273,404	2,358,564	69,000	0	0	5,700,968	
Development	Heating Replacement Programme	728,936	660,000	660,000	660,000	660,000	3,368,936	
Development	Housing Quality Standard	2,363,523	2,140,000	2,140,000	2,140,000	2,140,000	10,923,523	Awaiting 18/19 Annual Programme Update to be presented for approval
Development	Structural Remedial Works	200,000	1,500,000	3,000,000	3,000,000	3,000,000	10,700,000	
Development	Accessible Adaptions	150,000	156,000	162,000	168,000	174,000	810,000	
Development	Vehicle Replacement Programme	70,000	56,000	70,000	56,000	100,000	352,000	
TOTAL HOUSING REVENUE ACCOUNT PROJECTS		3,512,459	4,512,000	6,032,000	6,024,000	6,074,000	26,154,459	

Directorate	Project	Year 1 2018/19 £	Year 2 2019/20 £	Year 3 2020/21 £	Year 4 2021/22 £	Year 5 2022/23 £	5 Year Total £	Gateway Requirements Outstanding
Corporate	Knab Site Demolition	850,000					850,000	These projects do not represent a firm commitment in the Plan until Business Cases are presented for approval
Children's Services	Children's Supported Accommodation New Build	670,000					670,000	
Children's Services	Early Learning Childcare Expansion	1,145,000	1,626,000				2,771,000	
Infrastructure	Streetlighting LED Upgrade	890,000	1,068,000	843,000			2,801,000	
Infrastructure	Toft Pier	50,000	2,350,000				2,400,000	
Infrastructure	Multratug 30	7,900,000					7,900,000	
TOTAL POTENTIAL PROJECTS		11,505,000	5,044,000	843,000	0	0	17,392,000	
Infrastructure	Ferry Vessel & Terminal Replacement	2,700,000	12,650,000	22,000,000	9,200,000	7,700,000	54,250,000	These projects do not represent a firm commitment in the Plan until Business Cases are presented for approval
TOTAL FAIR FUNDING FOR FERRIES PROJECTS		2,700,000	12,650,000	22,000,000	9,200,000	7,700,000	54,250,000	

TOTAL ASSET INVESTMENT PLAN EXPENDITURE	28,208,313	30,620,864	35,935,300	21,008,300	19,246,300	135,019,077
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Fund	Project	Year 1 2018/19 £	Year 2 2019/20 £	Year 3 2020/21 £	Year 4 2021/22 £	Year 5 2022/23 £	5 Year Total £
General Fund	Scottish Government General Capital Grant	(6,612,000)	(7,250,000)	(5,500,000)	(5,500,000)	(5,500,000)	(30,362,000)
General Fund	Scottish Government Cycling Walking Safer Streets Grant	(31,000)	(25,000)	(25,000)	(25,000)	(25,000)	(131,000)
General Fund	Scottish Government Early Learning Childcare Grant	(1,145,000)	(1,626,000)				(2,771,000)
General Fund	Fair Funding for Ferries - Transport Scotland	(2,700,000)	(12,650,000)	(22,000,000)	(9,200,000)	(7,700,000)	(54,250,000)
Harbour Account	European Maritime Fisheries Fund - Scalloway Fishmarket	(557,368)	(1,142,782)	(34,500)	0	0	(1,734,650)
FUNDED BY EXTERNAL GRANTS		(11,045,368)	(22,693,782)	(27,559,500)	(14,725,000)	(13,225,000)	(89,248,650)
General Fund	Capital Receipts (Properties)	(200,000)	(200,000)	(295,000)	(200,000)	(200,000)	(1,095,000)
General Fund	Capital Receipts (Vehicles)	(85,000)	(80,000)	(75,000)	(80,000)	(80,000)	(400,000)
General Fund	Spend to Save Reserve - Streetlighting LED Upgrade	(326,000)	(402,000)	(270,000)			(998,000)
General Fund	General Capital Reserve	(2,857,850)	1,849,700	(259,300)	644,700	622,750	0
Harbour Account	Harbour - CFCR	(1,240,000)	(1,090,000)	(1,410,000)	(624,000)	(340,000)	(4,704,000)
HRA	HRA - CFCR	(3,497,459)	(4,492,000)	(6,007,000)	(6,004,000)	(6,053,000)	(26,053,459)
HRA	HRA - Capital Receipts (Vehicles)	(15,000)	(20,000)	(25,000)	(20,000)	(21,000)	(101,000)
FUNDED BY RESERVES		(8,221,309)	(4,434,300)	(8,341,300)	(6,283,300)	(6,071,250)	(33,351,459)
General Fund	AHS Replacement	(22,268)	0	0	0	0	(22,268)
General Fund	AHS Halls of Residence	(412,000)	0	0	0	0	(412,000)
Harbour Account	Toft Pier	(50,000)	(2,350,000)	0	0	0	(2,400,000)
Harbour Account	Multratug 30	(7,900,000)	0	0	0	0	(7,900,000)
Harbour Account	Scalloway Fishmarket	(557,368)	(1,142,782)	(34,500)	0	0	(1,734,650)
FUNDED BY BORROWING		(8,941,636)	(3,492,782)	(34,500)	0	0	(12,468,918)

TOTAL ASSET INVESTMENT PLAN FUNDING	(28,208,313)	(30,620,864)	(35,935,300)	(21,008,300)	(19,296,250)	(135,069,027)
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NET TOTAL BALANCE OVERALL	0	0	0	0	(49,950)	(49,950)
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