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Date: 19 February 2019

Dear Sir/Madam

You are invited to the following meeting:

Special Development Committee
Main Hall, Town Hall, Lerwick
Monday 25 February 2019 at 12 noon

Please note the change of venue for this meeting.

Apologies for absence should be notified to Louise Adamson at the above number.

Yours faithfully

Executive Manager – Governance and Law

Chair: Alastair Cooper
Vice-Chair: Stephen Leask

AGENDA

- (a) Hold the 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.

ITEM

1. 2019/20 Budget and Charging Proposals – Development Committee
F-009
2. 2019-20 Housing Revenue Account Budget and Charging Proposals
F-011



Shetland Islands Council

Agenda Item

1

Meeting(s):	Development Committee Policy & Resources Committee Shetland Island Council	25 February 2019 26 February 2019 26 February 2019
Report Title:	2019/20 Budget and Charging Proposals – Development Committee	
Reference Number:	F-009-F	
Author / Job Title:	Jamie Manson, Executive Manager - Finance	

1.0 Decisions / Action required:

- 1.1 That the Development Committee **RECOMMEND** to Policy and Resources Committee and Council that they approve the budget proposals for 2019/20 included in this report and set out in detail in the Budget Activity Summary (Appendix 2) and Schedule of Charges (Appendix 3), to be included in the Overall SIC Budget Book; and
- 1.2 **NOTE** the content of the Service Redesign Briefing (Appendix 4).

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 services within the Committee's remit.
- 2.2 The proposed budget for 2019/20 for Services reporting to this Committee is £6.912m.
- 2.3 Appendices 1 and 2 of this report show the proposed budgets for 2019/20, reconciled by Committee and by activity; Appendix 3 details the proposed schedule of charges which have been incorporated into the proposed budgets; and Appendix 4 provides an update on the Service Redesign Programme.

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 budget has been prepared taking account of the following:
- estimated pay award of 3%;
 - pension contributions remaining at the 2018/19 level of 20.8% (except for teachers where it has risen by 5.2% to 22.4%);
 - income being increased on average by 2.98% in line with inflation;
 - reduced government funding and additional burdens.

The Director of Development, in conjunction with Finance staff, has developed his budget proposals, as shown in the table below:

Budget Position	Development Services £000
2019/20 Target	7,279
Growth and/or Income reduction	537
Savings	(904)
2019/20 Proposed Budget	6,912

- 4.2 Growth:

List of Growth Items/Income Loss (over £50k)	Development Services £000
Director of Development: Delayed savings from Tertiary Merger	250
Director of Development: Vacancy Factor reduction	150
Shetland Telecom Sales	69

4.2.1 Explanations of growth items:

- £250k target savings in anticipation of the Merger of the Shetland College with the NAFC Marine Centre are not now anticipated to be realised in 2019/20, as the vesting date for the merger is now intended to be 6 January 2020;
- The savings target expected to be achieved through in-year vacant posts has been reduced by £150k to £50k, recognising that recurring savings have been made in employee cost budgets within the Directorate, notably in Economic Development, who are implementing a restructure; Housing, who have made efficiencies in it's staffing structure; and Planning, who have had success in it's current project to recruit to vacant posts;
- It is anticipated that Shetland Telecom will not realise sales to the value of £69k in 2019/20; and
- Minor instances of income loss that collectively amount to £63k.

4.3 Savings

Development Services have identified £904k of efficiency savings, these are detailed in the table below:

List of Savings over £50k	Development Services
	£000
Director of Development: Operating Grant to Shetland College	542
Economic Development: Restructure	97
Housing: Staffing Efficiencies	62

4.4 Further description of the material savings listed above are as follows:

- £542k – The Scottish Funding Council and UHI confirmed in a letter to the Chief Executive that they are “wholly committed to supporting the delivery of the highest quality further and higher education, and research, to the Shetland community” and that they “look forward to supporting the new college to achieve its ambitions through supporting other merger costs and supporting the long-term success of the college”. Accordingly, provision has been made within the budget to cover the shortfall in 2019/20.”
- £97k – Economic Development are implementing it’s structural review, generating savings in it’s salary costs.
- £62k – Housing have reviewed their staffing levels and made efficiencies which do not impact service delivery.
- There are also a number of minor savings (under £50k) that have also been identified across the Directorate that cumulatively total £203k.

4.5 Appendix 1 sets out a reconciliation showing how the Council's overall budget proposals for the services within the Directorates are aligned to the remit of the Committees.

4.6 Appendix 2 sets out the 2019/20 budget by activity. For comparison purposes the 2019/20 target figure has also been included, and the change in full-time equivalent staff numbers.

4.7 The proposed charges included in the budget proposals for the Development Directorate is attached as Appendix 3 and will be included as a part of the overall SIC budget book.

4.8 An update on the Service Redesign Programme for this Committee is attached as Appendix 4.

4.9 These will be included as a part of the overall SIC Budget Book.

5.0 Exempt and/or confidential information:

5.1 Non

6.0 Implications :

6.1 Service Users, Patients and Communities:	The proposed budgets ensure that there is no anticipated reduction in service for users and communities.
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:	None arising from this report.
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 to secure that the proper officer of the authority has responsibility for the administration of those 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. Under s93 of the Local Government Finance Act 1992 the Council is required to set the Council Tax for the financial year.
6.5 Finance:	<p>The services under the remit of this Committee have presented budget proposals for 2019/20 that amount to £6.912m, which is below the required target for the department by £367k.</p> <p>This has been mainly due to increased income secured for the Shetland College, which reduces the requirement to provide funding from within Development; Staffing restructures and efficiencies; and minor operational efficiencies made across the Department, offsetting growth items.</p> <p>However, the value of these budget proposals, cumulative with other Committee budget proposals, are greater than the combined funding sources of Council Tax and Scottish Government Grant therefore the Council uses returns on its investments and reserves to balance the budget. Year on year reductions in Government funding and rising costs result in the value of returns and reserves used annually by the Council being unaffordable over time. The Council will have to decide in the short-term the changes that it will implement in the medium term to resolve this unsustainability.</p>
6.6 Assets and Property:	None arising from this report.
6.7 ICT and new technologies:	None arising from this report.
6.8	None arising from this report.

Environmental:		
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 budgeting, as assumptions are required.</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>The main budget risks for services reporting to this Committee are:</p> <ul style="list-style-type: none"> • During a current boyant economy, reducing budgets for grants and expenditure designed to stimulate economic growth could have a significant impact on local economy should demand increase in future years; and • The Delay in implementing the Colleges Merger would impact on costs and on the ability of the Tertiary sector to support the 10 year plan to attract people to Shetland to “Live, Work, Study and Invest”. <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 cost pressures where the value is uncertain 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.</p>	
6.10 Policy and Delegated Authority:	<p>The Development Committee has delegated authority to advise Policy and Resources Committee and the Council in the development of service, objectives, policies and plans concerned with service delivery. Approval of the revenue budget requires a decision of Council, in terms of Section 2.1.3 of the Council's Scheme of Administration and Delegations.</p>	
6.11 Previously considered by:	n/a	n/a

Contact Details:

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Appendices:

Appendix 1 - 2019/20 Reconciliation of Directorates' Proposed Budgets to Committees

Appendix 2 - 2019/20 Budget Proposals by Activity – Development Committee

Appendix 3 - 2019/20 Schedule of Charges – Development Committee

Appendix 4 - Committee Briefing Service Redesign - Development

2019-20 Reconciliation of Directorates' Proposed Budgets to Committees

Directorate	Development Committee £000	Education & Families Committee £000	Environment & Transport Committee £000	Policy & Resources Committee £000	Shetland College Board £000	Total £000
Executive & Corporate Services				12,596		12,596
Children's Services		44,588				44,588
Health & Social Care				22,028		22,028
Integration Joint Board				(1,263)		(1,263)
Development Services	6,912	357	6,696		(321)	13,644
Infrastructure Services			22,444			22,444
TOTAL	6,912	44,945	29,140	33,361	(321)	114,037

Key: Red = New Service/Activity
Amber = Demand increase or Cost Pressure growth
Green = No Material Change

Committee	Service	Activity	Links to Corporate Plan	2019/20 Target FTE's	2019/20 FTEs	Change (Increase)/ Decrease FTEs	2019/20 Budget Target £	2019/20 Proposed Budget £	Change (Increase)/ Decrease £	Red Amber Green
Development	Development Directorate	Directorate	Highest possible standards of leadership and management helping to create a culture that makes sure we achieve the things set out in the plan.	2.00	2.00	0.00	159,638	159,524	114	No Material Change
Development	Development Directorate	Vacancy Factor	Excellent financial management arrangements, will ensure we are continuing to keep to a balanced and sustainable budget.	0.00	0.00	0.00	(200,000)	(50,000)	(150,000)	Amber: Staffing restructures and efficiencies reduce ability to meet vacancy factor target.
Development	Development Directorate	Tertiary Education Support	The tertiary education, research and training project will have created an effective model for providing excellent services to our learners.	0.00	0.00	0.00	811,518	509,176	302,342	Green: Following agreement of the business case by the Council and the NAFC, this activity now looks to deliver the proposed merger of the sector.
Development	Development Directorate	Museum and Archives	More children will be taking part in physical and cultural activities - developing healthy lifestyles to help them play a full and active part in Shetland community life.	0.00	0.00	0.00	960,397	959,975	422	No Material Change
Development	Development Directorate	Pensioners	N/A: Statutory Provision	0.00	0.00	0.00	101,918	101,890	28	No Material Change
Development	Community Planning & Development	Community Planning	Statutory requirement, overarching and links to all aspects of Corporate Plan.	3.59	3.41	0.18	192,217	189,329	2,889	No Material Change
Development	Community Planning & Development	Community Support	Links to Young People and Community Strength.	2.00	2.00	0.00	404,655	394,998	9,657	No Material Change
Development	Community Planning & Development	Management & Support	Links to Community Strength and Our 20 by 20 Plan. Also indirectly involved in all other aspects of Corporate Plan through Community Planning.	2.78	2.54	0.24	132,760	126,549	6,211	No Material Change
Development	Community Planning & Development	Employability, Poverty & Inclusion	Links specifically to point 14 and Community Strength, but has indirect links to all aspects of Corporate Plan in relation to reducing inequalities.	1.64	2.22	(0.58)	148,261	120,075	28,186	No Material Change
Development	Community Planning & Development	Community Safety	Links to Community Strength.	0.00	0.00	0.00	10,746	10,875	(129)	No Material Change
Development	Community Planning & Development	Community Justice	Responsibility transferred to CPPs with links to Community Strength and Our 20 by 20.	1.00	1.00	0.00	38,215	51,362	(13,147)	No Material Change
Development	Economic Development	Business Development	Enterprising Economy P9	9.76	8.91	0.85	1,141,061	1,114,077	26,984	No Material Change
Development	Economic Development	Access to External Funding	Enterprising Economy P9	2.61	3.06	(0.45)	152,474	145,620	6,854	No Material Change
Development	Economic Development	Promotional Activities	Enterprising Economy P9	0.27	0.26	0.01	385,148	378,683	6,465	No Material Change
Development	Economic Development	Economic Policy and Research	Enterprising Economy P9	1.85	1.70	0.15	124,982	115,220	9,761	No Material Change
Development	Economic Development	Shetland Telecommunications	Improve high-speed broadband and mobile connections throughout Shetland.	2.47	1.40	1.07	(164,146)	(149,702)	(14,443)	No Material Change
Development	Housing	Homelessness	Increase the supply of affordable housing in Shetland, provide housing solutions and service to Young People, Older People and links to support economic growth.	8.87	9.28	(0.41)	207,003	194,934	12,069	No Material Change
Development	Housing	Housing Support	Increase the supply of affordable housing in Shetland, provide housing solutions and service to Young People, Older People and links to support economic growth.	20.84	19.70	1.14	702,603	614,244	88,359	Green: Efficiencies made in staffing structure.
Development	Housing	Support to External Organisations	Increase the supply of affordable housing in Shetland, provide housing solutions and service to Young People, Older People and links to support economic growth.	0.00	0.00	0.00	49,824	48,916	908	No Material Change
Development	Housing	Economic Rents	Increase the supply of affordable housing in Shetland, provide housing solutions and service to Young People, Older People and links to support economic growth.	0.00	0.00	0.00	(16,338)	(14,828)	(1,510)	No Material Change
Development	Housing	Housing Management and Technical Support	Increase the supply of affordable housing in Shetland, provide housing solutions and service to Young People, Older People and links to support economic growth.	15.53	14.55	0.98	775,940	726,488	49,452	No Material Change
Development	Planning	Marine Development	Enable Economy Outcomes.	4.28	3.16	1.12	154,721	112,684	42,038	No Material Change
Development	Planning	Building Standards	Enable Economy & Housing, Community Strength and Connection & Access outcomes.	7.41	6.91	0.50	159,160	150,651	8,509	No Material Change
Development	Planning	Development Management	Enable Economy & Housing, Community Strength and Connection & Access outcomes.	11.44	10.71	0.73	239,227	252,024	(12,797)	No Material Change
Development	Planning	Development Plans and Natural Heritage	Enable Economy & Housing, Community Strength and Connection & Access outcomes.	10.91	10.45	0.46	627,902	659,007	(31,105)	No Material Change
Development	Planning	KIMO/Nuclear Policy	We will have reduced the effect we have on our local environment.	1.04	1.04	0.00	(23,593)	(11,741)	(11,852)	No Material Change

Services within the Development Committee
2019/20 Schedule of Charges

F-009 - Appendix 3

All charges are exclusive of VAT where applicable.

Directorate	Service	Activity	Charge	Unit	2018/19 Charge £	2019/20 Charge £	Variance %
Development	Housing Services	Homeless Persons	Shared accommodation - standard occupancy charge	per week	54.35	55.45	2.02
Development	Housing Services		Shared accommodation - furniture charge	per week	12.55	12.80	1.99
Development	Housing Services		Shared accommodation - electricity charge	per week	19.40	19.80	2.06
Development	Housing Services		Shared accommodation - service charge	per week	16.65	17.00	2.10
Development	Housing Services		89 St Olaf Street - room 5 - occupancy charge	per week	71.70	73.15	2.02
Development	Housing Services		Electricity in communal areas (12a North Road)	per week	5.40	5.50	1.85
Development	Housing Services		General needs stock used for homeless persons - 1 bedroom - occupancy charge	per week	54.35	55.45	2.02
Development	Housing Services		General needs stock used for homeless persons - 2 bedroom - occupancy charge	per week	72.70	74.15	1.99
Development	Housing Services		General needs stock used for homeless persons - 3 bedroom - occupancy charge	per week	89.05	90.85	2.02
Development	Housing Services		General needs stock used for homeless persons - 4 bedroom - occupancy charge	per week	106.70	108.80	1.97
Development	Housing Services		General needs stock used for homeless persons - 5 bedroom - occupancy charge	per week	123.30	125.75	1.99
Development	Housing Services		Lerwick chalets - homeless lets - 1 bed - occupancy charge	per week	37.70	38.45	1.99
Development	Housing Services		Lerwick chalets - homeless lets - 2 bed - occupancy charge	per week	47.10	48.05	2.02
Development	Housing Services		Landward chalets - homeless lets - 1 bed - occupancy charge	per week	34.15	34.80	1.90
Development	Housing Services		Landward chalets - homeless lets - 2 bed - occupancy charge	per week	43.05	43.90	1.97
Development	Housing Services		Homeless persons - general needs stock & chalets - B&B accommodation - adult aged 16 or over	per week	122.40	124.85	2.00
Development	Housing Services		Homeless persons - general needs stock & chalets - B&B accommodation - child under 16	per week	61.20	62.40	1.96
Development	Housing Services		Storage charges (storage of property in Gremista store)	per week	6.35	6.50	2.36
Development	Housing Services	Caravan Site/Pitch Rents	Caravan site/pitch rents - Hoofields	per week	15.50	15.80	1.94
Development	Housing Services		Caravan site/pitch rents - Other	per week	10.70	10.90	1.87
Development	Planning Services	Search of Records	Charge per hour or part thereof		108.00	112.00	3.70

Development	Planning Services	Letter of Comfort	Provision of letter of comfort - with building warrant	per letter	150.00	155.00	3.33
Development	Planning Services	Building Warrant	Building Warrant Fee Structure: http://www.shetland.gov.uk/buildingstandards/documents/FeeScale2017.pdf	see attached fee structure for full details	Various	Various	-
Development	Planning Services	Planning Applications: Scottish Government - Online Fee Calculator	https://www.eplanning.scot/ePlanningClient/custompages/feecalculator.aspx	N/A	Various	Various	-
Development	Planning Services	High Hedges Fees	Building warrant fee structure	per application	401.00	413.00	2.99
Development	Planning Services	Street Naming and Numbering	Per application for creation or change	per application	variable	variable	-
Development	Planning Services	Theatre licence	Annual licence	per application	75.00	77.25	3.00
Development	Planning Services		Occasional licence	per application	25.00	25.75	3.00
Development	Planning Services		Transfer of licence	per application	5.00	5.15	3.00
Development	Planning Services	Raised Structure Permit	Permit for the erection of a temporary or permanent structure	per application	70.00	72.10	3.00
Development	Planning Services	Cinema licence	Fee for provision of established cinema facilities	per application	173.50	178.50	2.88
Development	Planning Services		Provision of letter of comfort - without building warrant	per letter	300.00	309.00	3.00
Development	Planning Services		Site visit in relation to letter of comfort	per visit	200.00	206.00	3.00

LETTING - Additional Guidance

Lettings are normally exempt from VAT except where:-

Premises are Opted to Tax (there are currently none for Children's services)

Catering takes place on premises

Sporting lets, although this can be treated as exempt.

As this can be a complex area the remaining part of this guidance should provide clarification to determine the applicable VAT treatment. The Income charges and their applicable Product codes have been determined applying this guidance.

Example Scenarios	VAT Liability	VAT code
Hire of non-sports facility for non-sporting event	EX	2
Hire of non-sports facility for non-sporting event and catering takes place (not necessarily arranged by SIC).	SR	1
Hire of non-sports facility for sporting event, but equipment is not provided	EX	2
Hire of non-sports facility for sporting event, equipment is not provided but catering takes place (not necessarily arranged by SIC).	SR	1
Hire of non-sports facility for sporting event, but equipment is provided	SR	1
Hire of sports facility for non-sporting event	EX	2
Hire of sports facility for sporting event	SR	1
Hire of sports facility for sporting event that gives continuous and exclusive use to the hirer that exceeds 24 hours	EX	2
Hire of sports facility for sporting event that adheres to rules governing a "series of lets" (refer to definition below).	EX	2

NOTES:-

Non-Sports facility - e.g. School Hall, Classroom & general purpose hall containing no sports facilities or equipment beyond floor markings.

Sports Facility - premises which are designed or adapted for playing or taking part in any physical recreation e.g. Swimming Pools, football pitches, Multicourts, Gym Halls & Dance studio.

Non-sporting event - e.g. Political or religious Meetings, children's party (where no sports equipment is provided) & disco

Sporting event - per HMRC list below:-

Aikido	Croquet	Ice Hockey	Pony Trekking	Sumo Wrestling
American Football	Crossbow	Ice Skating	Pool	Squash

Angling	Curling	Jet Skiing	Quoits	Stoolball
Archery	Cycling	Jiu Jitsu	Racquetball	Street Hockey
Arm Wrestling	Dragon Boat Racing	Judo	Rackets	Sub-Aqua
Association Football	Dance	Kabaddi	Racquetball	Surf Life Saving
Athletics	Darts	Karate	Rambling	Surfing
Badminton	Equestrian	Kendo	Real Tennis	Swimming
Ballooning	Exercise & Fitness	Korfball	Roller Hockey	Table Tennis
Baseball	Fencing	Lacrosse	Roller Skating	Taekwondo
Basketball	Field Sports	Lawn Tennis	Rounders	Tang Soo Do
Baton Twirling	Fives	Life Saving	Rowing	Tchoukball
Biathlon	Flying (includes those model flying activities, in which competence is dependent on physical skill or fitness)	Luge	Rugby League	Tenpin Bowling (includes skittles)
Bicycle Polo	Gaelic Football	Modern Pentathlon	Rugby Union	Trampolining
Billiards	Gliding	Motor Cycling	Sailing/yachting (includes canal cruising)	Triathlon
Bobsleigh	Golf	Motor Sports	Sand & Land Yachting	Tug of War
Boccia	Gymnastics	Mountaineering	Shinty	Unihoc
Bowls	Handball	Movement & Dance	Shooting	Volleyball
Boxing	Hang/Para Gliding	Netball	Skateboarding	Water Skiing
Camogie	Highland Games	Octopush	Skiing	Weightlifting
Canoeing	Hockey	Orienteering	Skipping	Wrestling
Caving	Horse Racing	Parachuting	Snooker	Yoga
Chinese Martial Arts	Hovering	Petanque	Snowboarding	
Cricket	Hurling	Polo	Softball	

Series of lets - a series of ten or more periods, whether or not exceeding twenty four hours in total, where the following conditions are satisfied:

- I. each period is in respect of the same activity carried on at the same place;
- II. the interval between each period is not less than one day and not more than fourteen days
- III. consideration is payable by reference to the whole series and is evidenced by written agreement;

IV. the hirer has exclusive use of the facility; and

IV. the hirer is a school, club, an association or an organisation representing affiliated clubs or constituent associations

Development Redesign Programme - Briefing for Development Committee

The redesign projects contained in this report are led by Development Services, and are contained within the Councils Redesign Programme.

There are 5 redesign projects falling within the responsibility of the Director of Development, two of which are within the scope of the Development Committee:

1. Colleges Merger

Project scope:

Implementation of the merger of NAFC Marine Centre UHI, Shetland College UHI and Train Shetland into one new organisation as per the Full Business Case agreed by all parties in December 2018.

Project purpose:

Implementation of Colleges merger.

Desired outcome:

Efficient and effective delivery of tertiary education, research and training in Shetland, increasing the number of young people accessing learning and ensuring businesses have access to the skilled workforce they require and ensuring people in Shetland can reach their full potential.

Financial consequences:

Over the 5 year period modelled by the full business case, the proposed new college provides net savings to the Council of £12.2m

Progress position:

- Implementation plan; funding bid for resources; Shadow board recruitment; and Project Manager recruitment are being progressed.

2. Outliers

Project scope:

To identify through benchmarking with other local authorities, where we have significant differences in service provision, and cost of service provision.

Project purpose:

To identify 'outliers'

Desired outcome:

To achieve best value service delivery.

Financial consequences:

This will be informed by the value of the 'outlier' service provision and whether there is a case to change the service delivery or how that service is provided.

Progress position:

Benchmarking information is currently being refreshed.

The following projects fall within the remit of the Environment & Transport Committee and are included here for information.

3. Internal Ferries

Project scope:

Sustainable funding secured for internal ferry services and exploration of fixed links as a viable alternative.

Project purpose:

To establish a means of ensuring revenue and capital funding is available to support the continued provision of inter-island ferry services and, where proven to be a viable alternative, the provision of fixed links.

Desired outcome:

Sustainable services providing transport links between the islands currently without fixed links.

Financial consequences:

£2.9m current shortfall in revenue funding, and £125m of unfunded future capital costs of inter-island ferry provision

Progress position:

- Shetland Transport Programme Board' has been formed to manage this and other Transport Projects
- Funding ask for Revenue and Capital, for next 3 years has been provided to Scottish Government and Transport Scotland as agreed. (Ferries Fair Funding Sounding Board meets regularly to pursue this matter with Government.)
- Matters are also being progressed through Inter-island Transport Group meetings with SG, TS, SIC, OIC, HiTrans and ZetTrans

- Outline Business Cases are being progressed for (i) Revenue costs (ii) Fair isle route (iii) Whalsay route
- Undertake a legal review of the options and scope the steps to, as described in the Scottish Ferries Plan, transfer the ferry operation to Scottish Government with no net detriment.
- Scope the revenue options that enable the ferry service to be delivered within the allocated budget

4. Internal Air Services

Project scope:

Sustainable network of inter-island air services and supporting infrastructure

Project purpose:

To establish what is required in terms of a sustainable network of inter-island air services and supporting infrastructure in the longer term, and to make the case for fair funding for these services.

Desired outcome:

Sustainable system of inter-island air services which complements other transport systems, and which are fairly funded.

Financial consequences:

Current cost of inter - Island air service contract £988k. Plus operational revenue and Capital costs relating to infrastructure.

Progress position:

- Shetland Transport Programme Board' has been formed to manage this and other Transport Projects
- Inter-island Air Service OBC has been prepared, but is currently being reviewed to consider new information.
- Licensing of Island Airstrips, is being progressed to the same timeline

5. Bus Services

Project scope:

Best value review of Education, Public, and ASN and Social care Bus networks.

Project purpose:

To identify best value provision of bus networks, and implement provision of these services, including contracts with transport providers.

Desired outcome:

An affordable and sustainable system of bus services, both public and for schools and care groups, as required to meet needs and complement other transport systems, which best support our Community outcomes of reducing inequality and improving access to employment and education.

Financial consequences:

The current cost of the bus network is £5.352m, made up of: Public Service £2.302m; Education Transport £2.342m; ASN & Social care Transport £0.708m.

Progress position:

- A project structure and scope is currently being prepared, and will require external support to complete a Full Business Case proposal for these services.
- A one year extension to existing contracts has been required to accommodate this work moving start date from August 2019 to August 2020.

Director of Development Services
25 February 2019



Meeting(s):	Development Committee Policy and Resources Committee Shetland Islands Council	25 February 2019 26 February 2019 26 February 2019
Report Title:	2019/20 Housing Revenue Account Budget and Charging Proposals	
Reference Number:	F-011	
Author / Job Title:	Jamie Manson, 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 2019/20 for the Housing Revenue Account included in this report and the proposed charges detailed at Appendix 1, to be included in the overall SIC Budget Book.

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 2019/20 is a contribution from the Housing Repairs and Renewals Fund of £1.125m.
- 2.3 The 2019/20 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 2019/20, plus estimated adjustment to 2018/19 budgeted pay costs of 0.5%;
- pension contributions remaining at the 2018/19 level of 20.8%; and
- average increase in rents of 2.22%.

The table below sets out the proposed 2019/20 budget for the HRA:

2018-19 Approved Budget (£000)	Description	2019-20 Proposed Budget (£000)
	Expenditure	
808	Supervision & Management	870
2,178	Repair & Maintenance	2,338
168	Void Rents & Charges	171
31	Garages	30
1,330	Debt Charges – Dwellings	1,279
4,515	Total: Expenditure	4,688
	Income	
(1)	Interest on Revenue Balances	-
(6,730)	Rents – Dwellings	(6,847)
(229)	Rents - Other ie garages/sites etc	(242)
(6,960)	Total: Income	(7,089)
2,445	Net Revenue Contribution to HRA Reserve	2,401
	Capital	
3,512	Capital Expenditure	3,546
(15)	Capital Receipts	(20)
3,497	Net Capital Draw from HRA Reserve	3,526
(1,052)	Overall Contribution to/(from) HRA Reserve	(1,125)

- 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 bedsit and one bedroom properties, in addition to inflation. This means that an average rent rise of 2.22% is proposed for 2019/20. The full Schedule of Charges for 2019/20 is included in Appendix 1, to be included in the overall SIC Budget Book.

Rents – Dwellings, is expected to increase by £117k to £6,847m in 2019/20. The proposed increase recognises a reduction in housing stock numbers of 8 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 £13k overall to £242k in 2019/20. It is proposed for 2019/20 that garage and garage site rents are increased by inflation only.
4.5	Void rents and charges are proposed to increase by £2k to £170k in 2019/20. These costs have been 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.
4.8	The HRA capital programme included in the Council's Asset Investment Plan for 2019/20 is £3.526m, which takes reference from the Housing Asset Management Strategy and business planning process. The financial modelling which underpins the HRA Business Plan has provided reassurance that the increased investment required in our housing stock is affordable. It is proposed that the capital expenditure of, £3.456m will be required offset by estimated capital receipts from vehicle sales of £20k in 2019/20.
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 £1.279m in 2019/20, 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 2018 had a balance of £17.335m. There will be a need to draw £1.125m from this Reserve to support the proposed HRA budget for 2019/20. 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>

	<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. On the question of value for money for rent paid, overall 70% of tenants stated that they were either very or fairly satisfied with the value for money offered by the Housing Service.</p> <p>The survey also asked about affordability of the proposed increase and if tenants felt it was affordable for them.</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											
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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 and to secure that the proper officer of the authority has responsibility for the administration of those 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 2019/20 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 £1.125m 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 2019

Appendices:

Appendix 1- 2019/20 Housing Revenue Account Schedule of Charges

Schedule of Charges 2019-20

Rent levels – Summary per Property Size 2019-20

Property size	Area	2018/19 Rent Per Week £	2019/20 Rent Per Week £	Weekly Increase %
4 Bedroom	Lerwick	108.36	110.53	2.00
3 Bedroom	Lerwick	92.99	94.85	2.00
2 Bedroom	Lerwick	77.22	78.76	2.00
1 Bedroom	Lerwick	65.33	67.64	3.53
Bedsit	Lerwick	49.56	51.55	4.02
7 Bedroom	Non Lerwick	147.11	150.05	2.00
5 Bedroom	Non Lerwick	117.92	120.28	2.00
4 Bedroom	Non Lerwick	102.94	105.00	2.00
3 Bedroom	Non Lerwick	88.34	90.11	2.00
2 Bedroom	Non Lerwick	73.37	74.84	2.00
1 Bedroom	Non Lerwick	62.21	64.45	3.61
Bedsit	Non Lerwick	47.24	49.18	4.12
AVERAGE RENT LEVELS		77.59	79.32	2.22

NOTES

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

Garages & Site Charges 2019/20

TYPE OF CHARGE	2018/19 Charge per week £	2019/20 Charge per week £	Weekly Increase %
GARAGES:			
Garage Rents (no electricity)	11.20	11.45	2.23
Garage Rents (electricity)	16.00	16.35	2.19
Double Garage (electricity)	24.05	24.55	2.08
Garage Site Rent	5.10	5.20	1.96