



2023/24 Budget Book

Our revenue and capital budgets for 2023/24

Contents

1. Introduction

- 1.1 Our current financial position
- 1.2 Changes compared to *Our Medium-Term Financial Outlook*
- 1.3 Summary of 2023/24 budget

2. The 2021/22 Revenue Budgets:

- 2.1 General Fund – Revenue Budget
- 2.2 Harbour Account – Revenue and Capital Budget
- 2.3 Housing Revenue Account – Revenue and Capital Budget
- 2.4 Other Revenue Budgets:
 - Shetland Health and Social Care Partnership
 - Orkney and Shetland Valuation Joint Board
 - Zetland Transport Partnership

3. The 2023/24 Capital Budget

(the Asset Investment Plan)

1. Introduction

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

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

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

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

The budgets contained in this Budget Book essentially provide the operational plans of each Council service, for the year ahead from 1 April 2023. Approval of these budgets gives the authority for resources to be allocated to each department so that we can continue to deliver a wide range of public services across Shetland, in line with our statutory obligations as well as the priorities outlined in *Our Ambition*.

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

- the planned activity to be undertaken by each service,
- the proposed headcount, expressed in Full Time Equivalent (FTE) hours and the proposed budget for 2023/24
- a comparison of the headcount and budget approved in the prior financial year, 2022/23 ,
- how each activity links to *Our Ambition*.

This Budget Book represents the product of an iterative process that began in October 2022 and has been subject to refinement as further information has been made available, including information contained in the Local Government Finance Settlement for 2023/24 (the Settlement). Although the budgeting exercise is now reaching its conclusion, the budgets themselves will become the basis against which our financial performance will be monitored during 2023/24.

1.1 Our current financial position

Following the end of the COVID-19 pandemic we have seen significant financial volatility and supply chain issues and this has created large price movements in a range of goods and service that the Council consumes in its day to day activities.

Costs of some of our activity including catching up on work and projects that have been delayed as a result of the pandemic, are now seeing significant costs increases. Suppliers are also seeking to pass on uplifts in costs that they are incurring.

By 31 December 2022, we had spent almost £95.5m delivering services, which is 65% of the full year's budget. As we approach the end of the financial year, we are still expecting to spend all of the approved net revenue budget of £133.3m in 2022/23.

1.2 Changes compared to *Our Medium-Term Financial Outlook*

We published an updated Medium-Term Financial Outlook in September 2022 that covered the next five year period, to 2027/28. The financial planning assumptions used in *Our Medium-Term Financial Plan* help us determine what our likely level of income and expenditure might be in the medium-term, in a range of scenarios. We use assumptions to inform our planning because of the uncertainty around the economy, UK and Scottish public finances and likely direction of some national policies, such as pay. Our central planning scenario indicated an expected General Fund budgetary deficit of £20.8m in 2023/24.

The Local Government Finance Settlement (the Settlement) was issued on 1 March 2023, which we used to inform the financial planning assumptions in the updated *Our Medium-Term Financial Plan*. The Settlement indicates core revenue funding from the Scottish Government will remain broadly flat in cash terms for 2023/24.

The Scottish Government public sector pay is negotiated centrally by the Scottish Joint Council (SJC), for non-teaching local government employees and the Scottish Negotiating Committee for Teachers (SNCT). We have not changed our assumptions on pay inflation for 2023/24, for either group of staff, however, there is a risk that our pay bill may increase by more than 3.0% included in the Contingency budget depending on the outcome of negotiations.

Our Medium-Term Financial Outlook has been prepared on a like-for-like basis and therefore did not take into account any planned changes in service provision. As we have developed our budget, we have identified some £6.80m of savings and efficiencies across most services in our General Fund budget proposals for 2023/24. In addition at the Council meeting on the 15 March 2023 the Council approved an additional 1% savings across all services to be achieved in the year of £1.6m. These savings and efficiencies temper the £16.24m of growth in budget compared to 2022/23, much of which is recurring in nature. Additional resources are required as a result of inflationary impacts on services, increased demand for Council services but also to undertake work required to deliver *Our Ambition*. The detailed budget proposals presented to each service committee include further detail on specific savings, efficiencies and areas of growth

that we have identified during the development of our budget.

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

Specific ring-fenced revenue funding now accounts for 21% of the total revenue funding we receive from the Scottish Government.

We acknowledge that expenditure at this level is still unsustainable in the long-term because we need to utilise more from our reserves than both *Our Medium-Term Financial Outlook* and Investment Strategy anticipates. We know we have further work to do to achieve long-term financial sustainability, but our 2023/24 budget has had to absorb abnormally high inflation, but we continue working towards this objective. This year's General Fund revenue budget requires an unsustainable draw of £3.2m from reserves compared to the £5.1m required in 2022/23, and the £8.1m required in 2021/22. *Our Ambition* includes a commitment to working towards a smaller base budget from 2022 onwards, and that continues to be a focus in future budget-setting rounds.

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

1.3 Summary of the 2023/24 budget

General Fund Revenue:

Our General Fund revenue budget has been developed in line with the principles and financial planning assumptions that we set out in *Our Medium-Term Financial Outlook*, presented in September 2023. We have refined our budget proposals to take into account any changes planned by each directorate that are required to ensure continued provision and delivery of services in 2023/24.

The Settlement indicates the Scottish Government will provide total revenue funding of £107.6m,

inclusive of £24.9m of ring-fenced revenue funding for specific purposes in 2023/24. Ring-fenced revenue funding includes £23.1m provided for the operational costs of inter-island ferry services, along with £2.63m for the continued provision of Early Learning and Childcare services.

Our budget proposal reflects the approved Council Tax increase of 4.5% in 2023/24. We expect to raise £10.8m in Council Tax (net of any discounts or exemptions) during the year, which is £0.46m more than last year. Despite this planned increase, Council Tax rates in Shetland remain amongst the lowest across Scotland (2022/23 Scottish Band D average: £1,338).

We plan to supplement the income we receive from the Scottish Government, Council Tax and fees and charges, by using £38.4m from our reserves to meet our total planned revenue expenditure in 2023/24. This amount includes:

- £15.4m of anticipated returns from our long-term investments, which we can afford to draw down on a sustainable basis in line with *Our Medium-Term Financial Outlook*, and
- £18.2m of trading income generated from the Harbour Account, including additional income from the Shetland Gas Plant, and the application of Crown Estate funding.

We can therefore expect our total income to amount to £151.9m.

We expect to spend £155.1m delivering services funded through the General Fund in 2023/24. This leaves a remaining deficit of £3.2m that cannot be met from other sources of funding, and will need to be met from reserves in order to set a balanced General Fund budget.

General Fund net revenue expenditure of £155.1m in 2023/24 is greater than that approved for 2022/23, which amounted to £143.1m inclusive of expenditure funded by specific ring-fenced revenue grants.

The utilisation of £3.2m from the reserves compares positively to previous years and shows that we are actively reducing our reliance on the reserves to finance our annual revenue budgets. Nonetheless, the use of £3.2m of reserves, over and above the amounts envisaged in *Our Medium-Term Financial Outlook*, mean that we are not yet

able to demonstrate the Council is in a financially sustainable position. The reliance on Trading Income is also not to be ignored.

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

Housing Revenue Account:

The Housing Revenue Account (HRA) budget has been developed in line with the associated business plan, underpinned by a 30-year financial model and an increase in housing rent charges of 4.5%, approved by the full Council on 22 February 2023. The HRA budget requires support of £5.7m from the HRA reserve to meet total planned revenue and capital expenditure, and is considered affordable.

Harbour Account:

The Harbour Account budget has been developed with regard to recent levels of harbour activity, and an increase in charges and is anticipating to generate a surplus of £18.2m in 2023/24.

Asset Investment Plan:

Our planned capital investment for the year amounts to £21.6m and largely relates to the maintenance of existing assets. Some £7.7m capital expenditure relates to new and potential capital expenditure, subject to business cases being approved. The Settlement provides a core capital grant of £6.1m, which means the remainder of our planned capital expenditure needs to be financed by a combination of capital receipts, external borrowing, from revenue funding, or from external grants.

Summary:

We have developed our overall budget for 2023/24 amidst the uncertainty of the ongoing financial volatility which has influenced most costs across the Council. We have taken a pragmatic approach to setting budgets, by planning for realistic levels of activity, under the expectation that costs may well continue at this level going forward in most cases. The budgets outlined in

this Budget Book are balanced and affordable but cannot be considered sustainable in the longer-term.

2. Revenue Budgets for 2023/24

2.1 General Fund - Revenue Budget

The majority of Council services are funded through the General Fund. The 2023/24 General Fund budget is summarised in the table below:

Line No.	Description	2023/24 £000	2023/24 Savings Proposals £000	2023/24 ISAs* £000	2023/24 £000
1	Chief Executive & Cost of Democracy	2,039	0	(4)	2,035
2	Children's Services	57,011	(342)	(31)	56,656
3	Community Health & Social Care Services	28,911	(922)	1,998	29,987
4	Corporate Services	13,009	(460)	(415)	12,134
5	Development Services	17,862	(350)	0	17,512
6	Infrastructure Services	41,695	(537)	(1,566)	39,592
7	1% Savings		(1,606)		(1,606)
8	GENERAL FUND SERVICES NET EXPENDITURE (equals lines 1-7)	160,527	(4,217)	0	156,310
9	Allocation to the Integration Joint Board (IJB)	28,709			28,709
10	Allocation to the Integration Joint Board (Audit Fee)	15			15
11	Contribution from the Integration Joint Board (IJB)	(29,987)			(29,987)
12	NET CONTRIBUTION FROM THE IJB (equals lines 9 - 11)	(1,263)	0	0	(1,263)
13	Contingencies & Cost Pressures	3,500			3,500
14	Capital Financing Costs	1,618			1,618
15	Crown Estate Income	(1,600)			(1,600)
16	Fund Managers Fees	1,400			1,400
17	Economic Development Investment Income	(1,000)			(1,000)
18	Interest on Revenue Balances Income	(14)			(14)
19	Support Recharges (to Harbour Account , HRA and Capital)	(3,844)			(3,844)
20	TOTAL NET GENERAL FUND EXPENDITURE (equals line 8 plus 12 plus lines 13-19)	159,324	(4,217)	0	155,107
	Funded by:				
21	General Revenue Grant/National Non-Domestic Rates Income	(82,647)			(82,647)
22	Specific Ring-fenced Revenue Grants	(24,989)			(24,989)
23	Council Tax	(10,770)			(10,770)
24	TOTAL CORE FUNDING (equals lines 21-23)	(118,406)	0	0	(118,406)
	Deficit to be funded from Reserves:				
25	Reserves - Sustainable Investment Returns	(15,444)			(15,444)
26	Reserves - Other (including Trading Income)	(18,071)			(18,071)
27	Reserves – Unsustainable	(4,792)	1,606		(3,186)
28	TOTAL FUNDING FROM RESERVES (equals lines 25-27)	(38,307)	1,606	0	(36,701)
29	TOTAL FUNDING (equals line 24 plus line 28)	(156,713)	1,606	0	(155,107)
29	BALANCED BUDGET (line 19 plus line 28)	2,611	(2,611)	0	0

*ISA – internal service allocation

General Fund Expenditure:

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

Committee	Date	Report Ref.	Report Title
Education & Families	13 March 2023	F-10-F	2023/24 Budget and Charging Proposals - Children & Families
Development	13 March 2023	F-14-F	2023/24 Budget and Charging Proposals - Development
Environment & Transport	14 March 2023	F-3-F	2023/24 Budget and Charging Proposals - Environment and Transport
Policy & Resources	14 March 2023	F-12-F	2023/24 Budget and Charging Proposals - Health and Social Care Integration Joint Board
		F-11-F	2023/24 Budget and Charging Proposals - Corporate and Executive Services

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

		Functional Committee				Total
		Development	Education & Families	Environment & Transport	Policy & Resources	
Directorate	Executive & Corporate Services				14,588	14,588
	Children's Services		56,668			56,668
	Community Health & Social Care				27,989	27,989
	Integration Joint Board				(1,263)	(1,263)
	Development Services	8,643	529	8,340		17,512
	Infrastructure Services			41,158		41,158
Total		8,643	57,197	49,498	41,314	156,652

Central budgets, contingency & cost pressures activity:

We know that budget-setting is not an exact science, and we need to allow for some flexibility to meet any unforeseen cost pressures that may arise during the year. To help us manage some of the risks we face, we have included £3.718m within our General Fund revenue budget as a prudent estimate of what may reasonably be required as a contingency during the year, to meet any unforeseen cost pressures. We also include in this budget line some resource to help us facilitate change activity and meet our anticipated capital financing costs. These items generally apply across the Council so we hold this budget centrally. The Executive Manager – Finance has sole discretion to release these funds to offset any corresponding expenditure, should any cost pressure or funding requirement crystallise in the course of the year. The £3.718m can be broken down as follows:

Category	Description	Budgetary provision £000
Contingency – General	Contingency set aside to meet potential costs pressures that <i>may</i> , but are not guaranteed, to arise during 2023/24 this contains 3% increase for pay award.	3,500
Capital Financing Costs	Funding required to service debt	1,618
Crown Estate	Anticipated income from the Crown Estate in 2023/24	(1,600)
Total Centrally held budget and contingency:		3,718

General Fund Financing:

i. Scottish Government funding

The Scottish Government is providing core revenue funding of £82.65m, excluding specific ring-fenced funding. This funding is the combination of the General Revenue Grant and our share of income from the National Non-Domestic Rates pool and is £2.62m more than the core revenue funding received as part of last year's settlement (2022/23: £80.03m). However, the Settlement for 2023/24 includes £20.63m of specific ring-fenced revenue funding compared to £20.72m in 2022/23. The full funding for ferries is not yet included in the settlement but the Scottish Government has pledged to fully fund this. The additional cost in 2023/24 to be funded £5.586m

ii. Trading income and use of reserves

We will supplement the funding we receive from the Scottish Government with trading income generated by the Harbour Account and by cashing in some of the investment returns generated from our long-term investments. Withdrawing too much from our long-term investments in any one year will reduce the underlying investment base and reduce future investment returns. Positive investment growth of 5.2% every year is not guaranteed and will fluctuate from month to month, and from year to year. We therefore need to limit how much we withdraw so that we protect and maintain the buying power of our underlying investments, so they continue to generate returns for years and decades to come. In line with *Our Medium-Term Financial Outlook*, we can afford to withdraw £15.44m from our long-term investments without adversely affecting future investment performance, and we will use this to supplement the General Fund revenue budget.

The General Fund revenue budget requires *more* than £15.44m in order to achieve financial balance in 2023/24. A further withdrawal of £3.2m to meet the funding gap we have been unable to resolve is affordable in the short term given the relative health of the investments, but it is not sustainable and deviates from *Our Medium-Term Financial Plan*.

iii. Council Tax

We have a legal obligation to set and collect Council Tax. The Council approved the Council Tax rates on 22 February 2023, the increase approved was 4.5%.

The Council Tax rates for 2023/24 are as follows:

Band	Band Value	Multiplier	No. Properties in Band	Annual Increase	2023/24 Council Tax
A	£0 - 27,000	240/360	2973	£36.19	£840.41
B	£27,000 - £35,000	280/360	1862	£42.22	£980.47
C	£35,000 - £45,000	320/360	2908	£48.25	£1,120.54
D	£45,000 - £58,000	360/360	1906	£54.28	£1,260.61
E	£58,000 - £80,000	473/360	1520	£71.32	£1,656.30
F	£80,000 - £106,000	585/360	318	£88.21	£2,048.49
G	£106,000 - £212,000	705/360	69	£106.30	£2,468.69
H	£212,000 +	882/360	2	£132.99	£3,088.49

2.2 The Harbour Account - Revenue and Capital Budget

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

Line No.	Description	2023/24 Budget £000
1	Sullom Voe	13,021
2	Scalloway	999
3	Other Piers	1,382
4	Jetties & Spur Booms	4,361
5	TOTAL REVENUE EXPENDITURE (equals lines 1-4)	19,763
6	Harbour Fees & Charges	(32,362)
7	Jetties & Spur Booms	(4,361)
8	TOTAL REVENUE INCOME (equals lines 6-7)	(36,723)
9	HARBOUR ACTIVITY NET REVENUE SURPLUS (equals lines 5-8)	(16,960)
10	TOTAL CAPITAL EXPENDITURE	379
11	Capital Receipts	(30)
12	TOTAL CAPITAL INCOME (equals line 11)	(30)
13	NET CAPITAL DRAW ON RESERVES (equals lines 10 plus 12)	349
14	HARBOUR ACTIVITY REVENUE & CAPITAL NET SURPLUS (line 9 plus line 13)	(16,611)
15	Shetland Gas Plant	(1,600)
16	TOTAL SURPLUS (equals line 14 plus line 15)	(18,211)
17	Contribution to the Reserve Fund	18,211
18	BALANCED HARBOUR ACCOUNT (line 16 plus line 17)	0

The primary driver of activity in the Harbour Account arises from the Sullom Voe Terminal, which requires harbour services on a 24 hours a day, seven days a week basis, to facilitate tanker movements. Considerable expenditure is required to maintain such a service amidst a gradual decline in harbour traffic. Harbour charges have been set with regard to the financial pressure we face by continuing to offer this 24/7 service.

For 2023/24 we are planning to increase charges by 4.9% on average across all ports and harbours in order to help offset the increasing cost of providing services. Harbour Dues have been increased by 52%. We anticipate that ports and harbour activity will generate a surplus of £18.2m in 2023/24, including additional income from the Shetland Gas Plant driven by the increased price of gas.

The detailed budget proposal for 2023/24 has been presented to the Harbour Board and can be found in the following report:

Committee	Date	Report Ref.	Report Title
Harbour Board	8 March 2023	F-4-F	2023/24 Budget and Charging Proposals - Harbour Board

2.3 The Housing Revenue Account - Revenue and Capital Budget

As a social landlord, we are legally required to account for any income and expenditure that relates to the provision of housing separately from the General Fund. We maintain the Housing Revenue Account (HRA) to record all the income and expenditure that relates to our activities as a landlord, such as collecting housing rent, paying for maintenance and building or acquiring new housing stock. The proposed revenue and capital budget for 2023/24 is summarised below:

Line No.	Description	2023/24 Budget £000
1	Supervision & Management	964
2	Repairs & Maintenance	3,552
3	Void Rents & Charges	253
4	Garages	32
5	Capital Charges - Dwellings	1,188
6	TOTAL REVENUE EXPENDITURE (equals lines 1-5)	5,989
7	Rents - Dwellings	(7,392)
8	Rents - Other i.e. garages/sites etc.	(262)
9	TOTAL REVENUE INCOME (equals lines 7-8)	(7,654)
10	NET REVENUE CONTRIBUTION to HRA RESERVE (line 6 plus line 9)	(1,665)
11	TOTAL CAPITAL EXPENDITURE	9,065
12	Capital Receipts	(35)
13	Capital Grant	(1,701)
14	NET DRAW from HRA RESERVE (lines 12-13)	7,329
15	Contribution from Housing Revenue Account (Reserves)	(5,664)
16	BALANCED HOUSING REVENUE ACCOUNT BUDGET (lines 10 plus 14 plus 15)	0

Housing rents and charges were approved by the Council on 22 February 2023, these increased by 4.5%. The HRA budget has been developed on this basis and with regard to the HRA financial model. We expect the HRA to achieve a net revenue surplus of £1.67m. This surplus will offset total net planned capital expenditure of £7.33, with the remainder being met from the HRA's reserve.

The aim of the HRA is to maintain financial balance between the income received and expenditure defrayed. There are special rules regarding what can and cannot be accounted for within the HRA, and it cannot be subsidised by the General Fund. Accordingly, we maintain a HRA reserve which can be called upon to meet

any budgetary deficits that may be anticipated. In 2023/24 the HRA will require £5.67m from the HRA reserve in order to achieve financial balance.

The HRA business plan will be updated during the year, underpinned by a refreshed 30-year financial model. The business plan will provide the blueprint for the future maintenance of existing housing stock and the options available to invest in new housing stock while ensuring the HRA remains self-sustaining.

The detailed budget proposal for 2023/24 has been presented to the Development Committee and can be found in the following report:

Committee	Date	Report Ref.	Report Title
Development	13 March 2023	F-15-F	2023/24 Budget and Charging Proposals - Housing Revenue Account

2023/24 Orkney & Shetland Valuation Joint Board Budget

2.4 Other Revenue Budgets

Orkney & Shetland Valuation Joint Board

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

The O&SVJB sets its own budget in order to allocate resources to support day-to-day operations and deliver its strategic priorities.

From the draft budget report, we have estimated our contribution to the O&SVJB to be £0.503m for 2023/24 an increase of £36k from 2022/23. This may be insufficient to meet the resourcing requirements of the O&SVJB depending on the final budget approved by Members of the Board. We may need to adjust our own budget once the O&SVJB budget is approved, to ensure we have sufficient cover to meet the requisition. This would be met from the Contingency.

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

Committee	Date	Report Ref.	Report Title
O&S Valuation Joint Board	2 March 2023	Item 6	Orkney and Shetland Valuation Joint Board

Shetland Health and Social Care Partnership

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

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

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

Committee	Date	Report Ref.	Report Title
Integration Joint Board	TBC	TBC	2023/24 IJB Budget

Zetland Transport Partnership

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

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

Committee	Date	Report Ref.	Report Title
ZetTrans	16 March 2023	ZTP-5-23	2023/24 Budget and Charging Proposals - ZetTrans

3. Capital Budgets for 2023/24

Asset Investment Plan

We summarise our capital investment plans for the next five years in our Asset Investment Plan (AIP). Our AIP sets out what we plan to invest in the year ahead and subsequent years for each of the General Fund, Harbour Account and Housing Revenue Account so that interested parties can understand the scale and scope of our capital investment plans in different parts of the Council. Our proposed capital budget for 2023/24 is set out below:

Line No.	Description	2023/24 Budget £000
1	New Developments	6,549
2	Maintenance of Existing Assets	13,845
3	Potential Projects	1,157
4	TOTAL EXPENDITURE (equals lines 1-3)	21,551
5	Scottish Government General Capital Grant	(6,054)
6	Other Capital Grants	(7,254)
7	Capital Receipts (General Fund ,HA and HRA)	(564)
8	TOTAL FUNDING (equals lines 5-7)	(13,873)
9	FUNDING SHORTFALL (equals line 4 plus line 8)	7,678
10	Capital Funded from Current Revenue	(7,678)
11	TOTAL FINANCING (equals line 10)	(7,678)
12	TOTAL FUNDING AND FINANCING (equals line 8 plus line 11)	(21,551)
13	BALANCED ASSET INVESTMENT PLAN (equals line 4 plus line 12)	0

Our capital investment plans have been developed with regard to our capital strategy and follow our capital expenditure and capital funding policies. These strategies and policies are set out in the Treasury Management Strategy Statement and Annual Investment Strategy, which is being presented to the same meeting as the budget proposals contained in this Budget Book.

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

The proposed capital budget for 2023/24 has been revised after taking into consideration the likely level of activity that we can reasonably expect to achieve given our track record in managing capital expenditure. The proposed budget amounts to £21.55m and will be financed by a combination of:

- Scottish Government general capital grant (£6.05m);
- Scottish Government/Central Government specific capital grant (£7.25m);
- capital receipts (£0.57m); and
- capital financed from current revenue (CFCR) (£7.68m).

Our financial planning assumptions did not anticipate a need to utilise the reserves to support capital expenditure in 2023/24.

Over the five year period, we plan to spend £99.33m on the maintenance, acquisition and construction of assets. The capital grant received from the Scottish Government is insufficient to meet our planned capital investment, so we will need to finance our AIP through other sources. Our five-year plan will require us to use capital grants, capital receipts, external borrowing and funding capital from revenue sources. We will need to prioritise which projects are taken forward with regard to the Prudential Code, which requires local authorities to:

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

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

Further detail about how we plan to finance the AIP is included in Appendix 2 to this Budget Book.

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

Further detail about individual projects contained in our Asset Investment Plan are presented to the Policy and Resources Committee as part of our overall budget, and are included in Appendix 2 to this agenda item. The Treasury Management Strategy Statement and Annual Investment Strategy is also being presented on the same agenda. For completeness, the detailed capital budget proposals and associated capital strategy and policies can be found in the following reports:

Committee	Date	Report Ref.	Report Title
Policy & Resources	14 March 2023	F-6-F F-13-F	2023/24 Shetland Islands Council Budget Book 2023/24 Treasury Management Strategy Statement & Annual Investment Strategy