

MEDIUM-TERM FINANCIAL PLAN

2025-2030

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1. Introduction

This Medium-Term Financial Plan (MTFP) continues to provide insight into the scale and nature of the financial challenges facing the Council. It remains a cornerstone of effective financial planning, helping to guide decision-making in an increasingly uncertain environment.

Councils across the UK operate under the constraint of one-year financial settlements from central government. While this limits certainty, it does not excuse the absence of medium-term planning. On the contrary, forward planning is essential to help us navigate the unpredictable fiscal landscape and ensure decisions are made with a clear understanding of their long-term financial implications.

The MTFP sits within a broader suite of strategic and operational documents, bridging the gap between long-term ambitions and short-term delivery. It consolidates a range of assumptions about future income and expenditure, aligned with the Scottish Government's Medium-Term Financial Strategy period. This enables us to identify when and where financial pressures are likely to arise, supporting informed discussions about service transformation and new ways of working.
To support transparency, our key financial planning assumptions are summarised in Section 3, with further detail provided in Annexes A–D. In Section 4, we present three financial scenarios:

- Optimistic (Upside)
- Central (Most Likely)
- Pessimistic (Downside)

These scenarios are not budgets, but illustrative models that help us understand the potential scale of the challenge. They provide a baseline against which we can measure progress toward financial sustainability.

It is important to recognise that large figures in medium-term forecasts are common across the public sector. For example, the Scottish Government's own 2025 MTFP projected a deficit of £2.6 billion. These forecasts reflect the complexity and uncertainty of long-term financial planning.

Our forecasts focus primarily on revenue expenditure within the General Fund, which supports day-to-day service delivery. In addition, the Council operates 21 ports and harbours, 15 ferry terminals, and manages over 1,700 homes as Shetland's largest social landlord.

These operations are accounted for separately through the Harbour Account and Housing Revenue Account (HRA), as required by law. While this MTFP does not include scenario planning for the Harbour Account or HRA, the HRA is guided by a five-year Strategic Housing Plan, and we recognise the need to develop a similar framework for harbour-related income and wider oil and gas revenues.

Many of the priorities outlined in *Our Ambition* carry significant capital and long-term revenue implications that have yet to be fully quantified. Further work is needed to translate these ambitions into SMART plans—Specific, Measurable, Achievable, Relevant, and Time-bound—to improve our financial planning across both revenue and capital.

Our Asset Investment Plan (AIP) outlines capital spending on a rolling five-year basis, presented annually alongside revenue budgets. However, we acknowledge that some strategic capital investments may fall outside this window and require separate consideration.

We recognise that more work is needed to develop an MTFP that clearly maps a pathway to financial sustainability. The purpose of this plan is to highlight the scale of the challenge ahead of the 2026/27 budget-setting process. It must be underpinned by detailed plans that support the delivery of *Our Ambition*, and more clearly linked to the transformational activities required to achieve financial sustainability.

There is no disguising the stark nature of the figures presented in this document. While this may not surprise those familiar with our finances, it reinforces the urgency of the situation. Unlike many other Councils constrained by annual settlements, we have been able to absorb funding reductions and cost growth by drawing on reserves—but this approach is no longer sustainable.

In previous years, we referred to this document as a Medium-Term Financial Outlook, reflecting its lack of actionable content. However, the 2023–28 MTFP marked a return to a true "plan," including actions and recommendations aimed at improving our financial position. For this 2025–30 MTFP, we will assess progress made in 2025/26 and present updated recommendations to inform future decisions—these can be found on Page 23.

We must now focus on using the tools available to us—scenario planning, SMART objectives, and strategic prioritisation—to deliver sustainable change. Only by doing so can we begin to live within our means and secure the financial future of the Council.

2. Economic and Fiscal Outlook

We have reviewed a number of sources of analysis and forecast on wider economic matters.

Office for Budget Responsibility – Economic and Fiscal Outlook (March 2025)

- Economic Outlook: UK GDP growth revised down to 1.0% in 2025, recovering to ~1.8% annually by 2029. Productivity growth remains subdued, with trend productivity 1.3% below previous forecasts.
- Inflation & Interest Rates: CPI inflation peaks at 3.8% in July 2025, returning to the 2% target by 2026. Bank Rate expected to fall to 3.8% by mid-2026; gilt yields rise to 5.2% by 2029.
- Labour Market: Unemployment peaks at 4.5% in 2025, falling to 4.1% by 2028. Employment rate declines slightly due to ageing population.
- Housing & Planning: Planning reforms expected to add 170,000 homes by 2030, boosting potential output by 0.2%.
- Fiscal Outlook: Public sector net borrowing falls from £137bn to £74bn by 2029/30. Tax-to-GDP ratio reaches a historic high of 37.7% in 2027/28.
- Risks: Key risks include productivity stagnation, volatile interest rates, and global trade tensions. Fiscal headroom against targets remains narrow.

Fraser of Allander Institute – Economic Commentary (June 2025)

- Scottish Economy: Growth forecast downgraded to 0.8% in 2025 and 1.0% in 2026, reflecting global uncertainty and domestic pressures.
- Inflation: CPI in Scotland rose to 3.4% in May 2025, pausing interest rate cuts.
- Labour Market: Employment fell by 0.9% year-on-year; pay growth remains weak.
- Social Security: Universal Credit and legacy benefit caseloads remain £1bn higher than pre-pandemic levels. Proposed reforms to disability benefits and UC may affect future costs.
- Spending Review: UK capital spending boosted in the short term but faces real-terms cuts by 2029/30. Barnett consequentials for Scotland show a £4bn increase over three years, but real-terms growth is modest.
- MTFS & Fiscal Gaps: Scottish Government projects £2bn+ resource and capital gaps by 2029/30. Workforce reforms aim to reduce public sector FTEs by 0.5% annually, with savings targets of £1.5bn/year.

OBR – Fiscal Risks and Sustainability Report (September 2024)

- Long-Term Fiscal Outlook: Public debt projected to rise to 274% of GDP by 2074 under current policy; could exceed 300% with shocks.
- Climate Change:
    - Below 2°C scenario: GDP down 3%, debt up 23% of GDP.
    - Below 3°C scenario: GDP down 5%, debt up 33% of GDP.
    - Direct fiscal costs from flooding and heatwaves could reach £1.2bn/year.
- Health Trends:
    - Health spending projected to reach 14.5% of GDP by 2074.
    - Better health scenario reduces debt by 44% of GDP; worse health increases it by 49%.
- Demographics & Migration: Ageing population and rising dependency ratios drive long-term spending. Net migration assumed at 315,000/year.
- Fiscal Adjustment Needs: Stabilising debt at

75% of GDP requires 1.5% of GDP tightening per decade; delaying action increases risk of debt spiral.

Monetary Policy Report – August 2025 (Bank of England)

- Bank Rate reduced to 4.0%; forecast to fall to 3.5% by mid-2026, easing borrowing costs.
- CPI inflation forecast to peak at 4.0% in September 2025, returning to 2% by 2027.
- Labour market loosening; unemployment projected to rise to 4.9% by 2026.
- QT (Quantitative Tightening) estimated to raise long-term interest rates by 15–25bps; modest impact on gilt yields and fiscal headroom.
- Elevated food inflation and wage pressures (NLW, NICs) may affect service delivery costs.
- Highlights risks from global trade policy, energy shocks, and inflation persistence—key for scenario planning and risk management.

Monetary Policy Report – May 2025 (Bank of England)
Purpose:
Bank Rate cut to 4.25%; further reductions expected, improving financing conditions.

- CPI inflation projected to rise to 3.5% in Q3 2025, then gradually fall to 2% by 2027.
- Fiscal tightening and weak productivity growth contribute to a widening output gap.
- Labour market slack increasing; unemployment forecast to reach 5% by end-2026.
- Wage growth moderating; pay settlements averaging 3.5%–4% in public and private sectors.
- Trade policy uncertainty and tariff impacts may reduce UK GDP and inflation—important for grant forecasting and economic development planning.

Summer Forecast – July 2025 (EY ITEM Club)

- GDP growth revised up to 1.0% for 2025; weak momentum expected through 2026.
- Inflation sticky at 3.6% in 2025; forecast to return to 2% in H2 2026.
- Bank Rate expected to fall to 3.5% by early 2026; easing capital financing pressures.
- Labour market softening; NICs and NLW increases driving cost pressures in low-pay sectors.
- Consumption supported by healthy household balance sheets and falling savings ratio.
- House building constrained by affordability and labour shortages; planning reforms may offer long-term uplift.
- Fiscal risks rising; potential income tax increases and welfare reform could affect local funding and demand for services.

Overall, this can be summarised into two key areas:

Subdued Growth, Persistent Inflation, and Tight Fiscal Conditions Will Shape Strategic Planning

- UK and Scottish GDP growth forecasts remain modest (UK: 1.0% in 2025; Scotland: 0.8%), with productivity stagnation and global uncertainty dampening recovery.
- Inflation is expected to remain above target through 2025 (peaking at 3.8–4.0%), before easing to 2% by 2026–2027. This affects wage pressures, service costs, and capital affordability.
- Interest rates are forecast to fall gradually (Bank Rate to 3.5% by mid-2026), but Quantitative Tightening and rising gilt yields (5.2% by 2029) will increase long-term borrowing costs.
- Fiscal tightening is evident across UK and Scottish budgets, with real-terms reductions in capital spending and constrained departmental growth.
- Scottish Government projects a £2bn+ fiscal gap by 2029/30, requiring workforce reform and annual savings of £1.5bn.

Demographic, Labour Market, and Structural Risks Require Proactive Local Response

- Labour market softening is expected: unemployment rising to ~5%, employment rates declining due to ageing population, and cost pressures from NICs and NLW increases—especially in low-pay sectors.
- Social security caseloads remain elevated, with proposed reforms to disability benefits and Universal Credit potentially affecting future demand and costs.
- Planning reforms may boost housing supply (170,000 homes by 2030), but delivery is

constrained by affordability and workforce shortages.
- Long-term risks from climate change, health trends, and migration could significantly increase public debt and service demand.
- Fiscal sustainability challenges—especially under adverse scenarios—highlight the need for early adjustment and resilience planning at the local level.

Previous iterations of the Medium-Term Financial Plan (MTFP) have emphasised the importance of considering the broader economic and fiscal environment when developing financial planning assumptions. This has typically included analysis of GDP trends, inflation, unemployment rates, and government borrowing. The rationale is clear: the performance of the UK economy directly influences public finances in the short to medium-term, ultimately affecting the core funding received from the Scottish Government.

To support this, a range of independent economic forecasts—alongside the Scottish Government's Resource Spending Review—have been used to inform the assumptions and financial modelling underpinning the three scenarios presented in the MTFP.

However, while such analysis provides useful context, its practical influence on local financial planning is limited. Rarely has this type of assessment led to the conclusion that economic conditions were favourable or that local authority funding was secure. In Shetland, the labour market is relatively fixed, meaning national unemployment trends are less relevant than local employment dynamics. Similarly, while inflation may fluctuate, what matters most is its impact on the specific goods and services the Council procures.

Recent economic reports have been notable for their tone of cautious optimism, yet uncertainty remains a dominant theme. As such, this MTFP does not seek to build further on external macroeconomic considerations. Instead, it focuses on the more immediate and tangible impacts within our local context.

Given that the majority of our funding is provided by the Scottish Government, their strategic documents and spending plans are of greater relevance to our financial planning.

Recently the Scottish Government published an updated MTFP of its own along with a Fiscal Sustainability delivery plan.

Based on this anticipated impact could be expected to be:

Funding Pressures and Fiscal Gaps

- Core funding from the Scottish Government is expected to grow slowly—just 1% per year in real terms—while spending pressures are rising at 4.1% annually, driven by inflation, demographic change, and policy commitments.
- The Scottish Government projects a £2.6 billion resource gap by 2029–30, which will likely translate into tight settlements for local authorities, especially in areas like social care, education, and housing.
- Capital budgets are also constrained, with a forecast £2.1 billion shortfall by 2029–30, affecting infrastructure investment and maintenance at the local level.

Efficiency and Workforce Reform

- Local authorities are expected to contribute to public sector efficiency targets, including:
    - A 0.5% annual reduction in workforce across the devolved public sector.
    - Reform of corporate functions and service delivery models to reduce costs.
- These measures may require councils to redesign services, streamline operations, and manage workforce transitions, while protecting frontline services.

Social Security and Demand-Led Services

- Social security spending remains protected, but demand is rising, particularly for disability benefits and child poverty interventions.
- Local authorities may face increased demand for wraparound services, such as housing support, employability programmes, and social care, without proportional increases in funding.
- The Two Child Limit Payment and Scottish Child Payment will support families, but councils may need to align local services to complement these national benefits.

Economic Development and Local Growth

- The Scottish Government is investing in offshore wind, housing, and transport

infrastructure, with potential local benefits through:
    - Green Freeports and Investment Zones
    - Planning reforms and housing delivery acceleration
- Councils may be expected to support local economic growth, attract investment, and align with national strategies like the National Strategy for Economic Transformation (NSET).

Taxation and Revenue Raising

- Local authorities are encouraged to explore new revenue powers, including:
    - Implementation of the Visitor Levy
    - Potential reforms to Council Tax and Non-Domestic Rates
- The Scottish Government is working with COSLA to develop a Local Government Fiscal Framework, which may offer greater flexibility and clarity in future funding arrangements.

Summary for Local Authority Planning

Over the next five years, local authorities should prepare for:

- Flat or declining real-terms funding, requiring robust prioritisation and efficiency.
- Workforce and service reform, with a focus on productivity and digital transformation.
- Increased demand for services, especially in social care, housing, and poverty mitigation.
- Opportunities for local economic development, aligned with national investment.
- Engagement in tax reform and new revenue mechanisms, to enhance fiscal resilience.

The financial outlook for the Scottish Government's block grant, combined with its stated spending priorities, broader economic conditions, and rising demand for public services, suggests that the local government funding settlement for 2026/27 and beyond will remain under significant and increasing pressure.

What does this mean for us?

As a local authority, the majority of our income is derived from the Scottish Government through the general revenue grant, non-domestic rates, and ring-fenced funding allocated for specific purposes. Additional income is generated locally via Council Tax and service charges, where permitted. In essence, most of our funding is sourced from various forms of taxation.

While the economy is gradually returning to its pre-pandemic structure, new challenges are emerging. Governments are working to rebalance public finances in the wake of inflationary shocks, rising interest rates, and ongoing cost-of-living pressures affecting households and businesses nationwide.

Elevated inflation has eroded the real-terms value of public sector budgets, reducing the spending power of services compared to the previous year. A flat funding settlement effectively represents a reduction in real terms, as the same amount of money now delivers less.

Taken together, these factors point to a persistently challenging fiscal environment for Scotland. Although the Scottish Government retains discretion over funding allocations, current conditions suggest that health spending will continue to be prioritised. This is likely to result in constrained resources for local government over the medium-term.

It is also important to interpret funding figures in the context of any transfers of responsibilities. Apparent increases in funding may not reflect the additional costs associated with newly devolved functions.

Budget Movements

Whilst the MTFP is a forward-looking document it is useful to reflect on where we have been. Annex L outlines the position of the budgets over the previous 3 years in both % and £.

Since 2022/23 we have seen service expenditure increase from £150 million to £186 million, a 24% increase.

Income has increased by 20% and Council tax by 23% but the bottom-line impact has seen an acceleration in the use of reserves on an unsustainable basis moving from £9 million in 2022/23 to £24 million in 2025/26.

It is against this backdrop that our plan looks ahead.

3. Our Financial Planning Assumptions

Anticipating the future in a world full of uncertainties is no easy feat. As a local authority, we deliver a broad spectrum of public services throughout Shetland, supporting both individuals and businesses. These services are highly responsive to shifts in the external environment and must remain flexible to meet the evolving needs of our community — often without the assurance of stable future funding.

To prepare for a variety of potential outcomes, we've established a set of assumptions that guide our approach to income and expenditure. This section outlines those core assumptions and highlights how they differ across three scenarios we've developed: the central case, a more optimistic outlook, and a more challenging scenario.

Annex B provides a more concise summary of the assumptions used in each scenario, alongside the predicted financial implications (Annex C) and a financial forecast of income and expenditure (Annex D).

Our Income

In the summary shown at Annex A on Page 25, 11 lines of income types are shown. The following attempts to describe each of these and their treatment in the model.

i) *Scottish Government funding GRG+NDR*

The bulk of our funding is provided by the Scottish Government, primarily through the General Revenue Grant (GRG) and a portion of national Non-Domestic Rates (NDR). Although we collect NDR locally, the revenue is pooled into a Scotland-wide fund, from which we receive a share — typically greater than what we collect ourselves. As a result, local collection levels do not directly influence the funding we receive.

Funding is distributed to Scotland's 32 local authorities using a well-established formula that considers a range of indicators. However, the overall amount available to local government is only confirmed when the Scottish Government announces its annual budget. The Local Government Finance Settlement — often referred to as "the settlement" — then sets out the specific allocations for each authority.

While there is an ongoing commitment from the Scottish Government to introduce multi-year financial settlements, which would greatly improve planning certainty, this has yet to be implemented. Recent discussions under the Verity House Agreement also signal a shift towards a more flexible and outcome-focused funding model, with less reliance on ring-fenced allocations and a more collaborative approach to financial planning.

	NNDR £m	GRG £m	Total £m
2025/26	26.5	68.8	95.3
2024/25	27.3	66	93.3
2023/24	24.3	58.6	82.9
2022/23	35.3	45.2	80.5
2021/22	33.6	49	82.6
2020/21	25.7	55.4	81
2019/20	25.9	53.7	79.6
2018/19	23.9	56.5	80.3
2017/18	23.2	56.6	79.9
2016/17	17.8	64.6	82.4
2015/16	17.5	69.1	86.6
2014/15	17.7	68.4	86.1

Variability of rates receipt versus grant.

For the purposes of the plan, and in line with Scottish Government forecasts, income is assumed flat for the period in the central scenario with small increases and decreases of 0.5% for the positive and negative scenarios.

ii) Scottish Government Specific Revenue Grant – ferry Income

Following a successful #MyFerry campaign, the settlement for 2021/22 included the full operating costs of our inter-island ferry services for the first time. In 2023/24 and 2024/25 our grant was £23 million. In 25/26 our grant was £24.7 million. However, for the first time this was included within our GRG allocation. This represents a risk going forward, but we have sought specific assurances about being able to demonstrate this creates no detriment compared to the previous grant approach.

With an ever increasing and highly variable cost of maintenance of an aging fleet we have assumed costs (and hence matched grant income) will increase by 3.8% in future years.

Reflecting the risk, given the pressures on the Scottish Government's own budget, that we may not receive funding to meet the full operating costs in future years, the upside scenario assumes the full funding will be received with uplifts in line with cost increases, the downside scenario assumes funding provided in the future is flat at 2025/26 level and central scenario assumes a mid-point.

iii) Council Tax – Charge

As a Local Authority, we are required to collect Council Tax from residents to help fund essential public services. Over time, the Scottish Government has either incentivised councils to freeze Council Tax through additional funding or sought to restrict increases by implementing a cap.

In 2023/24, a 4.5% rise was applied.

In 2024/25, a Council Tax freeze was introduced unexpectedly, accompanied by a compensatory payment equivalent to a 5% increase. However, there is currently no indication that this approach will be repeated in future years.

In 2025/26 recognising national discussions on the rate at which costs were outstripping income received an increase of 10% was agreed. This level was replicated across a number of other Local Authorities.

For planning purposes, the following rates are used for years 2026/27 onward - downside (3%) central (5%) and upside (7%).

Subject to the approval of each annual budget, this would mean the Council Tax bill for an average Band D property would increase from the current rate of £1,387 in 2025/26 by 2028/29 to £1,818 (upside), £1686 (central) or £1,561 (downside). It should be noted this is the council tax element only, the water and sewerage fees collected on behalf of Scottish Water (currently £600 for a band D property) is dealt with separately.

Council Tax – Tax Base

Modest growth in the Council Tax base over recent years reflects ongoing housing development across Shetland, in line with the ambitions of the Local Development Plan. The number of chargeable properties has risen from 10,887 in 2018 to 11,702 in 2025. However, progress slowed during the pandemic years (2020–2021), and inflationary pressures — particularly affecting construction materials — continue to impact both public and private sector housebuilding.

Recent regulatory changes around short-term lets may lead to some properties transitioning from business rates to Council Tax, potentially increasing the tax base.

Additionally, new Scottish Government measures to raise charges on second homes and empty properties could encourage owners to bring homes back into active use or, through higher charges, generate additional income. The current distinction in charges between second homes and empty properties may also incentivise owners to seek classification as the latter. Additional income from these charges is estimated in the region of £500K per annum.

While there is a rationale for modelling growth in the tax base — with more properties contributing at higher rates — this is offset by a rising proportion of single-person households, who qualify for a discount. The percentage of single-person discounts has increased from 32.5% in 2018 to 34.1% in 2025, which reduces overall income despite growth in the number of properties.

To simplify the modelling, the underlying tax base is held constant, and only the annual Council Tax uplift is treated as a variable across scenarios.

Fees and Charges

The Council delivers a wide array of services to individuals, businesses, and organisations across the community. Income from fees and charges plays a vital role not only in supporting service delivery but also in helping us achieve strategic objectives and influence

behaviours aligned with those goals.

However, we are not free to charge for every service we provide. Many services — such as education, household waste collection, and street lighting — are offered without direct fees, while others have charges set at a national level. That said, we do retain the ability to set fees for a broad range of services locally. All services come with associated costs, most of which are driven by staffing requirements. Our charging policy aims to recover these costs, which are themselves subject to external inflationary pressures.

Across all three planning scenarios, we assume that fees and charges will continue to rise broadly in line with inflation, helping to mitigate financial pressures.

In practice, fees and charges may reflect the Office for Budget Responsibility's (OBR) Consumer Prices Index (CPI), with an additional adjustment to account for the higher costs of procuring and delivering services in a remote island setting. CPI peaked at 11.1% in October 2022, and as of July 2025, stands at 3.8%. However, public perception often lags behind actual inflation trends. The twelve-month average currently sits at 2.8%. It is worth noting that during periods of high inflation, fee increases did not always match the headline rate.

Staffing costs remain a major driver of expenditure. Recent years have seen higher-than-usual pay awards, with settlements of 4% for 2025/26 and 3.5% for 2026/27.

In both 2023/24 and 2024/25, a standard increase of 4.9% was applied to fees and charges. For 2025/26, it was proposed that future adjustments be set at the Consumer Prices Index (CPI) rate plus 1.5%, using the CPI figure available at the time of drafting the Medium-Term Financial Plan (MTFP). For this 2026/27 version, that equates to 3.8% + 1.5%, resulting in a proposed increase of 5.3%.

This approach aligns fee adjustments with external inflation trends while aiming to ensure that income growth slightly outpaces cost increases. It also helps to cushion the impact of future inflationary pressures. By adopting this default position, departments are encouraged to undertake more detailed reviews of their charging structures — either to ensure full cost recovery or to seek member approval for a lower percentage increase, supported by a clear funding strategy from the Council.

Under the **upside scenario**, we assume a 5.3% increase. The **central scenario** applies a more moderate 4.3%, while the **downside scenario** anticipates a lower rise of 3.3%. These figures also reflect the reality that some charges are set nationally, limiting our ability to apply uniform increases across all services.

iv) Commercial Income and Interest on balances

This category includes a mix of income sources, such as rental payments from Council-owned properties and unspent allocations from Social Care Direct Payment packages, which are treated as income when not utilised. It also captures interest earned on revenue balances held with the bank, which has been more favourable recently due to elevated interest rates.

Given the unpredictable nature of these income streams, we have chosen to hold this category steady across all planning scenarios.

v) Other grants

The current funding landscape is characterised by a complex mix of grants and funding bodies, each aiming to advance their specific priorities within broader service delivery. While the Verity House Agreement aspires to simplify this arrangement, meaningful change has yet to be realised.

In most cases, these funds are considered *additionality*, they are intended to support specific activities without altering existing commitments. As such, they typically generate matching expenditure. In some instances, however, the costs incurred exceed the funding provided, creating financial pressure.

Looking ahead, these funding streams require a twofold review. First, each grant should contribute to the organisational infrastructure needed to support it, with a proposed central cost allocation of around 8%.

Second, efforts should be made to apply part of the funding to existing service costs, helping to ease the burden on the core budget.

Further analysis is needed to fully understand the current position. It's also recognised that some grants support existing activities rather than new initiatives, and therefore may offset existing costs rather than add to them.

To reflect this, the upside scenario assumes that 10% of such funding can be used to support existing budgets. The central scenario applies a more cautious 5%, while the downside scenario assumes no such utilisation. For simplicity, this is presented as an increase in income, even though it effectively reduces net expenditure.

vi) Specific Grant –AHS

This is funding received to support Anderson High School costs, this is assumed flat in all scenarios.

vii) Fish Quota

One of the more unique income sources is the fish quota held by Shetland Islands Council (SIC), which is managed on our behalf by Shetland Fish Producers Organisation. This typically generates annual income in the range of £800,000 to £1.2 million.

This amount has remained somewhat static over a period and we wish to see a positive return on this element. Further work should be carried out to establish ways to support the fishing industry whilst optimising the level of income from this holding.

For the 2025/26 budget, a figure of £1.9 million has been set. This amount is used in 2026/27 for both the **upside** and **central** scenarios, reflecting a stable expectation. The **downside scenario**, however, assumes a reduced income from this source to account for potential variability. However, reflecting a review of this area increases of 5.3% have been applied to this amount.

***viii)* Recharges to other funds**

This category relates to charges that are reallocated to other funding sources, such as the Capital Programme, Housing Revenue Account, and Harbour Account. For the Capital and Housing elements, these charges help reduce pressure on the General Fund, although they do represent a cost to another part of the organisation. Examples include staff costs linked to capital projects.

An emerging area of interest is the potential constraint posed by limited staff availability in delivering capital projects — a factor that may become more significant than funding itself, especially when considering the alternative of outsourcing to external providers. However, this remains an early-stage discussion. For now, due to the variability and evolving nature of this area, we have assumed a flat position across all scenarios.

ix) Crown Estate

The Council receives income from the Crown Estate as part of an agreed distribution arrangement. Since 2019/20, this has amounted to £9.1 million — averaging approximately £1.6 million per year. This has however been seen to increase in value each year with £1.9 million budgeted to be received in 2025/26, so this figure has been used as a base for the plan. As with other grant funding, there is a need to consider how this income contributes to overheads and whether it supports new initiatives (additionality) or offsets existing costs.

With the agreement to use the Crown Estate funds to meet the cost of the borrowing for Fair Isle ferry (estimated at £1.4 million) this uses the funds towards what would otherwise be Council costs.

We have seen increases in Crown Estate funding each year so the **upside and central scenarios** assumes that this is a receipt of £1.9 million — while the **downside scenario** assumes 10% lower at c.£1.7 million. All models assume a 3% increase from this baseline each year.

Other Sources of Income

Ports and Harbours

The Council operates 21 ports and harbours, along with 15 ferry terminals across Shetland. These operations are managed through the Harbour Account, which is maintained separately from the General Fund in accordance with the Zetland County Council Act 1974.

The Harbour Account does not receive direct public funding and cannot be subsidised by the General Fund or Council Tax. Instead, it is funded through Harbour Charges, which are set annually to ensure full cost recovery plus a return. This approach enables the Harbour Account to operate sustainably and generate a surplus each year. Any surplus is credited to the Harbour Account Reserve Fund and may be used to support General Fund activities.

Historically, an annual contribution of £6 million has been assumed to support public service delivery, while maintaining sufficient reserves for large-scale harbour-related activity. In 2023/24, a budgeted transfer of £18 million was planned, but only £12.8 million was achieved. In 2024/25, the target was reduced to £10.2 million, with £7.9 million realised. For 2025/26, the budgeted draw is £6.8 million, though early indications suggest this may also fall short.

Using the harbour surplus helps avoid unsustainable reliance on other reserve funds. However, the long-term outlook for harbour income remains uncertain, particularly in relation to the Shetland Gas Plant. The five-year plan referenced earlier is expected to provide greater clarity on future income projections.

For the purposes of this plan, acknowledging what is a key risk, we are maintaining plans based on a £6 million annual draw from the Harbour Account. This figure has been in place for some time, and future plans should consider adjustments to reflect inflationary pressures.

Investment Income

It was recently observed by the Auditors that we do not acknowledge clearly enough the Council's strategy to retain the reserve balances enshrined into investments. This is a choice. The Council could pursue a path of spending the reserves with some eye on possible future benefit. Instead, we have a stated aim to restrain spending and seek to benefit from the revenue stream associated with the income from the investments.

It could be argued that, whilst we say retention and protection is our strategy, we are not actually achieving this and are routinely spending the reserves. It is important that, through our planning and as a thread through all decision making, we maintain awareness of this aspiration.

We are fortunate amongst our peers in that we hold a healthy level of reserves. Our reserves are held as long-term investments, managed by external Fund Managers on our behalf, which provide us with additional income to supplement the funding we receive from other sources. Annex N shows the movement of the investment values from their inception to 31st March 2025.

Our investment strategy has been predicated on investments achieving, on average, a return of 7.3% over the long term. The target return rate of 7.3% has two aims:

i) 'inflation-proofing' - to protect the value of our underlying investments from the effects of inflation. For this 'inflation-proofing' element, we anticipated our underlying investments to grow by 2.1%, on average, over the long term. Whilst this rate has been out of line with recent levels of inflation it is expected to return to this level.
ii) growth in investments. Growth of 5.2% in the investments over and above that of inflation allows us to 'bank' those returns to supplement our general spending. This is the element of our investment income that we refer to as our 'sustainable draw from reserves.

Previous plans were predicated on withdrawing circa £14- 15m (c£300 million at 5.2%) in each year of this plan without eroding the underlying investment base in a way that would affect future investment returns.

Withdrawing too much from the investments in any one year will reduce the underlying investment base and reduce future investment returns. Positive investment growth of 7.3%, or indeed 5.2%, 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.

More recently forecasts of income receipts have been graded upwards, and a new strategy was issued, the effect of both now sees an estimated long term receipt of 8.9%.

2.1% inflation was maintained as a target even when rates were substantially higher and remains in place. As inflation has dropped this is more aligned. Overall, this sees a slightly higher level of funds that could be withdrawn on a sustainable basis. Current balance of reserves is c £401 million (as at 31/7/25), reflecting unrealized gains, and with 6.8% available this sees a potential draw on a sustainable basis of £27 million.

This is a particularly unsafe presumption though as whilst the overall receipts may be at this level not all proceeds are freely available for the Council to use for supporting its general revenue spend.

Annex M describes the last 20 years and demonstrates

a real return of 8.07 % over the period. It also shows a withdrawal from investment of £401 million over the same period.

All three scenarios outlined in this Outlook assume we will maximise the funding available from investment returns in line with the investment strategy.

Whilst there are arguments for a higher risk approach utilizing a higher level of reserves, we have set the position based on 2025/26 and a £17 million draw as sustainable. This, along with the highly debatable £6 million figure from the Harbour, brings us to the £23 million position.

Reserves

In discussion we often intermingle reserves with investments. It is helpful to discuss each separately to understand their relationship. The reserves are the amounts of surplus funds in the accounts which we have accumulated. In 1995 we took these accumulated funds and invested them so they are one and the same in some ways. However underneath the investments the reserves move from year to year as one part or another spend into their reserves.

Per the draft SIC Accounts 2024/25 the Council holds the following balances in reserves:

Reserves	As at 31 March 2024 £m	As at 31 March 2025 £m
General Fund	248.49	234.68
Housing Revenue Account	15.17	11.01
Harbour Reserve Funds	60.78	62.49
Capital Funds	49.35	46.42
Other Usable Funds	29.83	19.20
Total Usable Reserves	**403.61**	**373.81**

Annex G shows how at 31st March 2025 our reserves were made up. This shows a total of £374 million split between capital and revenue. A key element is the unrealised gains (£121 million) which account for more than 30% of the total and represent the difference between the fair value of investments at 31 March 2025 compared with their original cost. These are the investment gains which until crystalised can only be assumed.

So, if the increase in investments is captured into the reserves, should the investments and the reserves be the same figure?

The Reserves (Usable and Unusable) show the disposition of the Council's net worth as at 31 March each year. The long term Investments are part of the Council's overall assets, and alongside other balance sheet items form part of the assets and liabilities of the Council. The total net assets of the Council form the top half of the Balance Sheet, with the bottom half comprising of reserves (both Usable and Unusable).

The movement in Usable Reserves is made up of numerous transactions, and includes items such as the change in net worth of the Council as a result of incurring expenses and generating income, amounts owed by the Council for goods and services supplied to it but not yet paid (e.g. Short Term Creditors), amounts owed to the Council for goods and services provided but where income has not yet been received (e.g. Short Term Debtors), and movements in the fair value of assets (e.g. change in value of long term investments). Annex O table provides a high level summary reconciliation.

In relation to the split of the reserves Annex G shows how at 31st March 2025 our reserves were made up in more detail. The total of reserves is £374 million, and investments stood at £371 million. The difference relates to movements in other balance sheet balances, such as cash and bank balances, so it is never identical.

Annex G shows the more detailed breakdown of component reserves. This also includes a series of funds which have been amalgamated and repurposed as a Debt repayment fund which sees us earmarking a reserve toward the repayment of borrowing.

Logically the unrealised gains would apply to the individual funds in proportion which would create the scenario identified at Annex H. This sees £72 million of the existing reserves being available to the General Fund only.

However, we do have to be aware of the critical

pressure on investments caused by our high level of spend and consider an extreme model that sees as much as possible being used to maintain the current spending pattern. The only fund that has a clear underpinning to receive a share of funds appears to be the HRA. If this was accepted as a principle and the rest of gains applied to General Fund this sees the position move to £164 Million, Per Annex I.

More widely we also need to consider which funds could be considered as able to be moved across to the General Fund in extremis. Annex J highlights those funds which could be transferred across for free use of the General Fund. This sums to £286 million. This would however see use of funds held for insurance and the funds identified for covering borrowing costs so this £68 million is unsafe. This position has also not reflected known borrowing decisions (£27 million) which will require further earmarking of funds.

It is, however, to be noted that in all scenarios varying levels of funds are not available for free use, so whilst we often focus on the value of investments, this is not the whole picture.

Borrowing

The Council currently has, per Annex K, £46 million of borrowing. As can be noted in the Annexes discussed in relation to reserves above the investments are earmarked to cover this amount. This precludes the use of these funds for other purposes.

A further £27m of borrowing is foreseen:

Ferry Relief Vessel	£ 1.8m
Gremista Landfill Phase 3 Construction	£ 6.6m
Cullivoe Road	£10.6m
Fair Isle Ferry	£18.6m

This will require a further earmarking of reserves to be able to cover the ultimate repayments. The interim payments of interest will require to be demonstrated to be coverable from within existing budges. As the current spend is premised on use of the reserves on an unsustainable basis this has to be seen as highly fragile.

Our Expenditure

i) Pay

Staff pay represents the most significant area of expenditure for the Council, accounting for around 80% of the net revenue budget each year. Pay agreements are negotiated centrally for all 32 Scottish local authorities. Pay awards for non-teaching staff have been agreed at 4% for 2025/26 and 3.5% for 2026/27. However, there is currently no confirmed proposal or funding arrangement for teaching staff pay. While teaching pay uplifts are typically described as fully funded, this is never the case in practice. Teacher salaries make up roughly 20% of the Council's overall pay costs.

The **Distant Islands Allowance (DIA)** is paid in addition to base salaries and forms part of the total pay bill. It is negotiated separately from the main pay awards and typically increases by around 4% annually, with changes taking effect from 1 October.

For modelling purposes, we assume parity in pay awards across teaching and non-teaching staff. As inflation begins to ease, it is expected that pressure on pay settlements will also reduce. It seems clear that historic pay freezes or very low levels of pay uplifts have ceased.

2026/27 pay award is known as being 3.5% as part of a two year deal. This has been used across all models. For future years in the **downside scenario**, we assume a 3.5% increase in pay costs with no additional funding support. The **upside scenario** assumes the same 3.5% increase, but with 30% of the cost funded — resulting in a net impact of 2.5%. The **central scenario** assumes 15% funding support, leading to a 3% net increase. These assumptions apply across all staff groups and include the DIA.

ii) Pensions

Almost all Council staff and elected members are automatically enrolled in a pension scheme.

- Non-teaching staff participate in the **Local Government Pension Scheme (LGPS)**, which is administered by the Council.
- Teaching staff are enrolled in the **Scottish Teachers' Pension Scheme (STPS)**, administered by the Scottish Public Pensions Agency.

- Both schemes are statutory, and the Council is required to contribute as an employer.

Employer contribution rates are set by the respective scheme administrators and are directly linked to salary levels, which are expected to rise as outlined earlier.

Following the formal valuation of the LGPS as of 31 March 2023, employer contributions were reduced from 23.0% to 19.0%, reflecting the fund's fully funded status — largely due to movements in bond yields used in actuarial assessments.

In contrast, STPS employer contributions increased from 23% to 26% from 1 April 2024, although funding has been provided to help offset this rise.

Whilst contribution rates are known and reflected in the budget, pension costs are impacted by the impact of rising salaries. Pension costs are therefore uplifted by the same factors as pay.

Additional pension-related costs include strain payments arising from early retirement decisions and recurring payments for Compensatory Added Years (CAYS). These represent a financial obligation for the Council, supplementing the pension fund. Over time, these costs are expected to decline due to the natural reduction in the number of eligible individuals and their beneficiaries.

Other staff-related costs are assumed to remain stable throughout the planning period.

iii) Non-Pay costs

Non-pay inflation refers to the rising costs of goods and services required to deliver public services. This includes areas such as administration, property maintenance, supplies, services, and transport.

To estimate the impact, we've applied a general inflation factor based on the Consumer Prices Index (CPI). The same rate — currently 3.8% — is also used for adjustments to fees and charges, as outlined earlier.

As national targets are set at 2% it is assumed that the rate will reduce over the period. Rates of 3.8%, 3.0% and 2.5% have therefore been used for the Downside, Central and Upside levels respectively for 2026/27.

Thereafter inflation is assumed to reduce, so rates of 3.0%, 2.5% and 2% have been used for the Downside, Central and Upside levels respectively for 2027/28. Rates of 2.5%, 2.0% and 1.5% have been used for the Downside, Central and Upside levels respectively for 2028/29.

These are the default standard rates.

Fuel and energy costs, however, remain more volatile and unpredictable. To account for this, we've revised our assumptions across all scenarios and applied an additional 0.5% inflation factor to these categories, recognising the heightened uncertainty in this area.

Further details on the inflation assumptions used in each scenario are provided in **Annex B**.

iv) Unitary charge

The unitary charge relates to the Anderson High School and the associated Design, Build, Finance and Maintain (DBFM) agreement. This annual payment covers both the repayment of construction costs and any linked service charges. Increases to the unitary charge are contractually defined and based on specific indexation measures, rather than general inflation. Previous financial plans have applied an annual uplift of 0.5%, and this rate will continue to be used consistently across all scenarios.

v) Borrowing/ Finance Costs

The Council's capital grant allocation has averaged around £5.5 million per year in recent years. This funding supports the maintenance of assets, infrastructure, and the wider estate. However, with annual maintenance costs sitting closer to £12 million, we are increasingly reliant on capital receipts, reserves, and borrowing — not only to invest in new assets but also to sustain the existing asset base.

The financial model assumes that borrowing repayment costs remain static across all scenarios. However, it's important to note that some previous borrowing arrangements are approaching maturity. Specifically, lump sum repayments of £8 million in 2027/28 and £3 million in 2029/30 are scheduled. These repayments should lead to a reduction in interest costs, but for simplicity, these are treated as flat, allowing flexibility for future prudential borrowing within the plan period.

By the end of the plan £35 million of previous borrowing remains outstanding. As borrowing rates are fixed over the long term, they are assumed to remain unchanged throughout the period. It is noted that further borrowing will take place for Fair Isle and Cullivoe Road but the costs for Fair Isle are offset against the Crown Estate Fund and Cullivoe Road is offset against a reduction on contingency costs so the higher level of borrowing being repaid is not reflected here.

vi) ***Contingency***

Reflecting significant uncertainty, contingency was introduced into the 2024/25 budget set at £6.5 million, including £2 million for the implementation of the centralized vacancy factor contingency. In 2025/26 this sits at £5.5 million, broadly this is £3 million to support pay awards, but has also been supplemented by £2 million to reflect the implementation of the new approach to the vacancy factor which sees a fund held to smooth staff costs so that no saving or costs are incurred by budget holders as posts are filled or become vacant.

A further £0.5 million was held for a new Social Care system but this has been dealt with as a recurring in-year cost rather than a one-off purchase.

Future pay awards are already reflected in the pay awards element forecasted so the £ 2 million to cover staffing contingency remains in place. This is, however, reduced as was agreed, to support the costs of borrowing for Cullivoe Road.

vii) ***Grants to other organizations (including Service Contracts)***

This category includes a range of externally funded commitments and contracts. It covers grants to third-party organisations, as well as key service contracts such as bus services (£3.5 million), air services (£1.1 million), Social Care Direct Payment packages (£3.6 million), and Home Energy Efficiency schemes (£0.9 million).

Given the diversity of costs and funding arrangements within this category, the standard Medium-Term Financial Plan (MTFP) inflationary uplifts (as described on Page 13) have been applied across all scenarios.

viii) ***Contribution to IJB***

This line reflects a net income position from the Integration Joint Board (IJB), resulting from the offsetting of income and expenditure at the budget level. For simplicity and consistency, this is held flat across all scenarios in the financial model.

4. Scenario planning

We have developed a financial model to help quantify the potential impact of changes in the external environment over the next four years. To reflect the uncertainty we face, we've used scenario planning to assess how key assumptions play out across three distinct scenarios:

- an **optimistic** (upside) scenario,
- a **central** (most likely) scenario, and
- a **pessimistic** (downside) scenario.

The 2025/26 budget serves as the baseline for these forecasts, supported by a set of guiding principles for future revenue budget development:

- We will continue to set **balanced budgets**, as required by law, ensuring we live within our means.
- A policy of **financial restraint** will be maintained, using returns from long-term investments to supplement the General Fund in a sustainable way, preserving the investment base for future generations.
- The **cost of capital**, including any new prudential borrowing, will be reflected in revenue budgets to account for the recurring cost of debt servicing.
- A **risk-based approach** will be adopted, with a prudent level of contingency held centrally to help manage financial pressures.
- We will develop more detailed plans to support the delivery of priorities set out in *Our Ambition*.

The scenarios presented offer a like-for-like comparison of the financial position over the next four years, excluding any planned changes to service delivery. The purpose is to highlight the scale of the budget deficit we may face if current practices remain unchanged.

Two summary views have been developed:

- **Annex D** shows the structural position without any use of harbour income or reserves. This reflects a hypothetical situation where Sullom Voe Harbour ceases operations and all reserves are exhausted, leaving only government funding and local income. This scenario helps explain why reserves cannot be freely spent and illustrates the challenge of balancing the budget under such constraints. This is visualised in **Graph 1 on Page 17**.

- **Annex E** presents the position assuming an annual contribution of £6 million from the Harbour Account and £17 million from invested funds. This is shown in **Graph 2 on Page 18**. Even under the most optimistic scenario — with favourable funding and cost assumptions — financial pressures persist each year, leading to a significant cumulative deficit by 2029/30.

The Central Scenario

The central scenario represents the most likely financial outcome based on current assumptions. Excluding any major changes to service delivery, this scenario projects an increase in net revenue expenditure of £4.1 million in 2026/27 (£47.3 million), compared to the baseline starting point of £43.2 million in 2025/26. This reduction is primarily driven by a lower contingency requirement, as pay awards are already accounted for, and the inclusion of the Crown Estate's assumed net contribution to existing costs.

Despite this initial reduction, financial pressures are expected to intensify in subsequent years. If no mitigating action is taken, annual budget deficits are forecast to grow from £47.3 million in 2026/27 to £62.6 million by 2029/30. Cumulatively, this results in a projected shortfall of £225 million by 2029/30 — or £134 million when factoring in the use of sustainable reserves.

Further detail on the planning assumptions and financial forecasts underpinning this scenario can be found in Annexes A–E.

The Upside Scenario

The upside scenario reflects an optimistic view of our financial position, assuming favourable conditions.

Excluding any major changes to service delivery, this scenario projects an increase in net revenue expenditure of £1.9 million in 2026/27 (£45.1 million), compared to the baseline of £43.2 million in 2025/26.

While financial pressures are still expected through to 2029/30, they are less severe than those projected in the central scenario. This provides some relief against the challenges anticipated in the more cautious central and downside models.

Over the four-year period, annual budget deficits are forecast to grow from £45.1 million in 2026/27 to £52.1 million by 2029/30. On a cumulative basis, this amounts to £199.7 million by 2029/30 — or £108.9 million when factoring in the use of sustainable reserves.
Further detail on the planning assumptions and financial forecasts for this scenario can be found in Annexes A–E.

The Downside Scenario

The downside scenario represents a pessimistic outlook, assuming less favourable conditions. Excluding any major changes to service delivery, this scenario projects an increase in net revenue expenditure of £6.7 million in 2026/27 (£49.9 million), compared to the baseline of £43.2 million in 2025/26.

Financial pressures are expected to intensify over the period. Annual budget deficits are forecast to grow from £49.9 million in 2026/27 to £73.3 million by 2029/30. On a cumulative basis, this results in a projected shortfall of £251.3 million by 2029/30 — or £160.5 million when factoring in the use of sustainable reserves.

Further detail on the planning assumptions and financial forecasts for this scenario can be found in Annexes A–E.

The figures presented above initially reflect the financial position *excluding* the use of reserves or harbour income. The plan assumes annual contributions of £17 million from investment reserves and £6 million from the Harbour Account — a combined total of £23 million per year, or £92 million over the four-year period. Figures reflecting this are also shown.

Applying this adjustment, all cumulative deficit figures can be reduced accordingly. For example, the downside scenario's projected cumulative deficit of £251.3 million would reduce to £160.5 million once the assumed reserve and harbour income is factored in.

Summary of scenario planning

The scenarios presented are designed to illustrate a range of possible financial outcomes, based on current interpretations of the external environment and the anticipated impact of economic and fiscal conditions. The charts and tables on the following pages summarise the outcomes modelled under each scenario.

Importantly, the graphs separately show the financial position with and without harbour income, which in itself reflects both optimistic and pessimistic perspectives. These scenarios are not intended to serve as a menu from which preferred elements can be selected while disregarding less favourable aspects — such an approach would not support effective financial planning.

By setting out a range of fiscal scenarios in advance, we aim to support informed decision-making over the medium-term. Prudent choices, made with a clear understanding of their long-term financial implications, will be essential in managing our financial position.

Even under the most optimistic assumptions, it is clear that we face significant challenges in the years ahead. As we continue to develop our annual budgets, we do so with a strong awareness of the need to take decisive action to secure long-term financial sustainability. Looking at available reserves and likely levels of spend is helpful to start to see the impact of the current spending profiles.

We also recognise, as outlined in *Our Ambition*, that we aspire to a more sustainable Shetland — environmentally, economically, socially, and financially.

At times, our commitment to community sustainability may conflict with the goal of financial sustainability for the Council, and we acknowledge that difficult decisions will be required when prioritising resources.

This document does not claim to provide all the answers to the challenges ahead. Effective public financial management cannot be achieved in isolation. As stated in the introduction, the purpose of this document is to illustrate the scale of the challenge we face over the coming years.

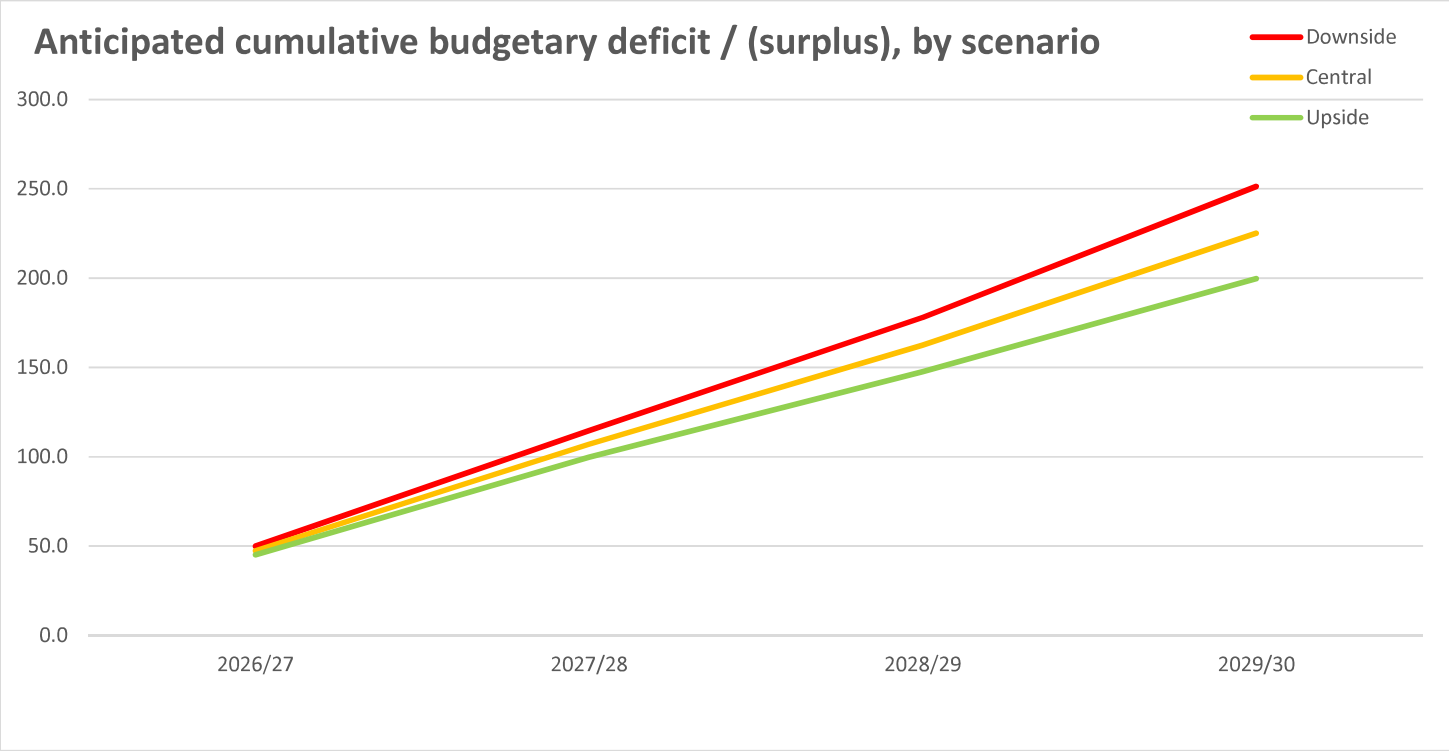
Other Issues

There has been previous discussion around the development of a Medium-Term Financial Plan (MTFP) for ZetTrans. Given the direct one-to-one relationship with the Council, a standalone plan may not be necessary. However, it remains important that ZetTrans considers the Council's financial position when reviewing its own plans, as future financial pressures on the Council will inevitably have an impact on ZetTrans.

Earlier versions of the MTFP have also explored demographic trends. These remain highly relevant, as shifts in the population — such as changes in the number of young people or an ageing population — directly influence demand for services like education and social care. As with other areas of this document, isolated analysis can paint a stark picture, but in reality, demographic changes tend to occur gradually, often in ways that are not immediately visible. Future iterations of the MTFP will include a retrospective look at demographic changes already experienced, as well as those projected.

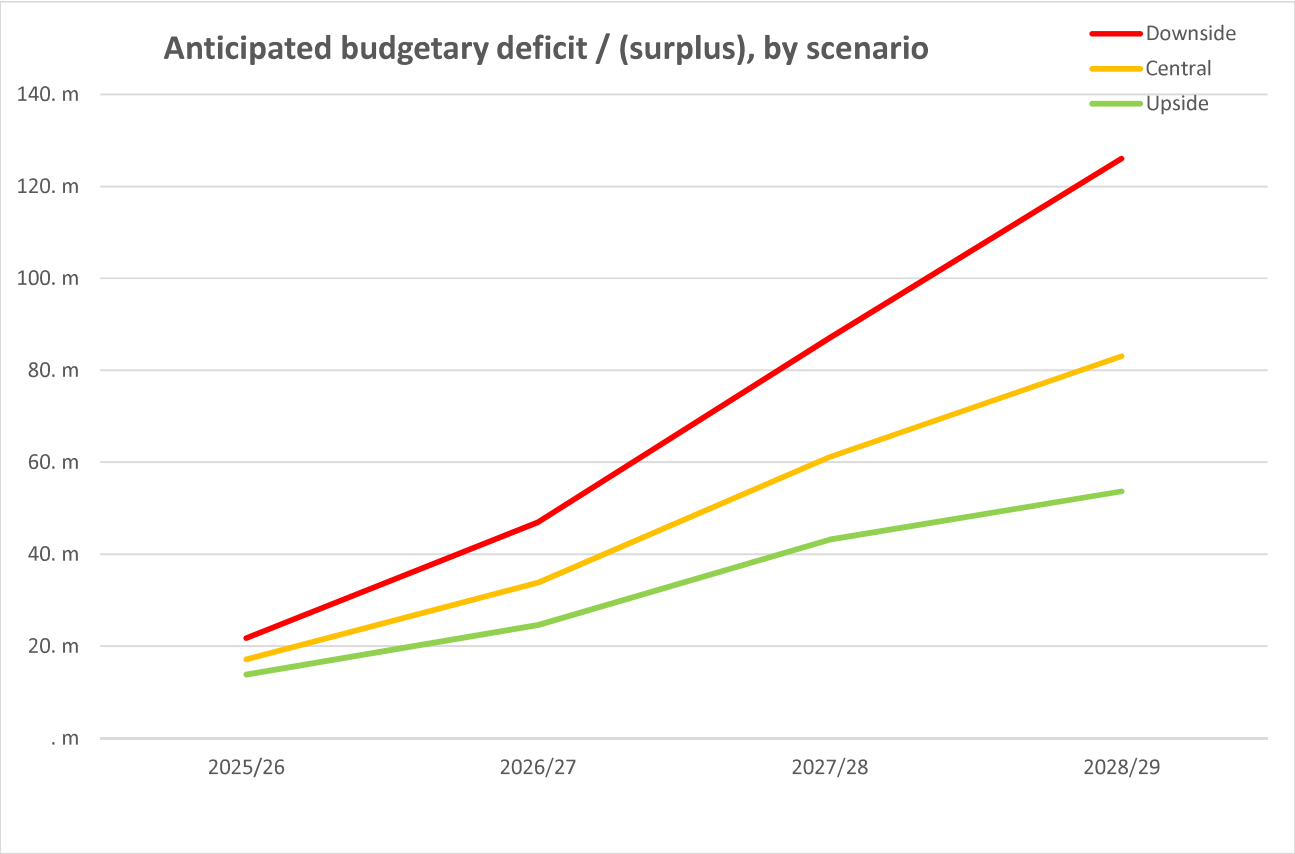
It is also important that MTFPs are reviewed and assessed over time. Future plans will include an evaluation of previous forecasts to compare projected outcomes with actual results. This will help bring real-world experience into the financial planning process and strengthen the basis for future decision-making.

Graph 1 - Anticipated cumulative budgetary deficit / (surplus), by scenario, without harbour income and investment income:



		2026/27	2027/28	2028/29	2029/30
Cumulative Budgetary Deficit / (surplus)	Downside	52.7	109.0	180.1	Downside
	Central	48.1	95.8	154.1	Central
	Upside	44.8	86.6	136.2	Upside

Graph 2 Anticipated cumulative budgetary deficit / (surplus), by scenario, assuming harbour income and investment income:



	Scenario	2025/26	2026/27	2027/28	2028/29
Cumulative Budgetary Deficit / (surplus)	**Downside**	21.7 m	47. m	87.1 m	126.1 m
	Central	17.1 m	33.8 m	61.1 m	83.1 m
	Upside	13.8 m	24.6 m	43.2 m	53.7 m

5. Next Steps

Our attention in the coming months will be to set our revenue and capital budgets for 2026/27.

Budget-setting 2026/27

We know from experience that adopting a short- term attitude to balance annual budgets on a yearly basis compromises our ability to plan for intelligent and outcomes-focused change to service delivery.

We have acknowledged in the past that internal capacity constraints result in us not being able to deliver all the changes we would like to make as quickly as we would like, or that we bring in consultants at a premium which might offset any financial savings we might expect.

We are still experiencing difficulties in recruitment in areas, however this serves to assist the budget position. Were these posts to be filled our budget position would be significantly worse, albeit partially offset by assumed reductions in overtime and agency costs. The position faced requires setting priorities which limit the ability of services to devote resources to projects without affecting day-to-day service delivery.

We need to prioritise which aspects of financial planning and Our Ambition we can genuinely focus on with the limited resources we have at our disposal. We also understand the benefit of investment in early intervention and prevention – despite the inherent difficulty in quantifying the benefits that might flow from targeted investment to us or other organisations.

The 2020/21 budget committed to taking action to help us live within our means, by taking advantage of our strong financial position and a short-term use of reserves to support projects that would lead to longer-term reform of public services. This developed a four-point strategy with the aim to mitigate growing demand for services, increase income streams and reduce cost base and overall expenditure. The strategy included a range of actions planned under 4 broad categories:

1. Investment – actions designed to reduce the need for services and/or reduce the cost of providing services
2. Efficiency – actions designed to reduce the cost of services without changing service levels
3. Commercialisation – actions designed to increase our income
4. Retrenchment – actions designed to reduce our role in providing services.

This continues to fail to be embedded. It remains as critical to embed the four-point strategy during 2026/27 and onwards and commit to delivering tangible, cash-releasing savings as part of future revenue budgets if we are to demonstrate any progress towards aligning our planned expenditure with the likely level of income illustrated by this document.

Moreover, this failure to address our longer-term financial sustainability will rightly limit our ability to borrow from the Public Works Loans Board to fund investment in new assets, so the revenue position impacts directly on the capital position. Recent borrowing decisions have been premised on creative use of existing funds but there is limited opportunity to continue to maintain this.

Links to other plans and strategies

i) '*Our Ambition*'

This Strategic Plan, closely aligned with the Shetland Partnership Plan, outlines our key priorities for the next five years. It is focused on delivering improved outcomes for the people of Shetland.

To achieve meaningful progress, we must concentrate on priorities that are both realistic and impactful. These priorities will be translated into SMART actionssupported by quantified investments and identified opportunities for efficiencies and savings.

Given the scale of ambition set out in this plan, the Council will need to make considered decisions about which projects to pursue.

It is recognised that not all elements of *Our Ambition* can be delivered within the timeframe of this Medium-Term Financial Plan (MTFP).

ii) Workforce Strategy / Plan

This plan is, by necessity, closely focused on the financial resources expected to be available over the medium-term. However, our finances are not the only vital resource we rely on. The delivery of our services would not be possible without the dedication and expertise of our staff.

The Workforce Strategy serves as the people-focused

counterpart to the Medium-Term Financial Plan (MTFP). It ensures we have the right people, in the right roles, to deliver our strategic priorities. The strategy is guided by three core principles:

- The right shape – ensuring our workforce structure aligns with service needs
- The right skills – equipping staff with the capabilities required to deliver effectively
- The right culture – fostering an environment that supports collaboration, innovation, and accountability

The Workforce Strategy 2020–2025, published in December 2020, was followed by a more detailed Workforce Plan 2021–2026, released in September 2021 and updated in June 2023 and December 2024.

These documents provide the foundation for future workforce planning and are reflected in annual revenue budgets and financial assumptions as they become embedded. The Workforce Strategy is due to be reviewed in 2026 and will be closely aligned to the MTFP and the Councils new Corporate Plan.

It is essential that all planning is underpinned by a clear staffing overview, detailing both current and ideal staffing levels. This provides a benchmark for future comparison and a basis for evaluating the impact of workforce-related actions.

Action 6 on page 23 describes the need for robust workforce plans. Costs are driven by staff levels so any attempt to reduce costs will inevitably require a change in processes allowing vacancies to be put aside or amended, but day to day functionality continues to be maintained. These discussions should come through robust and careful construction of workforce plans that are continually reviewed and updated to describe the optimum staffing structure reflecting a realistic availability of staff.

The presence of a contingency can be a mixed blessing as it allows funding for all vacancies to be met in theory. This can create an issue of maintaining an unrealistic number of vacancies. Budget processes should ensure that the contingency is realistic and contains validly vacant posts only and that challenging approaches be considered to find alternatives to fruitlessly pursuing hard to fill roles. The importance of workforce plans at a very detailed level cannot be underestimated.

iii) SIC Climate Change Strategy and Action Plan

The Council has a statutory duty to contribute to Scotland's national target of achieving Net Zero emissions by 2045, as set out in Section 44 of the *Climate Change (Scotland) Act 2009*.

In December 2023, the Council approved the **SIC Climate Change Strategy and Action Plan**, which outlines strategic priorities and the actions required to meet climate legislation and targets. The Councils Climate Change Programme was established in 2024 to monitor and report on progress made towards the SIC Climate Change Strategy, providing oversight and scrutiny. A progress report is published annually.

While many climate-related initiatives can lead to long-term economic savings—particularly through improved efficiencies—these benefits often require upfront investment in the short to medium-term.

Currently, the Council's replacement programmes and budgets operate largely on a 'like-for-like' basis, with limited provision for the additional investment needed to drive meaningful change. To realise the full potential of climate action, it is essential that climate considerations are embedded within investment prioritisation processes.

This approach will help maximise long-term benefits, generate co-benefits across services, and strengthen links to other strategic priorities, such as reducing inequalities.

iv) Revenue Budgeting

This plan focuses on the financial implications of a changing fiscal environment, particularly in relation to our General Fund net revenue budgets. The General Fund supports all day-to-day services, and it is here that we anticipate significant and recurring financial pressures.

Our annual budget serves as the operational framework for managing these pressures. The 2026/27 budget is expected to be set in February 2026, in line with the approach outlined in the previous section.

Our capacity to reduce revenue expenditure in future years will directly influence our ability to deliver the aspirations set out in *Our Ambition*. To support effective decision-making, these aspirations must be translated into SMART objectiveswith realistic timescales. This will enable the Council to prioritise projects each year, taking into account both organisational capacity and financial constraints.

Failure to plan adequately for long-term financial sustainability will limit the Council's ability to borrow the substantial sums required for future investment.

Without a clear demonstration that our capital plans are prudent, affordable, and sustainable, in revenue terms—as required by the **Prudential Code**—access to borrowing will be restricted.

Work is currently underway to develop a new **Corporate Plan**, building on *Our Ambition*. This plan must be framed by the financial and organisational realities we face, ensuring that long-term planning is both grounded and achievable.

v) Capital Budgeting

Capital spending plans, as outlined in the Asset Investment Plan (AIP), are set on a rolling five-year basis and reviewed annually alongside revenue budgets. We anticipate presenting our capital expenditure plans for the 2026/27 to 2029/30 period in February 2026. The current AIP projects a total investment of £97 million over its five-year horizon.

Looking ahead, we aim to strengthen the connection between the Medium-Term Financial Plan (MTFP) and the AIP. This will allow us to more clearly demonstrate the long-term financial implications of our strategic priorities—particularly their impact on reserves. Improved alignment will support more transparent monitoring of progress and, crucially, enable us to measure success more effectively.

Simply put we cannot afford current program / estate, let alone new developments. Given our current reliance on reserves to support revenue spending, it will be important to constrain capital expenditure to the level of grant funding available. This approach will help avoid placing further unsustainable pressure on reserves and support the Council's long-term financial sustainability.

Financing our plans

The Council's day-to-day revenue budgets are primarily funded through grant allocations from the Scottish Government, supplemented by Council Tax and income generated from investments. Each year, we update our Treasury Management and Investment Strategy alongside the setting of our annual revenue and capital budgets. This statutory strategy outlines how we manage cash flow, investments, and financing plans for the upcoming financial year—including the use of capital receipts, borrowing, and income from long-term investments.

We expect to present the updated Treasury Management and Investment Strategy in February 2026, alongside our budget proposals.

However, financing future capital plans is becoming increasingly challenging. Under the Prudential Code, we are required to ensure that any borrowing is prudent, affordable, and sustainable. Given our long-standing financial pressures, we are unlikely to meet these requirements if increased borrowing leads to revenue costs that exceed our available resources.

While reserves may appear to be an alternative funding source, their use comes with significant trade-offs. Drawing on reserves to support capital investment reduces the funding available for annual revenue budgets. Based on our central financial model, we anticipate drawing **£47.3 million** from reserves in 2026/27, rising to **£62.6 million** by 2029/30—a cumulative total of **£225.1 million**. Even allowing for sustainable use of reserves and harbour funds (estimated at **£90.8 million**), this still leaves a shortfall of **£134.3 million**.

Any unsustainable draw on investments would reduce the underlying investment base, diminishing future returns and placing additional pressure on services to absorb funding reductions.

We must acknowledge that our resources are limited and that not all aspirations can be achieved. Strategic prioritisation is essential. Projects must be selected with careful consideration of their long-term financial

impact on both revenue and capital budgets. Failure to do so may leave future Councils facing difficult decisions regarding service provision.

Redeveloping *Our Medium-Term Financial Plan*

Having a Medium-Term Financial Plan (MTFP) in place is a critical component of effective financial management. It provides a framework for future budgeting and supports informed decision-making across the organisation.

To ensure that our strategic ambitions are achievable, we must translate them into SMART plans—. This approach will allow us to assess the potential socio-economic benefits of each action against its associated costs, helping us to prioritise which of the 70+ actions in *Our Ambition* should be progressed in the short term.

This prioritisation process will also play a key role in shaping future budgets, ensuring that resources are directed toward initiatives that deliver the greatest impact and align with our long-term strategic goals.

6. Summary

There is no way to soften the figures presented in this plan—they are a clear and sobering reminder that the Council is not currently living within its means. We are well aware of our financial unsustainability, and our auditors continue to highlight this concern.

While we are not alone in facing significant financial challenges—similar issues are reflected in the Scottish Government's own financial documents—we have, until now, been in the fortunate position of using reserves to bridge the gap between income and expenditure. This has allowed us to absorb year-on-year funding reductions and accommodate growth in our cost base. However, this has been achieved through the unsustainable use of reserves.

If we do not address our long-term financial sustainability, we will be unable to borrow to fund new investments. This would severely limit our ability to deliver the aspirations set out in *Our Ambition*.

Continued reliance on reserves will eventually deplete them. While there is debate about the pace of this decline, the outcome is inevitable—regardless of the timeframe—and it is not a position we wish to reach. Future Councils would be left with extremely difficult decisions about service provision.

This plan sets out the scale of the financial challenge in clear terms. While it may resemble previous versions, this reflects the reality that progress has been hard to discern. This possibly will be surprising for staff in Departments who feel that they are under constant financial pressure and constraint. These two perspectives are hard to reconcile, it may feel that there is no obvious progress at a strategic level whilst staff at the coal face feel constantly constrained. This is probably true as staff are doing their best to manage costs but they are nonetheless rising. It is probably fair to say that for the valiant efforts of junior staff the position would be worse. The scale of the issue faced though means that decisions at a more senior level are now needed as small savings decisions, although important, are not sufficient.

Some may argue that the Council has been raising these concerns for years, yet reserves continue to grow. However, this perception no longer aligns with reality. In the past, budgets were set at high levels with predictable underspends. Now, rising costs mean that budgets are under pressure, and there is no longer slack in the system.

Moreover, even where reserves appear to increase, their real value—or purchasing power—has been eroded by inflation.

We must now use planning capacity and management ability to prioritise our activities and develop tangible, SMART plans that lead to sustainable changes in service delivery. This is essential if we are to begin living within our means. To support this, key actions have been identified throughout the plan that reflect our intent to move toward a more secure financial footing.

PLAN OBJECTIVES

The 2023/28 plan created 8 elements to progress further. It is important that we reflect on how, or if, these have progressed and set out an updated set of actions to support this plan.

1) **Develop a 5 year Plan for Harbour income and planned expenditure (Page 3)**

While there is ongoing discussion about the Harbour and its transition to alternative fuel sources, there is currently no detailed plan outlining how its funds will be used to support both long-term sustainability and short-term service delivery. Developing such a plan remains a priority action to ensure financial clarity and strategic alignment.

2) **Develop a forecast for wider Oil and Gas related income, where this is not captured as part of the Harbour analysis. (Page 3)**

This similarly remains outstanding. This should also capture the review of the £6 million target (Page 11).

3) **Carry out more in depth reviews of charging to agree a strategic position whereby fees cover costs, or members are asked to agree a funding strategy that specifies a level of subsidy that is in place from the Council. (Page 11)**

This has started to progress, Finance have recently appointed a graduate who will work with departments on this specific area. The somewhat softer position in this plan is heavily predicated on this higher focus on income so this is a key area to continue to develop.

4) **In the first instance each external grant should be seen to contribute to the organizational infrastructure required to support them, so an agreed % (8%?) should be approved for application to central costs. (Page 11)**
5) **Further efforts should be taken to apply some of the (external) funding towards costs already incurred in the area, thus reducing the burden on the core budget. (Page 11)**

Both of these have also progressed. Performance reports in prior committee cycles contained data on grants including their contribution to overheads, or to existing costs, as a trial. Consideration is being given to an overall report to members across all areas as a better way to share this data.

6) **It is important that any plans are underpinned by a clear staffing table that describes the existing staffing in place, both actual and ideal. (Page 20)**

The ongoing work led by HR to develop forward-looking staffing plans complements the strategic intent of the Workforce Strategy. By examining both current workforce composition and the implications of demographic change—among staff and service users — this work provides a critical evidence base for future decision-making. The revised approach to the vacancy factor has further illuminated workforce dynamics, offering a clearer picture of resourcing pressures and opportunities. Embedding this analysis into the MTFP will strengthen the alignment between financial planning and workforce strategy, ensuring that staffing decisions are both affordable and responsive to evolving service demands.

7) **Develop further work to quantify key elements of Our Ambition and our Climate Change Strategy, in particular we need to create better links between our MTFP and the AIP in future iterations, so that we can clearly show the longer- term financial implications of our priorities. (Page 20)**

The connection between this document and the Asset Investment Plan (AIP), particularly in relation to the use of reserves to support capital expenditure, can be strengthened. The current AIP outlines planned investment of £97 million, which includes significant reliance on reserves. Future iterations of the Medium-Term Financial Plan (MTFP) will aim to more fully integrate the AIP, potentially establishing a financial envelope that reflects affordability across both capital and revenue budgets. This approach will support more coherent planning and ensure that investment decisions are aligned with long-term financial sustainability.

8) **These general points will need to be converted into clearer, SMART objectives to ensure delivery.**

Achieving precision in planning remains a challenge. While there is broad consensus on the direction we wish to take, translating these ambitions into clearly defined actions is complex. Rather than delaying progress in pursuit of a perfect solution, a more pragmatic approach is to focus on small but meaningful steps. Incremental progress allows us to build momentum, test ideas, and adapt as we learn—ultimately moving us closer to our strategic goals without becoming stalled by the scale of the task.

Additions 24/29

9) ***Future MTFP will spend some time looking back at the demographic changes already happened and those foreseen.*** **(Page 15)**

This concept has been proposed to enhance the accuracy of the Medium-Term Financial Plan (MTFP) and to acknowledge the importance of demographic insights in shaping future service delivery. Although demographic analysis has not yet been incorporated into this document, it remains a valuable lens through which we can develop a more strategic and responsive approach to planning. Understanding population trends and community needs will be essential in aligning resources with demand and ensuring services remain effective and sustainable.

10) ***Review the continued use of 2.1% for inflationary factor (Page 11)***

This was added to the current plan to revisit this important underlying calculation.

New for 2025/30

11) Further work should be carried out to establish ways to support the fishing industry whilst optimising the level of income from the holding of Fishing Quota.

Annex A Base Position 2024/25

GENERAL FUND REVENUE	2025/26 Budget
EXPENDITURE	
STAFF COSTS	
Pay	*111,227,917*
DIA	*6,754,255*
Pensions (Strain)	*1,579,501*
Other Staff Costs	*215,571*
Pensions (Teachers and LGPS)	*20,676,981*
TOTAL STAFF COSTS	***140,454,225***
NON STAFF COSTS	
Administration Costs	*4,788,155*
Property Costs (excl. Energy)	*8,368,737*
PPP / Unitary Charge (AHS)	*4,048,053*
Supplies & Services	*25,634,298*
Transport Costs (excl. Fuel)	*11,555,904*
Energy Costs	*4,871,648*
Fuel Costs	*3,907,416*
Financing Costs	*3,640,368*
Contingency	*1,238,000*
Grants to Organisations/Individuals	*15,449,931*
SIC Contribution to IJB	*-1,259,400*
TOTAL NON STAFF COSTS	***82,243,110***
TOTAL EXPENDITURE	***222,697,335***
INCOME	
General Revenue Grant	*-69,851,000*
National Non-Domestic Rates	*-26,492,000*
Specific Revenue Grant(s)	*-27,718,566*
Council Tax	*-12,615,975*
Income (Fees & Charges)	*-16,173,754*
Commercial Income + Interest on Balances	*-2,367,790*
Income (Other Grants)	*-13,013,897*
Income (Specific Grant - AHS)	*-3,171,010*
Fish Quota	*-1,200,000*
Recharges to Other Funds	*-4,961,395*
Crown Estate Income	*-1,900,000*
TOTAL INCOME	**-179,465,387**
GAP	**43,231,948**
Harbour Income	*6,000,000*
Investment returns	*16,704,000*
Unsustainable	*20,527,948*

Annex B Assumptions Used 2026/27 + 2027/28

	26/27			27/28		
	Downside	Central	Upside	Downside	Central	Upside
INCOME						
General Revenue Grant	-0.5	0.0	0.5	-0.5	0.0	0.5
National Non-Domestic Rates	-0.5	0.0	0.5	-0.5	0.0	0.5
Specific Revenue Grant(s)	0.0	1.9	3.8	0.0	1.9	3.8
Council Tax	3.0	5.0	7.0	3.0	5.0	7.0
Income (Fees & Charges)	3.3	4.3	5.3	3.3	4.3	5.3
Commercial Income + Interest on Balances	0.0	0.0	0.0	0.0	0.0	0.0
Income (Other Grants)	0.0	5.0	10.0	0.0	0.0	0.0
Income (Specific Grant - AHS)	0.0	0.0	0.0	0.0	0.0	0.0
Fish Quota	-10.0	0.0	0.0	5.3	5.3	5.3
Recharges to Other Funds	0.0	0.0	0.0	0.0	0.0	0.0
Crown Estate Income	0.0	0.0	-10.0	3.0	3.0	3.0
TOTAL INCOME						
EXPENDITURE						
Administration Costs	3.8	3.3	2.8	3.0	2.5	2.0
Property Costs (excl. Energy)	3.8	3.3	2.8	3.0	2.5	2.0
PPP / Unitary Charge (AHS)	0.5	0.5	0.5	0.5	0.5	0.5
Supplies & Services	3.8	3.3	2.8	3.0	2.5	2.0
Transport Costs (excl. Fuel)	3.8	3.3	2.8	3.0	2.5	2.0
Energy Costs	4.3	3.8	3.3	3.5	3.0	2.5
Fuel Costs	4.3	3.8	3.3	3.5	3.0	2.5
Financing Costs	0.0	0.0	0.0	220.0	220.0	220.0
Contingency	-62.0	-62.0	-62.0	0.0	0.0	0.0
Grants to Organisations/Individuals	3.8	3.3	2.8	3.0	2.5	2.0
SIC Contribution to IJB	0.0	0.0	0.0	0.0	0.0	0.0
Pay	3.5	3.5	3.5	3.5	3.0	2.5
DIA	3.5	3.5	3.5	3.5	3.0	2.5
Pensions (Strain)	0.0	0.0	0.0	0.0	0.0	0.0
Other Staff Costs	0.0	0.0	0.0	0.0	0.0	0.0
Pensions (Teachers and LGPS)	3.5	3.5	3.5	3.5	3.0	2.5
TOTAL EXPENDITURE						

Annex B Assumptions Used 2028/29 + 2029/30

	28/29			29/30		
	Downside	Central	Upside	Downside	Central	Upside
INCOME						
General Revenue Grant	-0.5	0.0	0.5	-0.5	0.0	0.5
National Non-Domestic Rates	-0.5	0.0	0.5	-0.5	0.0	0.5
Specific Revenue Grant(s)	0.0	1.9	3.8	0.0	1.9	3.8
Council Tax	3.0	5.0	7.0	3.0	5.0	7.0
Income (Fees & Charges)	3.3	4.3	5.3	3.3	4.3	5.3
Commercial Income + Interest on Balances	0.0	0.0	3.7	0.0	0.0	0.0
Income (Other Grants)	0.0	0.0	0.0	0.0	0.0	0.0
Income (Specific Grant - AHS)	0.0	0.0	0.0	0.0	0.0	0.0
Fish Quota	5.3	5.3	5.3	5.3	5.3	5.3
Recharges to Other Funds	0.0	0.0	0.0	0.0	0.0	0.0
Crown Estate Income	3.0	3.0	3.0	3.0	3.0	3.0
TOTAL INCOME						
EXPENDITURE						
Administration Costs	2.5	2.0	1.5	2.5	2.0	1.5
Property Costs (excl. Energy)	2.5	2.0	1.5	2.5	2.0	1.5
PPP / Unitary Charge (AHS)	0.5	0.5	0.5	0.5	0.5	0.5
Supplies & Services	2.5	2.0	1.5	2.5	2.0	1.5
Transport Costs (excl. Fuel)	2.5	2.0	1.5	2.5	2.0	1.5
Energy Costs	3.0	2.5	2.0	3.0	2.5	2.0
Fuel Costs	3.0	2.5	2.0	3.0	2.5	2.0
Financing Costs	-69.0	-69.0	-69.0	85.0	85.0	85.0
Contingency	0.0	0.0	0.0	0.0	0.0	0.0
Grants to Organisations/Individuals	2.5	2.0	1.5	2.5	2.0	1.5
SIC Contribution to IJB	0.0	0.0	0.0	0.0	0.0	0.0
Pay	3.5	3.0	2.5	3.5	3.0	2.5
DIA	3.5	3.0	2.5	3.5	3.0	2.5
Pensions (Strain)	0.0	0.0	0.0	0.0	0.0	0.0
Other Staff Costs	0.0	0.0	0.0	0.0	0.0	0.0
Pensions (Teachers and LGPS)	3.5	3.0	2.5	3.5	3.0	2.5
TOTAL EXPENDITURE						

Annex C – Results 26/27 and 27/28

	26/27			27/28		
	Downside	Central	Upside	Downside	Central	Upside
INCOME						
General Revenue Grant	- 69,501,745	- 69,851,000	- 70,200,255	- 69,154,236	- 69,851,000	- 70,551,256
National Non-Domestic Rates	- 26,359,540	- 26,492,000	- 26,624,460	- 26,227,742	- 26,492,000	- 26,757,582
Specific Revenue Grant(s)	- 27,718,566	- 28,245,219	- 28,771,872	- 27,718,566	- 28,781,878	- 29,865,203
Council Tax	- 12,994,454	- 13,246,774	- 13,499,093	- 13,384,288	- 13,909,112	- 14,444,030
Income (Fees & Charges)	- 16,707,488	- 16,869,225	- 17,030,963	- 17,258,835	- 17,594,602	- 17,933,604
Commercial Income + Interest on Bal	- 2,367,790	- 2,367,790	- 2,367,790	- 2,367,790	- 2,367,790	- 2,367,790
Income (Other Grants)	- 13,013,897	- 13,664,592	- 14,315,287	- 13,013,897	- 13,664,592	- 14,315,287
Income (Specific Grant - AHS)	- 3,171,010	- 3,171,010	- 3,171,010	- 3,171,010	- 3,171,010	- 3,171,010
Fish Quota	- 1,080,000	- 1,200,000	- 1,200,000	- 1,137,240	- 1,263,600	- 1,263,600
Recharges to Other Funds	- 4,961,395	- 4,961,395	- 4,961,395	- 4,961,395	- 4,961,395	- 4,961,395
Crown Estate Income	- 1,900,000	- 1,900,000	- 1,710,000	- 1,957,000	- 1,957,000	- 1,761,300
TOTAL INCOME	- 179,775,885	- 181,969,005	- 183,852,124	- 180,351,999	- 184,013,979	- 187,392,057
EXPENDITURE						
Administration Costs	4,970,105	4,946,164	4,922,223	5,119,208	5,069,818	5,020,668
Property Costs (excl. Energy)	8,686,749	8,644,905	8,603,062	8,947,351	8,861,028	8,775,123
PPP / Unitary Charge (AHS)	4,068,293	4,068,293	4,068,293	4,088,635	4,088,635	4,088,635
Supplies & Services	26,608,401	26,480,230	26,352,058	27,406,653	27,142,236	26,879,100
Transport Costs (excl. Fuel)	11,995,028	11,937,249	11,879,469	12,354,879	12,235,680	12,117,059
Energy Costs	5,081,129	5,056,771	5,032,412	5,258,968	5,208,474	5,158,223
Fuel Costs	4,075,435	4,055,898	4,036,361	4,218,075	4,177,575	4,137,270
Financing Costs	3,640,368	3,640,368	3,640,368	11,649,178	11,649,178	11,649,178
Contingency	470,440	470,440	470,440	470,440	470,440	470,440
Grants to Organisations/Individuals	16,037,028	15,959,779	15,882,529	16,518,139	16,358,773	16,200,180
SIC Contribution to IJB	- 1,259,400	- 1,259,400	- 1,259,400	- 1,259,400	- 1,259,400	- 1,259,400
Pay	115,120,894	115,120,894	115,120,894	119,150,125	118,574,521	117,998,916
DIA	6,990,654	6,990,654	6,990,654	7,235,327	7,200,374	7,165,420
Pensions (Strain)	1,579,501	1,579,501	1,579,501	1,579,501	1,579,501	1,579,501
Other Staff Costs	215,571	215,571	215,571	215,571	215,571	215,571
Pensions (Teachers and LGPS)	21,400,675	21,400,675	21,400,675	22,149,699	22,042,696	21,935,692
TOTAL EXPENDITURE	229,680,872	229,307,992	228,935,111	245,102,350	243,615,098	242,131,574
NET POSITION	49,904,987	47,338,987	45,082,987	64,750,351	59,601,119	54,739,518

Annex C - Results

	28/29			29/30		
	Downside	Central	Upside	Downside	Central	Upside
INCOME						
General Revenue Grant	- 68,808,465	- 69,851,000	- 70,904,013	- 68,464,423	- 69,851,000	- 71,258,533
National Non-Domestic Rates	- 26,096,604	- 26,492,000	- 26,891,370	- 25,966,121	- 26,492,000	- 27,025,827
Specific Revenue Grant(s)	- 27,718,566	- 29,328,734	- 31,000,080	- 27,718,566	- 29,885,980	- 32,178,083
Council Tax	- 13,785,817	- 14,604,568	- 15,455,112	- 14,199,391	- 15,334,796	- 16,536,970
Income (Fees & Charges)	- 17,828,377	- 18,351,170	- 18,884,085	- 18,416,713	- 19,140,270	- 19,884,942
Commercial Income + Interest on Bal	- 2,367,790	- 2,367,790	- 2,455,398	- 2,367,790	- 2,367,790	- 2,455,398
Income (Other Grants)	- 13,013,897	- 13,664,592	- 14,315,287	- 13,013,897	- 13,664,592	- 14,315,287
Income (Specific Grant - AHS)	- 3,171,010	- 3,171,010	- 3,171,010	- 3,171,010	- 3,171,010	- 3,171,010
Fish Quota	- 1,197,514	- 1,330,571	- 1,330,571	- 1,260,982	- 1,401,091	- 1,401,091
Recharges to Other Funds	- 4,961,395	- 4,961,395	- 4,961,395	- 4,961,395	- 4,961,395	- 4,961,395
Crown Estate Income	- 2,015,710	- 2,015,710	- 1,814,139	- 2,076,181	- 2,076,181	- 1,868,563
TOTAL INCOME	- 180,965,143	- 186,138,539	- 191,182,460	- 181,616,469	- 188,346,106	- 195,057,098
EXPENDITURE						
Administration Costs	5,247,188	5,171,215	5,095,978	5,378,368	5,274,639	5,172,417
Property Costs (excl. Energy)	9,171,035	9,038,249	8,906,750	9,400,311	9,219,013	9,040,351
PPP / Unitary Charge (AHS)	4,109,078	4,109,078	4,109,078	4,129,623	4,129,623	4,129,623
Supplies & Services	28,091,820	27,685,080	27,282,286	28,794,115	28,238,782	27,691,520
Transport Costs (excl. Fuel)	12,663,751	12,480,394	12,298,815	12,980,345	12,730,002	12,483,297
Energy Costs	5,416,737	5,338,686	5,261,387	5,579,240	5,472,153	5,366,615
Fuel Costs	4,344,617	4,282,014	4,220,015	4,474,956	4,389,064	4,304,415
Financing Costs	3,611,245	3,611,245	3,611,245	6,680,803	6,680,803	6,680,803
Contingency	470,440	470,440	470,440	470,440	470,440	470,440
Grants to Organisations/Individuals	16,931,093	16,685,949	16,443,182	17,354,370	17,019,668	16,689,830
SIC Contribution to IJB	- 1,259,400	- 1,259,400	- 1,259,400	- 1,259,400	- 1,259,400	- 1,259,400
Pay	123,320,380	122,131,757	120,948,889	127,636,593	125,795,709	123,972,612
DIA	7,488,563	7,416,385	7,344,556	7,750,663	7,638,876	7,528,170
Pensions (Strain)	1,579,501	1,579,501	1,579,501	1,579,501	1,579,501	1,579,501
Other Staff Costs	215,571	215,571	215,571	215,571	215,571	215,571
Pensions (Teachers and LGPS)	22,924,938	22,703,976	22,484,085	23,727,311	23,385,096	23,046,187
TOTAL EXPENDITURE	244,326,558	241,660,138	239,012,377	254,892,811	250,979,541	247,111,953
NET POSITION	63,361,415	55,521,599	47,829,918	73,276,342	62,633,435	52,054,854

Annex D - Summary of Results

	26/27			27/28			28/29			29/30		
	Downside	Central	Upside	Downside	Central	Upside	Downside	Central	Upside	Downside	Central	Upside
TOTAL INCOME	-179,775,885	-181,969,005	-183,852,124	-180,351,999	-184,013,979	-187,392,057	-180,965,143	-186,138,539	-191,182,460	-181,616,469	-188,346,106	-195,057,098
TOTAL EXPENDITURE	229,680,872	229,307,992	228,935,111	245,102,350	243,615,098	242,131,574	244,326,558	241,660,138	239,012,377	254,892,811	250,979,541	247,111,953
NET POSITION	49,904,987	47,338,987	45,082,987	64,750,351	59,601,119	54,739,518	63,361,415	55,521,599	47,829,918	73,276,342	62,633,435	52,054,854
CUMULATIVE				114,655,338	106,940,106	99,822,505	178,016,753	162,461,704	147,652,422	251,293,095	225,095,139	199,707,276

Annex E - Summary of Result including Harbour and Investments income

	26/27			27/28			28/29			29/30		
	Downside	Central	Upside	Downside	Central	Upside	Downside	Central	Upside	Downside	Central	Upside
TOTAL INCOME	-179,775,885	-181,969,005	-183,852,124	-180,351,999	-184,013,979	-187,392,057	-180,965,143	-186,138,539	-191,182,460	-181,616,469	-188,346,106	-195,057,098
TOTAL EXPENDITURE	229,680,872	229,307,992	228,935,111	245,102,350	243,615,098	242,131,574	244,326,558	241,660,138	239,012,377	254,892,811	250,979,541	247,111,953
NET POSITION	49,904,987	47,338,987	45,082,987	64,750,351	59,601,119	54,739,518	63,361,415	55,521,599	47,829,918	73,276,342	62,633,435	52,054,854
HARBOUR & INVESTMENT	22,704,000	22,704,000	22,704,000	22,704,000	22,704,000	22,704,000	22,704,000	22,704,000	22,704,000	22,704,000	22,704,000	22,704,000
TOTAL	27,200,987	24,634,987	22,378,987	42,046,351	36,897,119	32,035,518	40,657,415	32,817,599	25,125,918	50,572,342	39,929,435	29,350,854
CUMULATIVE				69,247,338	61,532,106	54,414,505	109,904,753	94,349,704	79,540,422	160,477,095	134,279,139	108,891,276

Annex F - Data sources used to inform Economic and Fiscal Outlook and Financial Planning Assumptions:

Office for Budgetary Responsibility:

- *Fiscal Risks & Sustainability Report, July 2023*
- *Economic and Fiscal Outlook*, March 2024

EY Item Club:

- *Summer Forecast*, July 2024

Fraser of Allander Institute:

- *FAI Economic Commentary, June 2024*

Bank of England

- *Monetary Policy Report, August 2024*
- *Monetary Policy Report, May 2024*

Scottish Government:

- *Investing in Scotland's Future: Resource Spending Review, May 2022*
- *The Outcome of the targeted Review of the capital Spending Review – Updated Spending Allocations for 2023-24 to 2025-26, May 2022*
- *Scotland's Fiscal Outlook. The Scottish Government's Medium-Term Financial Strategy, May 23*

Annex G – Reserves at 31 March 2025 Earmarked vs Unearmarked

	£000 Not Earmarked	£000 Earmarked	£000 TOTAL
General Fund	- 48,578		- 48,578
Council Tax 2nd Homes		- 3,298	- 3,298
Hansel Funds		- 236	- 236
School Funds		- 451	- 451
Energy Efficiency Fund		- 65	- 65
Coastal Community Fund		- 4,390	- 4,390
Pupil Equity Fund		- 126	- 126
Other Earmarked Reserves		- 2,266	- 2,266
Debt Repayment	- 8,549	- 46,000	- 54,549
Capital Fund	- 46,347		- 46,347
Capital Grants Unapplied		- 75	- 75
Repairs & Renewals	- 13,931		- 13,931
Housing Revenue Reserve		- 11,010	- 11,010
Harbour Reserve	- 62,494		- 62,494
Insurance Fund		- 5,270	- 5,270
Total	- 179,899	- 73,187	- 253,086
Unrealised Investment Gains	- 120,723	-	- 120,723
TOTAL All Reserves	**- 300,622**	**- 73,187**	**- 373,809**

Annex H - Reserves at 31 March 2025 gains split proportionately

	£000 Not Earmarked	£000 Earmarked	£000 TOTAL	£000 Split of Gains	£000 TOTAL
General Fund	- 48,578		- 48,578	- 23,172	- 71,750
Council Tax 2nd Homes		- 3,298	- 3,298	- 1,573	- 4,871
Hansel Funds		- 236	- 236	- 113	- 349
School Funds		- 451	- 451	- 215	- 666
Energy Efficiency Fund		- 65	- 65	- 31	- 96
Coastal Community Fund		- 4,390	- 4,390	- 2,094	- 6,484
Pupil Equity Fund		- 126	- 126	- 60	- 186
Other Earmarked Reserves		- 2,266	- 2,266	- 1,081	- 3,347
Debt Repayment	- 8,549	- 46,000	- 54,549	- 26,020	- 80,569
Capital Fund	- 46,347		- 46,347	- 22,108	- 68,455
Capital Grants Unapplied		- 75	- 75	- 36	- 111
Repairs & Renewals	- 13,931		- 13,931	- 6,645	- 20,576
Housing Revenue Reserve		- 11,010	- 11,010	- 5,252	- 16,262
Harbour Reserve	- 62,494		- 62,494	- 29,810	- 92,304
Insurance Fund		- 5,270	- 5,270	- 2,514	- 7,784
TOTAL Capital Reserves	**- 179,899**	**- 73,187**	**- 253,086**	**- 120,723**	**- 373,809**

Annex I – Reserves at 31 March 2025 - gains split on targeted basis

	£000 Not Earmarked	£000 Earmarked	£000 TOTAL	£000 Split of Gains	£000 TOTAL
General Fund	- 48,578		- 48,578	- 115,471	- 164,049
Council Tax 2nd Homes		- 3,298	- 3,298		- 3,298
Hansel Funds		- 236	- 236		- 236
School Funds		- 451	- 451		- 451
Energy Efficiency Fund		- 65	- 65		- 65
Coastal Community Fund		- 4,390	- 4,390		- 4,390
Pupil Equity Fund		- 126	- 126		- 126
Other Earmarked Reserves		- 2,266	- 2,266		- 2,266
Debt Repayment	- 8,549	- 46,000	- 54,549		- 54,549
Capital Fund	- 46,347		- 46,347		- 46,347
Capital Grants Unapplied		- 75	- 75		- 75
Repairs & Renewals	- 13,931		- 13,931		- 13,931
Housing Revenue Reserve		- 11,010	- 11,010	- 5,252	- 16,262
Harbour Reserve	- 62,494		- 62,494		- 62,494
Insurance Fund		- 5,270	- 5,270		- 5,270
TOTAL Capital Reserves	**- 179,899**	**- 73,187**	**- 253,086**	**- 120,723**	**- 373,809**

Annex J – Reserves at 31 March 2025 – Useable for revenue purposes

	£000 Not Earmarked	£000 Earmarked	£000 TOTAL	£000 Split of Gains	£000 TOTAL
General Fund	- 48,578		- 48,578	- 115,471	- 164,049
Council Tax 2nd Homes		- 3,298	- 3,298		- 3,298
Hansel Funds		- 236	- 236		- 236
School Funds		- 451	- 451		- 451
Energy Efficiency Fund		- 65	- 65		- 65
Coastal Community Fund		- 4,390	- 4,390		- 4,390
Pupil Equity Fund		- 126	- 126		- 126
Other Earmarked Reserves		- 2,266	- 2,266		- 2,266
Debt Repayment	- 8,549	- 46,000	- 54,549		- 54,549
Capital Fund	- 46,347		- 46,347		- 46,347
Capital Grants Unapplied		- 75	- 75		- 75
Repairs & Renewals	- 13,931		- 13,931		- 13,931
Housing Revenue Reserve		- 11,010	- 11,010	- 5,252	- 16,262
Harbour Reserve	- 62,494		- 62,494		- 62,494
Insurance Fund		- 5,270	- 5,270		- 5,270
TOTAL Capital Reserves	**- 179,899**	**- 73,187**	**- 253,086**	**- 120,723**	**- 373,809**

Annex K – PWLB Borrowing in Order of Maturity Date

Valuation Date	Borrower Name	Loan Number	Loan Type	Repayment Method	Payment Frequency	Advance Date	Maturity Date	Principal Balance Outstanding (£)	Loan Rate (%)
31-Mar-2023	SHETLAND ISLANDS COUNCIL	PW503053	FIXED	MATURITY	SEMI ANNUAL	20-May-2014	**19-May-2027**	8,000,000.00	3.71
31-Mar-2023	SHETLAND ISLANDS COUNCIL	PW506472	FIXED	MATURITY	SEMI ANNUAL	17-Oct-2017	**17-Apr-2029**	3,000,000.00	2.36
31-Mar-2023	SHETLAND ISLANDS COUNCIL	PW503054	FIXED	MATURITY	SEMI ANNUAL	20-May-2014	**19-May-2031**	8,000,000.00	3.94
31-Mar-2023	SHETLAND ISLANDS COUNCIL	PW507791	FIXED	MATURITY	SEMI ANNUAL	20-Sep-2018	**20-Sep-2032**	4,000,000.00	2.52
31-Mar-2023	SHETLAND ISLANDS COUNCIL	PW507792	FIXED	MATURITY	SEMI ANNUAL	20-Sep-2018	**20-Sep-2033**	4,000,000.00	2.56
31-Mar-2023	SHETLAND ISLANDS COUNCIL	PW503145	FIXED	MATURITY	SEMI ANNUAL	18-Jul-2014	**18-Jul-2034**	7,000,000.00	4.07
31-Mar-2023	SHETLAND ISLANDS COUNCIL	PW503056	FIXED	MATURITY	SEMI ANNUAL	20-May-2014	**19-May-2044**	7,000,000.00	4.14
31-Mar-2023	SHETLAND ISLANDS COUNCIL	PW503055	FIXED	MATURITY	SEMI ANNUAL	20-May-2014	**19-May-2064**	1,000,000.00	4.08
31-Mar-2023	SHETLAND ISLANDS COUNCIL	PW506473	FIXED	MATURITY	SEMI ANNUAL	17-Oct-2017	**17-Oct-2064**	4,000,000.00	2.53
								46,000,000.00	

Annex L 22/23 - 25/26 Spend Summary

General Fund Revenue	2022/23 Actual	2023/24 Actual	2024/25 Actual	2025-26 Revised Budget	% increase over 3 years from 2022/23 Actual to 2025/26 Revised Budget	% increase over 2 years from 2023/24 Actual to 2025/26 Revised Budget	% increase over 1 years from 2024/25 Actual to 2025/26 Revised Budget	£ Increase over 3 years from 2022/23 Actual to 2025/26 Revised Budget	£ Increase over 2 years from 2023/24 Actual to 2025/26 Revised Budget	£ Increase over 1 year from 2024/25 Actual to 2025/26 Revised Budget
Chief Executive Services	**2,073,875**	**2,133,796**	**2,135,998**	**2,480,073**	**20%**	**16%**	**16%**	406,198	346,277	344,075
Executive Services	1,448,240	1,468,777	1,450,527	1,545,198	7%	5%	7%	96,958	76,421	94,671
Council Members	625,635	665,019	685,471	934,875	49%	41%	36%	309,240	269,856	249,404
Children's Services	**57,509,895**	**59,936,158**	**63,354,915**	**67,990,336**	**18%**	**13%**	**7%**	10,480,441	8,054,178	4,635,421
Director of Children's Services	2,748,968	2,532,220	3,091,942	2,934,449	7%	16%	-5%	185,481	402,229	- 157,493
Children's Social Work	6,712,405	7,317,038	7,585,299	8,209,022	22%	12%	8%	1,496,617	891,984	623,723
Quality Improvement/Schools	32,991,927	34,165,847	35,860,095	37,974,668	15%	11%	6%	4,982,741	3,808,821	2,114,573
Early Learning & Childcare	5,124,933	5,155,914	5,339,612	6,283,688	23%	22%	18%	1,158,755	1,127,774	944,076
ASN	7,378,092	8,115,361	8,853,392	9,675,090	31%	19%	9%	2,296,998	1,559,729	821,698
Sport, Leisure & Library	2,553,569	2,649,777	2,624,575	2,913,419	14%	10%	11%	359,850	263,642	288,844
1% Savings - Children's Services	0	0	0	0						
Community Health & Social Care	**27,894,313**	**32,305,843**	**32,585,906**	**35,839,989**	**28%**	**11%**	**10%**	7,945,676	3,534,146	3,254,083
Director of Community Health & Social Care	1,132,303	1,130,267	1,221,596	1,654,809	46%	46%	35%	522,506	524,542	433,213
Adult Services	6,883,907	8,641,814	9,050,920	9,428,820	37%	9%	4%	2,544,913	787,006	377,900
Community Care Resources	13,941,145	16,372,168	16,145,052	17,922,386	29%	9%	11%	3,981,241	1,550,218	1,777,334
Criminal Justice	404,093	382,190	390,991	460,075	14%	20%	18%	55,982	77,885	69,084
Adult Social Work	5,064,123	5,446,993	5,372,119	5,770,219	14%	6%	7%	706,096	323,226	398,100
Occupational Therapy	1,729,661	1,591,725	1,667,650	1,863,080	8%	17%	12%	133,419	271,355	195,430
IJB	(1,660,930)	(1,259,314)	(1,262,423)	(1,259,400)	-24%	0%	0%	401,530	- 86	3,023
Community Health & Social Care - COVID-19	400,011	0	0	0	-100%			- 400,011	-	-
Corporate Services	**11,991,158**	**12,010,557**	**13,863,830**	**14,940,380**	**25%**	**24%**	**8%**	2,949,222	2,929,823	1,076,550
Director of Corporate Services	415,594	428,259	470,027	460,902	11%	8%	-2%	45,308	32,643	- 9,125
Assets, Commissioning & Procurement	961,055	1,045,380	983,531	1,389,816	45%	33%	41%	428,761	344,436	406,285
Finance	3,280,609	3,781,926	3,827,276	4,294,835	31%	14%	12%	1,014,226	512,909	467,559
Governance & Law	2,191,931	1,529,756	2,390,726	2,116,397	-3%	38%	-11%	- 75,534	586,641	- 274,329
Human Resources	2,953,428	2,993,140	3,351,496	3,597,609	22%	20%	7%	644,181	604,469	246,113
ICT, Performance & Improvement	2,188,541	2,232,096	2,840,774	3,080,821	41%	38%	8%	892,280	848,725	240,047
Savings Review - Corporate Services	0	0	0	0						

Annex L 22/23 - 25/26 Spend Summary

General Fund Revenue	2022/23 Actual	2023/24 Actual	2024/25 Actual	2025-26 Revised Budget	% increase over 3 years from 2022/23 Actual to 2025/26 Revised Budget	% increase over 2 years from 2023/24 Actual to 2025/26 Revised Budget	% increase over 1 years from 2024/25 Actual to 2025/26 Revised Budget	£ Increase over 3 years from 2022/23 Actual to 2025/26 Revised Budget	£ Increase over 2 years from 2023/24 Actual to 2025/26 Revised Budget	£ Increase over 1 year from 2024/25 Actual to 2025/26 Revised Budget
Development Services	**16,663,459**	**19,821,447**	**18,454,439**	**19,249,370**	**16%**	**-3%**	**4%**	2,585,911	- 572,077	794,931
Director of Development Services	1,598,934	1,550,434	1,758,145	1,788,131	12%	15%	2%	189,197	237,697	29,986
Community Planning & Development	1,206,784	1,582,865	1,382,602	1,582,626	31%	0%	14%	375,842	- 239	200,024
Economic Development	3,003,513	3,180,102	1,860,004	1,827,703	-39%	-43%	-2%	- 1,175,810	- 1,352,399	- 32,301
Housing	1,610,494	1,748,925	1,752,020	1,988,893	23%	14%	14%	378,399	239,968	236,873
Planning	1,614,541	1,780,997	1,817,860	1,900,285	18%	7%	5%	285,744	119,288	82,425
Transport Planning	7,611,405	9,978,124	9,883,808	10,161,732	34%	2%	3%	2,550,327	183,608	277,924
Development Services - COVID-19	17,788	0	0	0	-100%			- 17,788	-	-
Infrastructure Services	**33,846,176**	**37,522,966**	**39,676,555**	**45,241,832**	**34%**	**21%**	**14%**	11,395,656	7,718,866	5,565,277
Director of Infrastructure Services	632,698	671,811	698,475	802,376	27%	19%	15%	169,678	130,565	103,901
Environment & Estate Operations	13,256,937	15,412,995	16,508,059	17,196,198	30%	12%	4%	3,939,261	1,783,203	688,139
Ferry Operations	14,670,271	15,825,027	16,612,832	20,393,728	39%	29%	23%	5,723,457	4,568,701	3,780,896
Air Operations	465,699	912,455	624,301	756,172	62%	-17%	21%	290,473	- 156,283	131,871
Roads	4,820,571	4,700,678	5,232,888	6,093,358	26%	30%	16%	1,272,787	1,392,680	860,470
Total Service Expenditure	**149,978,876**	**163,730,767**	**170,071,643**	**185,741,980**	**24%**	**13%**	**9%**	35,763,104	22,011,213	15,670,337
Joint Valuation Board	490,782	526,210	483,655	519,243	6%	-1%	7%	28,461	- 6,967	35,588
Cost Pressures & Contingency	23,798	(3,343)	918	2,000,000	8304%	-59927%	217770%	1,976,202	2,003,343	1,999,082
Fund Manager Fees	1,503,439	1,211,777	1,978,646	1,560,000	4%	29%	-21%	56,561	348,223	- 418,646
Financing Costs	1,374,440	1,445,956	1,412,081	3,540,522	158%	145%	151%	2,166,082	2,094,566	2,128,441
Crown Estate Income	(1,607,992)	0	(3,539,876)	(1,921,355)	19%		-46%	- 313,363	- 1,921,355	1,618,521
Economic Development Investment Income (N	(863,528)	(1,142,994)	(1,039,155)	(1,100,000)	27%	-4%	6%	- 236,472	42,994	- 60,845
Interest on Revenue Balances	(299,185)	(427,696)	(752,043)	(375,287)	25%	-12%	-50%	- 76,102	52,409	376,756
Other Investment Income	(21,409,019)	(21,777,007)	(7,779,786)	0	-100%	-100%	-100%	21,409,019	21,777,007	7,779,786
Other Investment Income (To Reserves)	21,409,019	21,777,007	7,779,786	0	-100%	-100%	-100%	-21,409,019	- 21,777,007	- 7,779,786
Recharge (to)from Other Funds	(4,089,541)	(3,563,836)	(5,033,236)	(4,961,395)	21%	39%	-1%	- 871,854	- 1,397,559	71,841
General Fund Total	**146,511,088**	**161,776,841**	**163,582,632**	**185,003,708**	**26%**	**14%**	**13%**	38,492,620	23,226,867	21,421,076

Annex L 22/23 - 25/26 Spend Summary

General Fund Revenue	2022/23 Actual	2023/24 Actual	2024/25 Actual	2025-26 Revised Budget	% increase over 3 years from 2022/23 Actual to 2025/26 Revised Budget	% increase over 2 years from 2023/24 Actual to 2025/26 Revised Budget	% increase over 1 years from 2024/25 Actual to 2025/26 Revised Budget	£ Increase over 3 years from 2022/23 Actual to 2025/26 Revised Budget	£ Increase over 2 years from 2023/24 Actual to 2025/26 Revised Budget	£ Increase over 1 year from 2024/25 Actual to 2025/26 Revised Budget
General Fund Funded By:										
General Revenue Grant	(47,153,700)	(61,919,000)	(66,037,000)	(94,530,000)	20%	10%	6%	-20,513,109	-11,486,390	-6,970,405
Specific Grants - Community Health & Social Ca	(364,037)	(387,601)	(369,586)	(367,991)						
Specific Grants - Children's Services	(3,212,723)	(2,884,575)	(254,575)	(254,575)						
Specific Grants - Ferry Grant	(17,496,000)	(23,082,000)	(23,082,000)	0						
Specific Grants - Waste	0	0	0	(2,417,000)						
NNDR	(35,321,997)	(24,302,000)	(27,348,000)	(26,492,000)						
Council Tax	(10,253,748)	(10,913,926)	(11,328,367)	(12,615,975)	23%	16%	11%	- 2,362,227	- 1,702,049	- 1,287,608
Crown Estate Reserve	535,140	(629,594)	2,185,685	(253,655)						
Spend to Save Reserve	(52,945)	0	0	0						
Other Earmarked Reserves	0	2,372,616	(267,268)	0						
PEF Reserve	(50,435)	66,026	(43,757)	0						
Sustainable Transport Reserve			(1,946)	0						
ELC Reserve	(144,116)	70,154	0	0						
Ferry Grant Reserve	1,092,917	1,301,905	3,182,607	0						
Contribution to/(from) Reserves (Sustainable)										
Return on Investments	(17,596,000)	(15,444,000)	(15,444,000)	(15,444,000)	-7%	-1%	-1%	2,352,000	221,065	230,657
Harbour Account Surplus	(6,060,000)	(6,060,000)	(6,060,000)	(6,060,000)						
Shetland Gas Plant Income	(1,400,000)	(1,421,065)	(1,430,657)	(1,200,000)						
Contribution to/(from) Reserves (Unsustainabl	(5,544,707)	(12,432,529)	(15,729,955)	(24,695,071)	181%	37%	47%	-16,335,069	-6,824,731	-8,084,743
Unsustainable Harbour Account Contribution	(3,488,736)	(6,111,252)	(1,553,814)	(673,441)						
General Fund Revenue Total	**0**	**0**	**(0)**	**0**						

Annex L 22/23 - 25/26 Spend Summary

General Fund Capital	2022/23 Actual Outturn	2023/24 Actual Outturn	2024/25 Actual Outturn	2025-26 Revised Budget	% increase over 3 years from 2022/23 Actual to 2025/26 Revised Budget	% increase over 2 years from 2023/24 Actual to 2025/26 Revised Budget	% increase over 1 years from 2024/25 Actual to 2025/26 Revised Budget	£ Increase over 3 years from 2022/23 Actual to 2025/26 Revised Budget	£ Increase over 2 years from 2023/24 Actual to 2025/26 Revised Budget	£ Increase over 1 year from 2024/25 Actual to 2025/26 Revised Budget
Chief Executive Services	**0**	**0**	**0**	**0**						
Executive Services	0	0	0	0						
Children's Services	**229,896**	**382,101**	**1,488,902**	**3,359,958**						
Director of Children's Services	0	0	0	0						
Children's Social Work	0	0	0	0						
Quality Improvement/Schools	199,178	228,152	1,259,368	2,209,746						
Early Learning Childcare	0	13,418	0	0						
Sport & Leisure	30,718	140,531	229,533	1,150,212						
Community Health & Social Care Services	**113,846**	**0**	**0**	**0**						
Director of Community Health & Social Care	113,846	0	0	0						
Adult Services	0	0	0	0						
Community Care Resources	0	0	0	0						
Criminal Justice	0	0	0	0						
Adult Social Work	0	0	0	0						
Occupational Therapy	0	0	0	0						
IJB	0	0	0	0						
Corporate Services	**2,254,189**	**2,564,572**	**2,027,958**	**4,104,500**						
Director of Corporate Services	0	0	0	0						
Assets, Commissioning & Procurement	1,133,111	1,828,847	1,112,475	3,370,000						
Finance	15,832	0	83,993	17,700						
Joint Valuation Board	0	0	0	0						
Governance & Law	0	0	0	0						
Human Resources	24,000	0	0	0						
ICT	1,081,247	735,725	831,490	716,800						

Annex L 22/23 - 25/26 Spend Summary

General Fund Capital	2022/23 Actual Outturn	2023/24 Actual Outturn	2024/25 Actual Outturn	2025-26 Revised Budget	% increase over 3 years from 2022/23 Actual to 2025/26 Revised Budget	% increase over 2 years from 2023/24 Actual to 2025/26 Revised Budget	% increase over 1 years from 2024/25 Actual to 2025/26 Revised Budget	£ Increase over 3 years from 2022/23 Actual to 2025/26 Revised Budget	£ Increase over 2 years from 2023/24 Actual to 2025/26 Revised Budget	£ Increase over 1 year from 2024/25 Actual to 2025/26 Revised Budget
Development Services	**1,776,316**	**98,941**	**1,807,825**	**28,287,608**						
Director of Development Services	0	0	0	0						
Community Planning & Development	10,656	0	0	0						
Economic Development	81,407	0	0	0						
Housing	0	0	21,464	0						
Planning	0	0	0	0						
Transport Planning	1,684,254	98,941	1,786,362	28,287,608						
Infrastructure Services	**6,374,207**	**6,738,792**	**10,191,839**	**9,079,476**						
Director of Infrastructure Services	0	0	0	0						
Environment & Estate Operations	2,733,877	3,547,473	5,479,731	5,559,716						
Air Operations	0	0	0	900,000						
Ferry Operations	1,092,917	1,301,905	3,182,607	1,789,650						
Roads	2,547,414	1,889,414	1,529,501	830,110						
Total General Fund Capital Expenditure	**10,748,455**	**9,784,406**	**15,516,524**	**44,831,542**						
In Year Slippage	0	0	0	(3,768,924)						
Carryforward Provision	0	0	0	1,000,000						
Total General Fund Capital Expenditure	**10,748,455**	**9,784,406**	**15,516,524**	**42,062,618**						

Annex L 22/23 - 25/26 Spend Summary

General Fund Capital	2022/23 Actual Outturn	2023/24 Actual Outturn	2024/25 Actual Outturn	2025-26 Revised Budget	% increase over 3 years from 2022/23 Actual to 2025/26 Revised Budget	% increase over 2 years from 2023/24 Actual to 2025/26 Revised Budget	% increase over 1 years from 2024/25 Actual to 2025/26 Revised Budget	£ Increase over 3 years from 2022/23 Actual to 2025/26 Revised Budget	£ Increase over 2 years from 2023/24 Actual to 2025/26 Revised Budget	£ Increase over 1 year from 2024/25 Actual to 2025/26 Revised Budget
General Fund Capital Funded By										
Scottish Govt General Capital Grant	(7,102,000)	(6,322,000)	(5,367,000)	(5,853,000)						
Other External Grants	(236,175)	(1,797,105)	(1,917,373)	(27,782,313)						
General Fund Capital Receipts	0	(277,493)	(647,542)	(592,250)						
External Borrowing	(2,089,699)	0	0	(1,025,295)						
Capital Grant Unapplied Reserve	(0)	(14,618)	(55,107)	(20,110)						
Spend to Save Reserve	0	(37,448)	0	0						
Ferry Grant CFCR	(1,092,917)	(1,301,905)	(3,182,607)	(1,789,650)						
General Fund Capital Receipts Reserves	0	(20,419)	(455,533)	0						
General Fund Reserve CFCR	(197,688)	0	(237,025)	0						
Capital Energy Efficiency Fund	(29,976)	0	0	0						
ELC Reserve CFCR	0	(13,418)	0	0						
Capital Fund Reserves	0	0	(3,654,338)	(5,000,000)						
Total General Fund Capital Funding	**(10,748,455)**	**(9,784,406)**	**(15,516,524)**	**(42,062,618)**						
General Fund Capital Total	**0**	**0**	**0**	**0**						

Annex L 22/23 - 25/26 Spend Summary

HRA	2022/23 Actual Outturn	2023/24 Actual Outturn	2024/25 Actual Outturn	2025-26 Revised Budget	% increase over 3 years from 2022/23 Actual to 2025/26 Revised Budget	% increase over 2 years from 2023/24 Actual to 2025/26 Revised Budget	% increase over 1 years from 2024/25 Actual to 2025/26 Revised Budget	£ Increase over 3 years from 2022/23 Actual to 2025/26 Revised Budget	£ Increase over 2 years from 2023/24 Actual to 2025/26 Revised Budget	£ Increase over 1 year from 2024/25 Actual to 2025/26 Revised Budget
Supervision & Management	859,791	985,015	1,010,218	1,069,806	24%	9%	6%	210,015	84,791	59,588
Repair & Maintenance	3,776,426	4,391,339	4,615,627	5,153,491	36%	17%	12%	1,377,065	762,152	537,864
Void Rents & Charges	276,066	288,994	339,565	252,461	-9%	-13%	-26%	- 23,605	- 36,533	- 87,104
Garages	44,631	73,776	58,215	31,524	-29%	-57%	-46%	- 13,107	- 42,252	- 26,691
Capital Charges - Dwellings	1,203,811	1,186,687	1,176,275	1,153,032	-4%	-3%	-2%	- 50,779	- 33,655	- 23,243
Irrecoverable debt	137,218	(3,834)	86,294	147,312	7%	-3942%	71%	10,094	151,146	61,018
Total Revenue Expenditure	**6,297,944**	**6,921,978**	**7,286,193**	**7,807,626**	24%	13%	7%	1,509,682	885,648	521,433
Interest on Revenue Balances	(9,657)	(19,968)	(29,660)	(24,916)	158%	25%	-16%	- 15,259	- 4,948	4,744
Rents - Dwellings	(7,082,854)	(7,374,253)	(7,762,740)	(8,340,353)	18%	13%	7%	- 1,257,499	- 966,100	- 577,613
Rents - Other ie garages/sites etc	(251,496)	(264,859)	(278,815)	(290,645)	16%	10%	4%	- 39,149	- 25,786	- 11,830
Total Revenue Income	**(7,344,006)**	**(7,659,080)**	**(8,071,215)**	**(8,655,914)**	18%	13%	7%	- 1,311,908	- 996,834	- 584,699
Net HRA Revenue - (Income)/Expenditure	**(1,046,062)**	**(737,102)**	**(785,022)**	**(848,288)**	-19%	15%	8%	197,774	- 111,186	- 63,266
Total HRA Capital Expenditure	**3,954,143**	**7,242,473**	**5,603,063**	**10,808,750**	173%	49%	93%	6,854,607	3,566,277	5,205,687
Housing Revenue Account Capital Receipts Reserves	0	0	0	0						
Housing Revenue Account Capital Receipts	(7,215)	(36,978)	(109,299)	(45,250)						
Housing Revenue Account 2nd Homes Ctax Reserve	(63,180)	(100,900)	0	(78,122)						
Housing Revenue Account Other Government Grants	(83,000)	(866,716)	(70,000)	(1,942,206)						
Housing Revenue Account European Grant Funding	0	0	0	0						
Total HRA Capital Income	**(153,395)**	**(1,004,594)**	**(179,299)**	**(2,065,578)**	1247%	106%	1052%	- 1,912,183	- 1,060,984	- 1,886,279
Net HRA Capital Expenditure	**3,800,748**	**6,237,879**	**5,423,763**	**8,743,172**	130%	40%	61%	4,942,424	2,505,293	3,319,409
HRA Funded By										
Investment Income	0	(1,657,716)	(484,130)	(700,127)		-58%	45%	- 700,127	957,589	- 215,997
Contribution to/(from) Housing R & R Fund	(2,754,686)	(3,843,062)	(4,154,612)	(7,194,757)	161%	87%	73%	- 4,440,071	- 3,351,695	- 3,040,145
Housing - HRA Total	**0**	**(0)**	**(0)**	**0**						
HRA CFCR Check										
Net HRA Capital Expenditure	3,800,748	6,237,879	8,297,500	8,743,172						
Net HRA Capital Draw from Reserve	(3,800,748)	(6,237,879)	(8,297,500)	(8,743,172)						
	0	0	0	0						

Annex L 22/23 - 25/26 Spend Summary

Harbour Account	2022/23 Actual Outturn	2023/24 Actual Outturn	2024/25 Original Budget	2025-26 Revised Budget	% increase over 3 years from 2022/23 Actual to 2025/26 Revised Budget	% increase over 2 years from 2023/24 Actual to 2025/26 Revised Budget	% increase over 1 years from 2024/25 Actual to 2025/26 Revised Budget	£ Increase over 3 years from 2022/23 Actual to 2025/26 Revised Budget	£ Increase over 2 years from 2023/24 Actual to 2025/26 Revised Budget	£ Increase over 1 year from 2024/25 Actual to 2025/26 Revised Budget
Ports Management	939,096	712,843	820,459	855,926	-9%	20%	4%	- 83,170	143,083	35,467
Sullom Voe	(10,735,689)	(12,684,690)	(9,086,906)	(9,936,433)	-7%	-22%	9%	799,256	2,748,257	- 849,527
Scalloway	65,659	270,019	691,378	569,806	768%	111%	-18%	504,147	299,787	- 121,572
Cullivoe			(490,031)	(292,225)			-40%	- 292,225	- 292,225	197,806
Other Piers	(57,700)	(469,423)	242,066	717,223	-1343%	-253%	196%	774,923	1,186,646	475,157
Jetties & Spur Booms	0	0	(0)	0						
Total Harbour Revenue Surplus	**(9,788,634)**	**(12,171,251)**	**(7,823,034)**	**(8,085,703)**	-17%	-34%	3%	1,702,931	4,085,548	- 262,669
Total Harbour Capital Expenditure	**284,575**	**400,236**	**1,403,897**	**1,373,762**	383%	243%	-2%	1,089,187	973,526	- 30,135
Harbour Account Capital Receipts	0	(32,883)	(93,573)	(21,500)						
Harbour Account Capital Receipts Reserve	(284,575)	(367,353)	(502,531)	0						
Harbour Account Other Government Grants	0	0	0	0						
Harbour Account Other Non-Government Grants	0	0	0	0						
Harbour Account External Borrowing	0	0	0	0						
Total Harbour Capital Income	**(284,575)**	**(400,236)**	**(596,104)**	**(21,500)**	-92%	-95%	-96%	263,075	378,736	574,604
Net Harbour Capital - Expenditure	**0**	**(0)**	**807,793**	**1,352,262**			67%	1,352,262	1,352,262	544,469
Harbour Account Funded By										
Shetland Gas Plant Rental Income	(1,658,192)	(1,421,065)	(1,430,657)	(1,200,000)	-28%	-16%	-16%	458,192	221,065	230,657
Contribution to/(from) Harbour Reserve Fund	11,446,826	13,592,317	9,044,471	7,933,441	-31%	-42%	-12%	- 3,513,385	- 5,658,876	- 1,111,030
Insurance Fund Reserve			(598,573)							
Harbour Account Total	**0**	**0**	**0**	**0**						
Harbour CFCR check										
Net Harbour Capital Expenditure	0	0		1,352,262						
Net Harbour Capital Draw from Reserve	0	0		(1,352,262)						
	0	0	0	0						

Annex L 22/23 - 25/26 Spend Summary

USE of RESERVES	2022/23 Actual Outturn	2023/24 Actual Outturn	2024/25 Original Budget	2025-26 Revised Budget	% increase over 3 years from 2022/23 Actual to 2025/26 Revised Budget	% increase over 2 years from 2023/24 Actual to 2025/26 Revised Budget	% increase over 1 years from 2024/25 Actual to 2025/26 Revised Budget	£ Increase over 3 years from 2022/23 Actual to 2025/26 Revised Budget	£ Increase over 2 years from 2023/24 Actual to 2025/26 Revised Budget	£ Increase over 1 year from 2024/25 Actual to 2025/26 Revised Budget
GF Revenue	(34,089,443)	(41,468,846)	(40,218,426)	(48,072,512)	41%	16%	20%	-13,983,069	- 6,603,666	- 7,854,086
GF Capital	(227,664)	(85,903)	(4,402,003)	(5,020,110)	2105%	5744%	14%	- 4,792,446	- 4,934,207	- 618,107
HRA Revenue	1,046,062	737,102	1,622,341	848,288	-19%	15%	-48%	- 197,774	111,186	- 774,053
HRA Capital	(3,863,928)	(6,338,779)	(5,423,763)	(8,821,294)	128%	39%	63%	- 4,957,366	- 2,482,515	- 3,397,531
Harbour Revenue	11,446,826	13,592,316	9,253,691	9,285,703	-19%	-32%	0%	- 2,161,123	- 4,306,613	32,012
Harbour Capital	(284,575)	(367,353)	(1,310,324)	(1,352,262)	375%	268%	3%	- 1,067,687	- 984,909	- 41,938
TOTAL	(25,972,722)	(33,931,462)	(40,478,484)	(53,132,187)	105%	57%	31%	-27,159,465	- 19,200,725	-12,653,703
Total Revenue	(21,596,555)	(27,139,427)	(29,342,394)	(37,938,521)	76%	40%	29%	-16,341,966	- 10,799,094	- 8,596,127
Total Capital	(4,376,166)	(6,792,035)	(11,136,090)	(15,193,666)	247%	124%	36%	-10,817,500	- 8,401,631	- 4,057,576
TOTAL	(25,972,722)	(33,931,462)	(40,478,484)	(53,132,187)	105%	57%	31%	-27,159,465	- 19,200,725	-12,653,703

Annex M - Investment Returns and Withdrawals 2006 - Date

Analysis of returns from 2005/06 to 2024/25

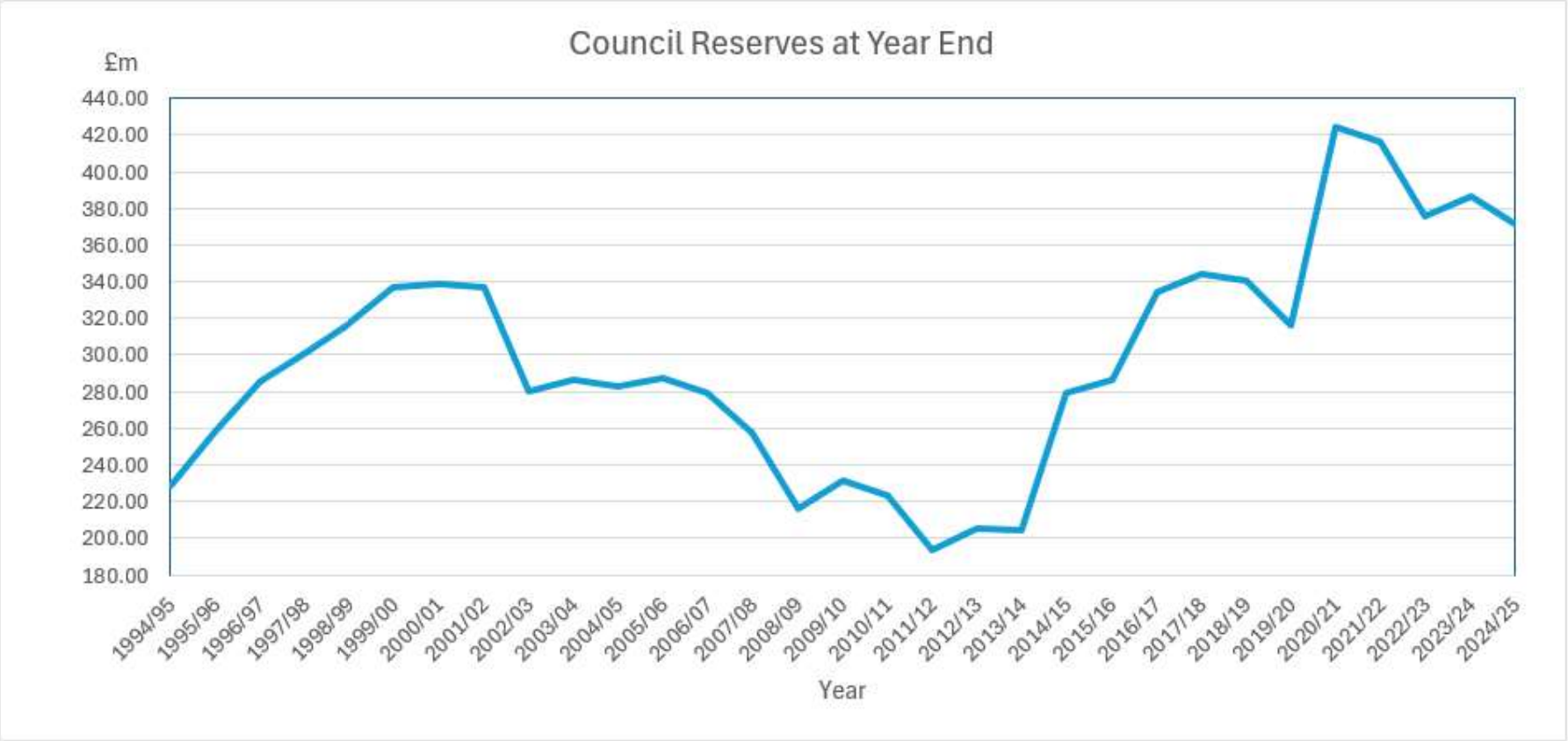
	Starting Market Value £ million	Market Movement £ million	Injections £ million	Withdrawals £ million	Closing Market Value £ million	Net Annual Movement £ million	Annual Invest. Return %	
Mar 06	282.70	46.99		42.00	287.69	4.99	16.62	
Mar 07	287.69	11.17		20.00	278.86	-8.83	3.88	
Mar 08	278.86	-1.86		20.00	257.00	-21.86	-0.67	
Mar 09	257.00	-21.50		18.00	217.50	-39.50	-8.37	
Mar 10	217.50	50.30		35.00	232.80	15.30	23.13	
Mar 11	232.80	21.17		31.00	222.97	-9.83	9.09	
Mar 12	222.97	6.38		36.00	193.35	-29.62	2.86	
Mar 13	193.35	28.39		16.00	205.74	12.39	14.68	
Mar 14	205.74	14.16		16.00	203.90	-1.84	6.88	
Mar 15	203.90	28.20	46.00		278.10	74.20	13.83	
Mar 16	278.10	-1.16	9.80		286.74	8.64	-0.42	
Mar 17	286.74	67.19		20.00	333.93	47.19	23.43	
Mar 18	333.93	21.46		10.00	345.39	11.46	6.43	
Mar 19	345.39	25.08		30.00	340.47	-4.92	7.26	
Mar 20	340.47	-18.44		8.00	314.03	-26.44	-5.42	
Mar 21	314.03	119.39		10.40	423.02	108.99	38.02	
Mar 22	423.02	-0.41		7.40	415.21	-7.81	-0.10	
Mar 23	415.21	-15.51		22.90	376.80	-38.41	-3.74	
Mar 24	376.80	45.06		35.00	386.86	10.06	11.96	
Mar 25	386.86	8.13		24.00	370.99	-15.87	2.10	
Total		**434.19**	**55.80**	**401.70**		**88.29**	**8.07**	**Average % Return**

Over the 20 year period from 2005/06 to 2024/25 the average investment return was 8.07% per annum.
Over the 20 year period from 2005/06 to 2024/25 the average investment return was £21.7 million per annum.
Over the 18 year period from 2005/06 to 2024/25 excluding 2014/15 and 2015/16 the average value of funds withdrawn was £22.3 million per annum.

Annex N Investment Balances 1994 - Date

Financial Year	Investments at 31st March £m
1994/95	228.99
1995/96	258.21
1996/97	285.39
1997/98	300.47
1998/99	317.11
1999/00	336.56
2000/01	339.16
2001/02	336.83
2002/03	279.75
2003/04	286.48
2004/05	282.46
2005/06	287.53
2006/07	279.10
2007/08	257.27
2008/09	215.88
2009/10	231.18
2010/11	222.96
2011/12	193.35
2012/13	205.73
2013/14	203.98
2014/15	279.14
2015/16	286.59
2016/17	334.64
2017/18	343.85
2018/19	340.61
2019/20	316.54
2020/21	424.73
2021/22	416.46
2022/23	375.72
2023/24	386.76
2024/25	371.08

Annex N Investment Balances 1994 - Date



Annex O Reserves vs Investments

	£000
Long-term Investments at 31 March 2024	386,864
Prior year movements included as part of Usable Reserves balance	16,743
Total Usable Reserves at 31 March 2024	403,607
2024/25 movements (main items listed separately):	
Movement in long-term investments	(15,221)
Movement in S/T Creditors	(2,666)
Movement in S/T Debtors	(3,251)
Movement in Cash and Cash Equivalent	6,544
Other Balance Sheet Movements	(15,204)
Usable Reserves at 31 March 2025	373,809