



## **2026/27 Budget Book**

Our revenue and capital budgets for 2026/27

## Contents

### 1. Introduction

- 1.1 Our current financial position
- 1.2 Changes compared to *Our Medium-Term Financial Plan*
- 1.3 Summary of 2026/27 budget

### 2. The 2026/27 Revenue Budgets:

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

### 3. The 2026/27 Capital Budget

- 3.1 The Asset Investment Plan

## 1. Introduction

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

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

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

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

The budgets contained in this Budget Book essentially provide the operational plans of each Council service, for the year ahead from 1 April 2026. Approval of these budgets gives the authority for resources to be allocated to each department so that we can continue to deliver a wide range of public services across Shetland, in line with our statutory obligations as well as the priorities outlined in *Our Ambition*.

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

- the planned activity to be undertaken by each service;
- the proposed headcount, expressed in Full Time Equivalent (FTE) hours and the proposed budget for 2026/27;
- a comparison of the headcount and budget approved in the prior financial year, 2025/26; and
- how each activity links to *Our Ambition*.

This Budget Book represents the product of an iterative process that began in October 2024 and has been subject to refinement as further information has been made available, including information contained in the Local Government Finance Settlement for 2026/27 (the Settlement). Although the budgeting exercise is now reaching its conclusion, the budgets themselves will become the basis against which our financial performance will be monitored during 2026/27.

## 1.1 Our current financial position

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By 31 December 2025, we had spent almost £153.8m delivering services, which is 66% of the full year's budget. As we approach the end of the financial year, we are still expecting to spend virtually all of the approved net revenue budget of £231.6m in 2025/26.

## 1.2 Changes compared to *Our Medium-Term Financial Plan*

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We published an updated Medium-Term Financial Plan in October 2025 that covered the next five year period, to 2029/30. The financial planning assumptions used in *Our Medium-Term Financial Plan* help us determine what our likely level of income and expenditure might be in the medium-term, in a range of scenarios. We use assumptions to inform our planning because of the uncertainty around the economy, UK and Scottish public finances and likely direction of some national policies, such as pay. Our central planning scenario indicated an expected General Fund budgetary deficit of £47.3m in 2026/27.

The draft Local Government Finance Settlement (the Settlement) was issued on 13 January 2026. The Settlement and subsequent updates indicate core revenue funding from the Scottish Government, this is £127.7m for 2026/27.

The Scottish Government public sector pay is negotiated centrally by the Scottish Joint Council (SJC), for non-teaching local government employees and the Scottish Negotiating Committee for Teachers (SNCT). The SJC staff pay award is 3.5% for 2026/27 which was agreed in 2025/26. Pay inflation for 2026/27 for SNCT staff pay award has not been finalised. Funding for this has not yet been distributed in the Settlement but will be allocated once an agreement is reached.

Our Medium-Term Financial Plan has been prepared on a like-for-like basis and therefore did not take into account any planned changes in service provision. As we have developed our budget, we have identified some £6.9m of savings and increased income across most services in our General Fund budget proposals for 2026/27. These savings and income increases temper the £16.7m of growth in budget compared to 2025/26, much of which is recurring in nature. Additional resources are required as a result of inflationary impacts on services and increased demand for Council services, but also to undertake work required to deliver *Our Ambition*.

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

Directors were asked to identify further areas for potential savings as part of a longer-term initiative to move budgets towards a more sustainable position. These are attached at Appendix XX and will be monitored as part of quarterly performance reporting. These have the potential to be controversial and there is a need to avoid staff time being spent on initiatives that will not ultimately be supported, so members outline approval of these savings area in principle is sought at this stage.

We acknowledge that expenditure at this level is still unsustainable in the long-term because we need to utilise more from our reserves than both

*Our Medium-Term Financial Plan* and Investment Strategy anticipates. We know we have further work to do to achieve long-term financial sustainability. This year's General Fund revenue budget requires an unsustainable draw of £26.1m from reserves compared to the £21m required in 2025/26. *Our Ambition* includes a commitment to working towards a smaller base budget from 2022 onwards, and that continues to be a focus in future budget-setting rounds.

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

### **1.3 Summary of the 2026/27 budget**

#### **General Fund Revenue:**

Our General Fund revenue budget has been developed in line with the principles and financial planning assumptions that we set out in *Our Medium-Term Financial Plan*, presented in December 2024. We have refined our budget proposals to take into account any changes planned by each directorate that are required to ensure continued provision and delivery of services in 2026/27.

The Settlement indicates the Scottish Government will provide total revenue funding of £127.7m in 2026/27. Funding includes £27.4m provided for the operational costs of inter-island ferry services.

Our budget proposal reflects a 7.3% increase in 2026/27 Council Tax. This represents a £1.95 per week increase for Band D. We expect to raise £13.5m in Council Tax (net of any discounts or exemptions) during the year. The Council Tax rates in Shetland at £1,487.90 is likely to remain one of the lowest across Scotland (2025/26 Scottish Band D average: £1,543).

We plan to supplement the income we receive from the Scottish Government, Council Tax and fees and charges by using £45.7m from our reserves to meet our total planned revenue expenditure in 2026/27. This amount includes:

- £15.4m of anticipated returns from our long-term investments, which we can afford to draw down on a sustainable basis in line with *Our Medium-Term Financial Plan*, and
- £4.2m of trading income generated from the Harbour Account/Other, including additional income from the Shetland Gas Plant.

We expect to spend £189.4m delivering services funded through the General Fund in 2026/27. Our expected income to amount to £143.7m. This leaves a remaining deficit of £45.7m that cannot be met from other sources of funding, and will need to be met from reserves in order to set a balanced General Fund budget.

General Fund net revenue expenditure of £189.4m in 2026/27 is greater than that approved for 2025/26, which was £178.4m.

The utilisation of £26m from the reserves compares negatively to the previous year (£21m), despite higher than anticipated funding from the Scottish Government in 2026/27. We continue to face increasing costs and continue to place reliance on the reserves to finance our annual revenue budgets. The use of £26m of reserves, over and above the amounts envisaged in *Our Medium-Term Financial Plan*, mean that we are not yet able to demonstrate the Council is in a financially sustainable position.

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

#### **Housing Revenue Account:**

The Housing Revenue Account (HRA) budget has been developed in line with the 5 Year HRA business plan, a proposed increase in housing rent charges of 7.5%. The HRA budget requires support of £6.5m with the majority £4.6m from borrowing with the remainder met from the HRA reserve and the Second Homes Council Tax reserve to meet total planned revenue and capital expenditure. This is broadly in line with the revised borrowing and level of reserves usage in the 30 year plan.

This level of expenditure required to maintain the housing stock can no longer be supported from the HRA reserve alone. The review of the 30 year model, determined that there would need to be a combination of rent increases and borrowing to afford the expenditure plans and retain the HRA reserve at £10m.

### **Harbour Account:**

The Harbour Account budget has been developed with regard to recent levels of harbour activity and is anticipating to generate a surplus of £3m in 2026/27 from Harbour Activity and £1.2m from the Shetland Gas Plant. This is in line with the expected income to be received in 2025/26.

### **Asset Investment Plan:**

Our planned capital investment for the year for General Fund, Harbour Account and Housing Revenue Account amounts to £44m and is a combination of maintenance of existing assets of £16m. Some £33m capital expenditure relates to new development capital projects (the Fair Isle ferry project is £12.8m of this alongside Cullivoe Road £8.5m) with an anticipated slippage offset of £5.3m. The Settlement provides a core capital grant of £5.8m, which means the remainder of our planned capital expenditure needs to be financed by a combination of capital receipts, external grants, with the majority from borrowing (£24m). The use of reserves in 2026/27 to balance the Plan is £5.1m.

### **Summary:**

We have developed our overall budget for 2026/27 taking consideration of inflationary and service pressures. We have taken a pragmatic approach to setting budgets, by planning for realistic levels of activity, under the expectation that costs may well continue at this level going forward in most cases. The budgets outlined in this Budget Book are balanced and affordable but cannot be considered sustainable in the longer-term.

## 2. Revenue Budgets for 2026/27

### 2.1 General Fund - Revenue Budget

The majority of Council services are funded through the General Fund. The 2026/27 General Fund budget is summarised in the table below:

Line No.	Description	2026/27 Gross Budget £000	2026/27 ISA/ Recharges* £000	2026/27 Net Budget £000
1	Chief Executive & Cost of Democracy	4,547	(90)	4,457
2	Children's Services	69,641	(17)	69,624
3	Community Health & Social Care Services	40,165	5,050	45,215
4	Corporate Services	13,004	(3,032)	9,972
5	Development Svs	19,208	0	19,208
6	Infrastructure Svs	44,610	(1,911)	42,699
<b>7</b>	<b>GENERAL FUND SERVICES NET EXPENDITURE (equals lines 1-6)</b>	<b>191,175</b>	<b>0</b>	<b>191,175</b>
8	Allocation to the Integration Joint Board (IJB)	43,938		43,938
9	Allocation to the Integration Joint Board (Audit Fee)	19		19
10	Contribution from the Integration Joint Board (IJB)	(45,215)		(45,215)
<b>11</b>	<b>NET CONTRIBUTION FROM THE IJB (equals lines 8 - 10)</b>	<b>(1,258)</b>	<b>0</b>	<b>(1,258)</b>
12	Valuation Joint Board	592		592
13	Contingencies & Cost Pressures	2,148		2,148
14	Fund Manager Fees	1,468		1,468
15	Capital Financing Costs	3,555		3,555
16	Crown Estate Income	(2,417)		(2,417)
17	Economic Development Investment Income	(810)		(810)
18	Interest on Revenue Balances Income	(411)		(411)
19	Support Recharges (to Harbour Account , HRA and Capital)	(4,635)		(4,635)
<b>20</b>	<b>TOTAL NET GENERAL FUND EXPENDITURE (equals line 7 plus lines 11-19)</b>	<b>189,407</b>	<b>0</b>	<b>189,407</b>
	<b>Funded by -</b>			
21	General Revenue Grant/National Non-Domestic Rates Income	(127,238)		(127,238)
22	Specific Ring-Fenced Revenue Grants	(2,938)		(2,938)
23	Council Tax	(13,537)		(13,537)
<b>24</b>	<b>TOTAL CORE FUNDING (equals lines 21-23)</b>	<b>(143,713)</b>	<b>0</b>	<b>(143,713)</b>
	<b>Deficit to be funded from Reserves</b>			
25	Reserves - Sustainable Investment Returns	(15,444)		(15,444)
26	Reserves - Other (including Trading Income)	(4,158)		(4,158)
27	Reserves - Unsustainable	(26,092)		(26,092)
<b>28</b>	<b>TOTAL FUNDING FROM RESERVES (equals lines 25-27)</b>	<b>(45,694)</b>	<b>0</b>	<b>(45,694)</b>
<b>29</b>	<b>TOTAL FUNDING (equals line 24 plus line 28)</b>	<b>(189,407)</b>	<b>0</b>	<b>(189,407)</b>
<b>30</b>	<b>BALANCED BUDGET (line 20 plus line 29)</b>	<b>0</b>	<b>0</b>	<b>0</b>

\*ISA – corporate recharges and internal service allocation

## General Fund Expenditure:

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

Committee	Date	Report Ref.	Report Title
<b>Education &amp; Families</b>	16 February 2026	F-7-26-F	2026-27 Budget and Charging Proposals – Education & Families
<b>Environment &amp; Transport</b>	17 February 2026	F-3-26-F	2026-27 Budget and Charging Proposals – Environment & Transport
<b>Development</b>	18 February 2026	F-9-26-F	2026-27 Budget and Charging Proposals – Development
<b>Policy &amp; Resources</b>	19 February 2025	F-8-26-F	2026-27 Budget and Charging Proposals – P&R (CH&SC)
		F-11-267-F	2026-27 Budget and Charging Proposals – P&R

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

		Functional Committee				Total
		Develop ment	Education & Families	Environment & Transport	Policy & Resources	
<b>Directorate</b>	Executive & Corporate Services				17,551	<b>17,551</b>
	Children’s Services		69,641			<b>69,641</b>
	Community Health & Social Care				40,165	<b>40,165</b>
	Integration Joint Board				(1,258)	<b>(1,258)</b>
	Development Services	8,579	441	10,188		<b>19,208</b>
	Infrastructure Services			44,610		<b>44,610</b>
<b>Total</b>		<b>8,579</b>	<b>70,082</b>	<b>54,798</b>	<b>56,458</b>	<b>189,917</b>

## Central budgets, contingency & cost pressures activity:

We know that budget-setting is not an exact science, and we need to allow for some flexibility to meet any unforeseen cost pressures that may arise during the year. To help us manage some of the risks we face, we have included within our General Fund revenue budget a prudent estimate of what may reasonably be required as a contingency during the year, to meet any unforeseen cost pressures. There are a number of other budgets held centrally as these items generally apply across the Council, so we hold this budget centrally e.g. valuation joint board, fund managers fees and financing costs. However income from Crown Estate, other investments and recharges to other funds creates an overall income budget. The Executive Manager – Finance has sole discretion to release these funds to offset any corresponding expenditure, should any cost pressure or funding requirement crystallise during the year. The net credit budget total of £0.510m can be broken down as follows:

Category	Description	Budgetary provision £000
Contingency – General	Contingency set aside to meet potential costs pressures that <i>may</i> , but are not guaranteed, to arise during 2026/27 this contains a provision for £2m for vacant posts and potential SCNT pay award not met by Scottish Government funding.	2,148
Valuation Joint Board	To meet the Council’s share of the Valuation Joint Board.	592
Fund Managers Fees	To meet the cost of fund managers for our investments	1,468
Capital Financing Costs	Funding required to service debt	3,555
Income (Crown Estate/Investments/recharges to other funds)	Net income from Crown Estate, Economic Investments, bank interest, recharges to other funds.	(8,273)
<b>Total Centrally held budgets and contingency:</b>		<b>(510)</b>

## General Fund Financing:

### i. Scottish Government funding

The Scottish Government is providing core revenue funding of £127.7m. This funding is the combination of the General Revenue Grant (£94.6m) and our share of income from the National Non-Domestic Rates pool (£32.6m), specific ring-fenced funding (£0.5m) and is £4.9m more than the core revenue funding received as part of last year’s settlement (2025/26: £122.8m).

### ii. Trading income and use of reserves

We will supplement the funding we receive from the Scottish Government with trading income generated by the Harbour Account and by cashing in some of the investment returns generated from our long-term investments. Withdrawing too much from our long-term investments in any one year will reduce the underlying investment base and reduce future investment returns. Positive investment growth of 5.2% every year is not guaranteed and will fluctuate from month to month, and from year to year. We therefore need to limit how much we withdraw so that we protect and maintain the buying power of our underlying investments, so they continue to generate returns for years and decades to come. In line with *Our Medium-Term Financial Plan*, we can afford to withdraw £15.4m from our long-term investments without adversely affecting future investment performance, and we will use this to supplement the General Fund revenue budget.

The General Fund revenue budget requires *more* than £15.4m in order to achieve financial balance in 2026/27. A further withdrawal of £26.1m to meet the funding gap we have been unable to resolve is affordable in the short term given the relative health of the investments, but it is not sustainable and deviates from *Our Medium-Term Financial Plan*.

### iii. Council Tax

A community survey was carried out in December 2025 to January 2026 with 330 responses received. Full details are set out in Appendix 5. Overall the consultation highlighted:

- A strong desire to protect essential services;
- Recognition (though not universal) that some level of increase may be needed to achieve this;
- Clear polarisation in views on the preferred long-term approach; and
- A need for better communication about how Council Tax is used.

In proposing the Council Tax of 7.3%, this will go towards creating a balanced budget which has protection of essential services as a core feature.

Indications from other local authorities on the size of their percentage increase ranges from 5-10%, reflecting cost pressures particularly in Health and Social Care.

The Council Tax rate for 2026/27 is based on a proposal to increase by 7.3% and the income generated from this percentage increase has been included in the General Fund budget to assist in balancing the budget as set out in section 2.1, the Council Tax for a 7.3% increase are as follows:

Band	Band Value	Multiplier	No. Properties in Band	Annual Increase	Weekly Increase	2026/27 Council Tax
A	£0 – £27,000	240/360	2,976	£67.48	£1.30	£991.93
B	£27,000 - £35,000	280/360	1,884	£78.73	£1.51	£1,157.25
C	£35,000 - £45,000	320/360	2,930	£89.98	£1.73	£1,322.58
<b>D</b>	<b>£45,000 - £58,000</b>	<b>360/360</b>	<b>1,948</b>	<b>£101.23</b>	<b>£1.95</b>	<b>£1,487.90</b>
E	£58,000 - £80,000	473/360	1,557	£133.00	£2.56	£1,954.93
F	£80,000 - £106,000	585/360	331	£164.49	£3.16	£2,417.83
G	£106,000 - £212,000	705/360	77	£198.24	£3.81	£2,913.80
H	£212,000 +	882/360	2	£248.01	£4.77	£3,645.35

#### Evaluation of Impact on Current Council Tax Payers

Fully Affected	Number of Properties	Partially Affected	Number of Properties	Not Affected	Number of Properties	TOTAL
Full Charge	6,325	Empty Discount	98	Exempt	380	
2 <sup>nd</sup> Home	195	Single Person	3,186	Benefits	1,020	
Long Term Empty	412	Disregards	89			
<b>TOTAL</b>	<b>6,932</b>		<b>3,373</b>		<b>1,400</b>	<b>11,705</b>

New legislation is currently lying with parliament which is expected to be in force from 1st April 2026. This gives powers to members to further increase 2nd Homes and Empty Homes charges. It will, in addition, set assumed minimum levels of charges, unless member decisions have established an alternative. A further paper may come to members if this is felt necessary, but for the purposes of budget setting no impact has been assumed, compared to what is already in place.

#### iv. Non-domestic Rates

On 27/03/2024 Members approved a Non-Domestic Rates Empty Property Relief Policy [Non-Domestic Rates Empty Property Relief Policy](#). This scheme is working well and continues to operate within existing funding. In 2024 we indicated the intent to operate a scheme for 2 years, to 31/03/2026. Given the general sense that this is performing well, we intend to extend the operation of the policy, leaving this ongoing on an open-ended basis, unless the funding position alters or other factors cause the existing scheme to need to be reconsidered.

## 2.2 The Harbour Account - Revenue and Capital Budget

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

Line No.	Description	2026/27 Budget £000
1	Sullom Voe	15,731
2	Scalloway	1258
3	Cullivoe	113
4	Other Piers	945
5	Jetties & Spur Booms	5,596
<b>6</b>	<b>TOTAL REVENUE EXPENDITURE (equals lines 1-5)</b>	<b>23,643</b>
7	Harbour Fees & Charges	(22,375)
8	Jetties & Spur Booms	(5,596)
<b>9</b>	<b>TOTAL REVENUE INCOME (equals lines 7-8)</b>	<b>(27,971)</b>
<b>10</b>	<b>HARBOUR ACTIVITY NET REVENUE SURPLUS (equals lines 6 plus 9)</b>	<b>(4,328)</b>
<b>11</b>	<b>TOTAL CAPITAL EXPENDITURE</b>	<b>1,371</b>
12	Capital Receipts	0
<b>13</b>	<b>NET CAPITAL DRAW ON RESERVES (equals lines 11 plus 12)</b>	<b>1,371</b>
<b>14</b>	<b>HARBOUR ACTIVITY REVENUE &amp; CAPITAL NET SURPLUS (line 10 plus line 13)</b>	<b>(2,957)</b>
15	Shetland Gas Plant	(1,200)
<b>16</b>	<b>TOTAL SURPLUS (equals line 14 plus line 15)</b>	<b>(4,157)</b>
17	Contribution to the Reserve Fund	4,157
<b>18</b>	<b>BALANCED HARBOUR ACCOUNT (line 16 plus line 17)</b>	<b>0</b>

The primary driver of activity in the Harbour Account is from the Sullom Voe Terminal, which requires harbour services on a 24 hours a day, seven days a week basis, to facilitate tanker movements. Considerable expenditure is required to maintain such a service amidst a gradual decline in harbour traffic.

For 2026/27, we are planning to increase charges by 5.3% on average across all ports and harbours to help offset the increasing cost of providing services. We anticipate that ports and harbour activity will generate a surplus of £3m in 2026/27, with a further £1.2m rental income from the Shetland Gas Plant. The net income on the Harbour Account has reduced at a faster rate than anticipated, with costs continuing to rise and tanker numbers falling.

The detailed budget proposal for 2026/27 has been presented to the Harbour Board and can be found in the following report:

Committee	Date	Report Ref.	Report Title
Harbour Board	17 February 2026	F-4-26-F	<a href="#">2026-27 Budget and Charging Proposals – Harbour Board</a>

\* link to be updated

## 2.3 The Housing Revenue Account - Revenue and Capital Budget

As a social landlord, we are legally required to account for any income and expenditure that relates to the provision of housing separately from the General Fund. We maintain the Housing Revenue Account (HRA) to record all the income and expenditure that relates to our activities as a landlord, such as collecting housing rent, paying for maintenance and building or acquiring new housing stock. The proposed revenue and capital budget for 2026/27 is summarised below:

Line No.	Description	2026/27 Budget £000
1	Supervision & Management	1,129
2	Repairs & Maintenance	5,595
3	Void Rents & Charges	335
4	Garages	33
5	Capital Charges - Dwellings	1,410
6	Irrecoverable Debts	137
<b>7</b>	<b>TOTAL REVENUE EXPENDITURE (equals lines 1-6)</b>	<b>8,639</b>
8	Rents - Dwellings	(8,966)
9	Rents - Other i.e. garages/sites etc	(305)
10	Interest on Revenue Balances	(19)
<b>11</b>	<b>TOTAL REVENUE INCOME (equals lines 8-10)</b>	<b>(9,290)</b>
<b>12</b>	<b>NET REVENUE CONTRIBUTION to HRA RESERVE (line 7 plus line 11)</b>	<b>(651)</b>
<b>13</b>	<b>TOTAL CAPITAL EXPENDITURE</b>	<b>6,696</b>
14	Grant Income	(225)
<b>15</b>	<b>NET DRAW from HRA RESERVE/BORROWING (lines 13-14)</b>	<b>6,471</b>
16	External Borrowing	(4,576)
17	Funding from 2nd Homes Council Tax	(78)
18	Contribution from Housing Revenue Account Reserve	(1,166)
<b>19</b>	<b>BALANCED HOUSING REVENUE ACCOUNT BUDGET (lines 12 plus lines 15-18)</b>	<b>0</b>

The HRA budget has been developed in line with the revised 5-Year HRA business plan. It is expected that the HRA achieve a net revenue surplus of £0.7m. This is based on an average rent increase of 7.5%. Details of the consultation with tenants is set out in the budget report to Development Committee.

The surplus on revenue will partially offset total net planned capital expenditure of £6.7m, with the remainder being met from a combination of borrowing £4.6m and a further £0.7m from reserves. In order that this level of use of reserves is affordable and sustainable, a significant proportion of costs has to be met from borrowing. A review of the 30-Year HRA model was undertaken to determine what level of expenditure could be sustainably funded over the longer term. To allow the level of funding proposed, a combination of rent increases and borrowing was required. The model also retained the HRA reserve at £10m to continue to support future expenditure and minimise rent rises in the longer term.

The aim of the HRA is to maintain financial balance between the income received and expenditure defrayed. There are special rules regarding what can and cannot be accounted for within the HRA, and it cannot be subsidised by the General Fund. Accordingly, we maintain a HRA reserve which can be called upon to meet any budgetary deficits that may be anticipated. In 2026/27, the HRA will require £1.2m from the HRA reserve and £0.1m from the Second Homes Council Tax Reserve to achieve financial balance.

The detailed budget proposal for 2026/27 has been presented to the Development Committee and can be found in the following report:

Committee	Date	Report Ref.	Report Title
Development	18 February 2026	F-10-26-F	2026-27 Budget and Charging Proposals – Dev (HRA)

## 2.4 Other Revenue Budgets

### Orkney & Shetland Valuation Joint Board

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

The O&SVJB sets its own budget to allocate resources to support day-to-day operations and deliver its strategic priorities. From the Budget Book report, we have estimated our contribution to the O&SVJB to be £0.592m for 2026/27 an increase of £73k from 2025/26.

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

Committee	Date	Report Ref.	Report Title
O&S Valuation Joint Board	10-3-26	TBC	Draft budget 2026/27*

*\*Hyperlink to the report will be updated once available*

### Shetland Health and Social Care Partnership

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

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

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

Committee	Date	Report Ref.	Report Title
Integration Joint Board	18-3-26	TBC	2026/27 Budget*

*\*Hyperlinks to reports will be updated once agenda packs have been published*

## Zetland Transport Partnership

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

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

<b>Committee</b>	<b>Date</b>	<b>Report Ref.</b>	<b>Report Title</b>
<b>ZetTrans</b>	26 February 2026	ZTP-?-26-F	2026-27 Budget and Charging Proposals – ZetTrans

### 3. Capital Budgets for 2026/27

#### Asset Investment Plan

We summarise our capital investment plans for the next five years in our Asset Investment Plan (AIP). Our AIP sets out what we plan to invest in the year ahead and subsequent years for each of the General Fund, Harbour Account and Housing Revenue Account so that interested parties can understand the scale and scope of our capital investment plans in different parts of the Council. Our proposed capital budget for 2026/27 is set out below:

Line No.	Description	2026/27 Budget £000
1	New Developments	33,207
2	Maintenance of Existing Assets	16,111
3	In Year Slippage	(5,298)
<b>4</b>	<b>TOTAL EXPENDITURE (equals lines 1-3)</b>	<b>44,020</b>
5	Scottish Government General Capital Grant	(8,776)
6	Other Capital Grants	(833)
7	Capital Receipts	(450)
<b>8</b>	<b>TOTAL FUNDING (equals lines 5-7)</b>	<b>(10,059)</b>
<b>9</b>	<b>FUNDING SHORTFALL (equals line 4 plus line 8)</b>	<b>33,961</b>
10	Borrowing	(28,568)
11	Capital Funded from Current Revenue (General Fund, Harbour and HRA)	(2,018)
12	Draw on Reserves	(6,375)
<b>13</b>	<b>TOTAL FINANCING (equals lines 10-12)</b>	<b>(36,961)</b>
<b>14</b>	<b>TOTAL FUNDING AND FINANCING (equals line 8 plus line 13)</b>	<b>(47,020)</b>
15	General Capital Grant Unallocated - Inter Island Connectivity - project TBC	3,000
<b>16</b>	<b>BALANCED ASSET INVESTMENT PLAN (equals line 4 plus line 14 plus line 15)</b>	<b>0</b>

Our capital investment plans have been developed in line with our capital strategy and follow our capital expenditure and capital funding policies. These strategies and policies are set out in the Treasury Management Strategy Statement and Annual Investment Strategy, which is updated annually and will be presented to Council in March 2025.

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

The proposed capital budget for 2026/27 has been revised after taking into consideration the likely level of activity that we can reasonably expect to achieve, including an expectation of slippage of £5.3m. The proposed expenditure budget amounts to £44m. The programme will be financed by a combination of:

- Scottish Government general capital grant (£8.8m - £3m for islands connectivity not yet allocated);
- Scottish Government/Central Government & other specific capital grants (£0.8m);
- capital receipts (£0.4m);

- capital financed from current revenue (CFCR) (£2m);
- borrowing (£28.6m); and
- draw on Reserves (£6.4m).

Over the five-year period, we plan to spend £108.6m on the maintenance, acquisition and construction of assets. This will require funding from reserves of £20.4m, revenue funding of £5.4m and borrowing of £48.5m. The capital grant received from the Scottish Government is insufficient to meet our planned capital investment, so we will need to finance our AIP through other sources. Our five-year plan will require us to use capital grants, capital receipts, funding capital from revenue sources, borrowing and the use of our reserves. We will need to prioritise which projects are taken forward with regard to the Prudential Code, which requires local authorities to:

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

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

Further detail about how we plan to finance the AIP is included in Appendix 2 to this Budget Book. In addition to the AIP, there is a need to approve a procurement commitment budget of £2.6m for purchase of vehicles and plant in 2026/27 due to the long lead time to receive the vehicles. Expenditure will only be incurred in 2027/28 but a budget requires to be approved in 2026/27 to allow the Service to commit to the purchases.

Set out in Appendix 3 are potential projects which are awaiting Gateway approval and prioritisation for your information. For 2026/27, those that have already been costed amount to £16.8m and would require borrowing of £10.5m alongside external grants of £10.5m should these projects get approval to go ahead. The total over the 5 years amounts to £96m, which would require a borrowing of £60m along with £10m of external funding.

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