



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

1.0 Decisions / Action required:

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

2.0 High Level Summary:

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

3.0 Corporate Priorities and Joint Working:

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

4.0 Key Issues:

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

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

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

4.3.1 New Developments

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

- Scalloway Fishmarket replacement;

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

4.3.2 Potential Projects

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

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

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

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

with provisional borrowing costs in relation to the Toft Pier and new Multratug pending Gateway approval as stated above.

4.8 Appendix 1 to this report details the proposed capital expenditure budgets for the 5 Year Plan from 2018-23, along with the proposed funding sources.

5.0 Exempt and/or confidential information:

5.1 None

6.0 Implications :

6.1 Service Users, Patients and Communities: None arising directly from this report, the detailed implications will be addressed through the Council's Gateway Process using the 5 case business model.

6.2 Human Resources and Organisational Development: None arising directly from this report, the detailed implications will be addressed through the Council's Gateway Process using the 5 case business model and in adherence to the Council's approved Human Resources and Organisational Development policies and procedures.

6.3 Equality, Diversity and Human Rights: None arising directly from this report, the detailed implications will be addressed through the Council's Gateway Process using the 5 case business model.

6.4 Legal: Under Section 95 of the Local Government (Scotland) Act 1973, there is a requirement for each local authority to make arrangements for the proper administration of their financial affairs and that the chief financial officer/Section 95 officer has responsibility for the administration of those affairs.

6.5 Finance: Any decision to recommend changes to the budget proposals in this report could result in an increased or decreased draw on reserves, and may result in not meeting the affordable position set out in the Medium Term Financial Plan. This will require a formal amendment and be fully quantified in the Committee decision.

The proposed Asset Investment Plan 2018-23 is affordable over the five year period based on the assumptions made in relation to the availability of future funding and the profiling of projects. The Council is required to approve an annual update to the Plan based on the latest information available.

6.6 Assets and Property: This budget proposes a risk based approach for the maintenance of assets to minimise deterioration and potential failure.

6.7 ICT and new technologies: This budget includes provision for the annual maintenance and replacement of existing ICT equipment, as required.

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

Contact Details:

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

Appendices:

Appendix 1 - 5 Year Asset Investment Plan 2018-23