



Meeting(s):	Policy & Resources Committee Shetland Islands Council	13 February 2017 15 February 2017
Report Title:	5 Year Asset Investment Plan 2017-22	
Reference Number:	F-014-F	
Author / Job Title:	Jonathan Belford, Executive Manager - Finance	

1.0 Decisions / Action required:
<p>1.1 That the Policy and Resources Committee RECOMMENDS that the Council RESOLVES to:</p> <p>1.1.1 approve the capital budget proposals for 2017/18 included in this report, and set out in detail in Appendix 1; and</p> <p>1.1.2 adopt Appendix 1 as the Council's 5 Year Asset Investment Plan 2017-22, subject to any requirements of the Council's Gateway Process for the Management of Capital Projects.</p>
2.0 High Level Summary:
<p>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 2017-2022 in line with the Capital Investment Planning policy set out in the 2015-2020 Medium Term Financial Plan.</p> <p>2.2 The proposed capital budget for 2017/18 totals £15.5m, and the full 5 year total from 2017-22 is projected to be £75.8m.</p> <p>2.3 There is substantial provision for ferry and terminal replacements over the 5 years (£22.9m). 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 the work with Transport Scotland and the Scottish Government.</p> <p>2.4 The Plan identifies a relatively small sum (£2.2m) that is available, over the 5 year period that provides, in the first instance, protection against construction price inflation on the projects contained therein. Additionally Council officers continue to undertake work on business cases in a range of areas, to which no funding is allocated. Only after business cases have been developed in accordance with the Council's Gateway Process for the Management of Capital Projects and been given appropriate consideration and the necessary approvals will funding be considered. More information is provided in section 4 below.</p>

- 2.5 It is likely that everything the Council would seek to bring forward will not be affordable within the limitations of the £2.2m available over the life of the Plan therefore prioritisation of effort by officers and of projects themselves will be required.
- 2.6 The Plan has been prepared after taking account of the £267k of additional capital grant that the Council will receive in 2017/18, announced on 2 February 2017.
- 2.7 Where ports and harbour assets are concerned then borrowing would be the recommended means of financing any projects, which is repayable over the life of the assets.
- 2.8 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. As shown in the Long Term Financial Plan, agreed by the Council in December 2014 the Council has an extensive asset base which it is not financially sustainable to maintain, let alone grow. It is therefore vital that as part of the proposals for the future in terms of service redesign and transformation investment is applied in the most effective ways that fully consider the capital and revenue implications. Asset investment proposals are only progressed in light of appropriate business cases being prepared and reviewed through the approved Council's Gateway Process for the Management of Capital Projects.

4.0 Key Issues:

- 4.1 The capital budget proposals for the Council for the period 2017-2022 are summarised in the following table:

Description	2017-22 Budget £000
Maintenance of Existing Assets	31,071
New Developments	4,624
Housing Revenue Account Projects	14,415
Potential Projects	2,794
Fair Funding for Ferry Projects	22,900
Expenditure	75,804
Scottish Government General Capital Grant	(30,011)

External Grant Funding	(24,429)
Capital Receipts	(1,895)
Funded from Revenue	(18,568)
Draw from Reserves	(30)
External Borrowing	(3,111)
Funding	(78,043)
Net Surplus	(2,239)

- 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 2016/17 budgets due to project slippage, and they are therefore not addressed in this report.
- 4.3 The continuing focus of this Plan is on the maintenance and life extension of existing assets as recommended in the Capital Expenditure Policy, with the exception of new developments for 2017/18 being:
- the new Anderson High School Halls of Residence; and
 - the new Eric Gray Resource Centre.
- 4.4 As referred to in section 2 above there are a number of areas where work is progressing in relation to the necessary business cases required by the approved Council's Gateway Process for the Management of Capital Projects. Areas of the Council where business cases are yet to be fully developed and therefore costs are not known include:
- Knab site redevelopment;
 - business transformation;
 - recycling legislative requirements;
 - tug vessel replacement programme;
 - Toft pier; and
 - Children's Resources accommodation.
- 4.5 The funding for projects in these areas will only be allocated following approval through the Council's Gateway Process and until then these projects do not represent a commitment in the Plan..
- 4.6 Funding sources for projects in the General Fund 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 in relation to ports and harbour assets or General Fund assets 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 or General Fund and has to be affordable, sustainable and prudent.
- 4.7 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. 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.

<p>4.8</p> <p>4.9</p> <p>4.10</p>	<p>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 a third of the total expenditure in the Plan relates to either life extension or replacement works 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 cost identified in the Plan is approximately £1.2m 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.</p> <p>The General Fund revenue budget for 2017/18 has provision within it to pay for the level of borrowing that the Plan requires, and is mainly in connection with the current projects to build the Halls of Residence and the Eric Gray Resource Centre. Should the Scalloway Fishmarket rebuild proceed then the Harbour Account will also fund borrowing costs in 2017/18.</p> <p>Appendix 1 to this report details the proposed capital expenditure budgets for the 5 Year Plan from 2017-22.</p>
<p>5.0 Exempt and/or confidential information:</p>	
<p>5.1</p>	<p>None</p>
<p>6.0 Implications :</p>	
<p>6.1 Service Users, Patients and Communities:</p>	<p>None arising directly from this report, the detailed implications will be addressed through the Council's Gateway Process using the 5 case business model.</p>
<p>6.2 Human Resources and Organisational Development:</p>	<p>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.</p>
<p>6.3 Equality, Diversity and Human Rights:</p>	<p>None arising directly from this report, the detailed implications will be addressed through the Council's Gateway Process using the 5 case business model.</p>
<p>6.4 Legal:</p>	<p>Under Section 95 of the Local Government (Scotland) Act 1973, there is a requirement for each local authority to make arrangements for the proper administration of their financial affairs and that the chief financial officer/Section 95 officer has responsibility for the administration of those affairs.</p>
<p>6.5 Finance:</p>	<p>Any decision to recommend changes to the budget proposals in this report will 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.</p>

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>	
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:

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Appendices:

Appendix 1 - 5 Year Asset Investment Plan 2017-2022