



2024/25 Budget Book

Our revenue and capital budgets for 2024/25

Contents

1. Introduction

- 1.1 Our current financial position
- 1.2 Changes compared to *Our Medium-Term Financial Plan*
- 1.3 Summary of 2024/25 budget

2. The 2024/25 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 2024/25 Capital Budget

- 3.1 The Asset Investment Plan

1. Introduction

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

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

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

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

The budgets contained in this Budget Book essentially provide the operational plans of each Council service, for the year ahead from 1 April 2024. Approval of these budgets gives the authority for resources to be allocated to each department so that we can continue to deliver a wide range of public services across Shetland, in line with our statutory obligations as well as the priorities outlined in *Our Ambition*.

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

- the planned activity to be undertaken by each service,
- the proposed headcount, expressed in Full Time Equivalent (FTE) hours and the proposed budget for 2024/25
- a comparison of the headcount and budget approved in the prior financial year, 2023/24 ,
- how each activity links to *Our Ambition*.

This Budget Book represents the product of an iterative process that began in October 2023 and has been subject to refinement as further information has been made available, including information contained in the Local Government Finance Settlement for 2024/25 (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 2024/25.

1.1 Our current financial position

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

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

By 31 December 2023, we had spent almost £110.5m delivering services, which is 65% of the full year's budget. As we approach the end of the financial year, we are still expecting to spend all of the approved net revenue budget of £165.6m in 2023/24.

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

We published an updated Medium-Term Financial Plan in September 2022 that covered the next five year period, to 2027/28. The financial planning assumptions used in *Our Medium-Term Financial Plan* help us determine what our likely level of income and expenditure might be in the medium-term, in a range of scenarios. We use assumptions to inform our planning because of the uncertainty around the economy, UK and Scottish public finances and likely direction of some national policies, such as pay. Our central planning scenario indicated an expected General Fund budgetary deficit of £20.8m in 2024/25.

The Local Government Finance Settlement (the Settlement) was issued on 29 February 2024, which we used to inform the financial planning assumptions in the updated *Our Medium-Term Financial Plan*. The Settlement indicates core revenue funding from the Scottish Government will remain broadly flat in cash terms for 2024/25.

The Scottish Government public sector pay is negotiated centrally by the Scottish Joint Council (SJC), for non-teaching local government employees and the Scottish Negotiating Committee for Teachers (SNCT). We have not changed our assumptions on pay inflation for 2024/25, for either group of staff, however, there is a risk that our pay bill may increase by more than 3.0% included in the Contingency budget depending on the outcome of negotiations.

Our Medium-Term Financial 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 £12.8m of savings and increased income across most services in our General Fund budget proposals for 2024/25. These savings and income increases temper the £16.3m of growth in budget compared to 2023/24, much of which is recurring in nature. Additional resources are required as a result of inflationary impacts on services, increased demand for Council services but also to undertake work required to deliver *Our Ambition*.

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

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

We acknowledge that expenditure at this level is still unsustainable in the long-term because we need to utilise more from our reserves than both *Our Medium-Term Financial Plan* and Investment Strategy anticipates. We know we have further work to do to achieve long-term financial sustainability, but our 2024/25 budget has had to absorb abnormally high inflation, but we continue working towards this objective. This year's General Fund revenue budget requires an unsustainable draw of £23m from reserves compared to the £3.2m required in 2023/24. *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 2024/25 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 November 2023. We have refined our budget proposals to take into account any changes planned by each directorate that are required to ensure continued provision and delivery of services in 2024/25.

The Settlement indicates the Scottish Government will provide total revenue funding of £112.3m, inclusive of £23.6m of ring-fenced funding for specific purposes in 2024/25. Ring-fenced funding includes £23.1m provided for the operational costs of inter-island ferry services.

Our budget proposal reflects the approved Council Tax freeze funding equating to an increase of 5% in 2024/25. We expect to raise £11.2m in Council Tax (net of any discounts or exemptions) during

the year including the decision to increase Second Homes and Long Term Empty Property rate levels, this amounts to £0.5m more than last year. The Council Tax rates in Shetland at £1,260.61 remain the lowest across Scotland (2023/24 Scottish Band D average: £1,417).

We plan to supplement the income we receive from the Scottish Government, Council Tax and fees and charges, by using £46m from our reserves to meet our total planned revenue expenditure in 2024/25. 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
- £7.6m of trading income generated from the Harbour Account, including additional income from the Shetland Gas Plant.

We can therefore expect our total income to amount to £146m.

We expect to spend £168.8m delivering services funded through the General Fund in 2024/25. This leaves a remaining deficit of £22.8m 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 £168.8m in 2024/25 is greater than that approved for 2023/24, which was £156.7m, inclusive of expenditure funded by specific ring-fenced revenue grants.

The utilisation of £22.8m from the reserves compares negatively to previous years and shows that we continue to face increasing costs and continue to place reliance on the reserves to finance our annual revenue budgets. The use of £22.8m 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 further use of reserves does, however, mean we are able to set a balanced budget which is affordable in the short-term, as is our legal obligation, although it cannot be considered sustainable in the longer term.

Housing Revenue Account:

The Housing Revenue Account (HRA) budget has been developed in line with the associated business plan, underpinned by a 30-year financial model and an increase in housing rent charges of 5%, approved by the full Council on 22 February 2024. The HRA budget requires support of £6.7m from the HRA reserve and £0.4m for the Second Homes Council Tax Reserve to meet total planned revenue and capital expenditure, and is considered affordable.

Harbour Account:

The Harbour Account budget has been developed with regard to recent levels of harbour activity and is anticipating to generate a surplus of £9.4m in 2024/25 from Harbour Activity and £1.5m from the Shetland Gas Plant.

Asset Investment Plan:

Our planned capital investment for the year for General Fund, Harbour Account and Housing Revenue Account amounts to £26.6m and largely relates to the maintenance of existing assets (£17.4m). Some £13.8m capital expenditure relates to new capital projects with an anticipated slippage offset of £4.4m. The Settlement provides a core capital grant of £5m, which means the remainder of our planned capital expenditure needs to be financed by a combination of capital receipts, external grants, from revenue funding and from reserves.

Summary:

We have developed our overall budget for 2024/25 amidst the uncertainty of the ongoing financial volatility which has influenced most costs across the Council. We have taken a pragmatic approach to setting budgets, by planning for realistic levels of activity, under the expectation that costs may well continue at this level going forward in most cases. The budgets outlined in this Budget Book are balanced and affordable but cannot be considered sustainable in the longer-term.

2. Revenue Budgets for 2024/25

2.1 General Fund - Revenue Budget

The majority of Council services are funded through the General Fund. The 2024/25 General Fund budget is summarised in the table below:

Line No.	Description	2024/25 £000	2024/25 ISAs* £000	2024/25 £000
1	Chief Executive & Cost of Democracy	2,014	(4)	2,010
2	Children's Services	59,392	(18)	59,374
3	Community Health & Social Care Services	32,642	2,251	34,893
4	Corporate Services	12,825	(438)	12,387
5	Development Services	18,508	0	18,508
6	Infrastructure Services	41,525	(1,791)	39,734
7	GENERAL FUND SERVICES NET EXPENDITURE (equals lines 1-6)	166,906	0	166,906
8	Allocation to the Integration Joint Board (IJB)	33,612		33,612
9	Allocation to the Integration Joint Board (Audit Fee)	18		18
10	Contribution from the Integration Joint Board (IJB)	(34,893)		(34,893)
11	NET CONTRIBUTION FROM THE IJB (equals lines 8 - 10)	(1,263)	0	(1,263)
12	Valuation Joint Board	501		501
13	Contingencies & Cost Pressures	6,500		6,500
14	Capital Financing Costs	1,661		1,661
15	Crown Estate Income	(1,742)		(1,742)
16	Fund Managers Fees	1,560		1,560
17	Economic Development Investment Income	(1,000)		(1,000)
18	Interest on Revenue Balances Income	(421)		(421)
19	Support Recharges (to Harbour Account , HRA and Capital)	(3,929)		(3,929)
20	TOTAL NET GENERAL FUND EXPENDITURE (equals line 7 plus 11 plus lines 12-19)	168,773	0	168,773
	Funded by:			
21	General Revenue Grant/National Non-Domestic Rates Income	(90,398)		(90,398)
22	Specific Ring-fenced Revenue Grants (net of CFCR)	(21,294)		(21,294)
23	Council Tax	(11,184)		(11,184)
24	TOTAL CORE FUNDING (equals lines 21-23)	(122,876)	0	(122,876)
	Deficit to be funded from Reserves:			
25	Reserves - Sustainable Investment Returns	(15,444)		(15,444)
26	Reserves - Other (including Trading Income)	(7,622)		(7,622)
27	Reserves – Unsustainable	(22,831)		(22,831)
28	TOTAL FUNDING FROM RESERVES (equals lines 25-27)	(45,897)	0	(45,897)
29	TOTAL FUNDING (equals line 24 plus line 28)	(168,773)	0	(168,773)
30	BALANCED BUDGET (line 20 plus line 29)	0	0	0

*ISA – internal service allocation

General Fund Expenditure:

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

Committee	Date	Report Ref.	Report Title
Education & Families	4 March 2024	F-5-24-F	2024/25 Budget and Charging Proposals - Children and Families
Environment & Transport	11 March 2024	F-7-24-F	2024/25 Budget and Charging Proposals - Environment and Transport
Development	13 March 2024	F-8-24-F	2024/25 Budget and Charging Proposals - Development
Policy & Resources	20 March 2024	F-13-24-F	2024/25 Budget and Charging Proposal - Health and Social Care Integration Joint Board
		F-12-24-F	2024/25 Budget and Charging Proposals - Policy and Resources

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

		Functional Committee				Total
		Development	Education & Families	Environment & Transport	Policy & Resources	
Directorate	Executive & Corporate Services				14,839	14,839
	Children's Services		59,392			59,392
	Community Health & Social Care				32,642	32,642
	Integration Joint Board				(1,263)	(1,263)
	Development Services	8,978	418	9,112		18,508
	Infrastructure Services			41,525		41,525
Total		8,978	59,809	50,637	46,218	165,643

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 £6.5m within our General Fund revenue budget as a prudent estimate of what may reasonably be required as a contingency during the year, to meet any unforeseen cost pressures and the cost of the Community Health & Social Care IT system. 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, financing costs, income from Crown Estate, other investments and recharges to other funds. The Executive Manager – Finance has sole discretion to release these funds to offset any corresponding expenditure, should any cost pressure or funding requirement crystallise in the course of the year. The net total of £3.13m 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 2024/25 this contains a provision for 3% increase for pay award and provision for vacant posts.	6,500
Valuation Joint Board	To meet the Council’s share of the Valuation Joint Board.	501
Fund Managers Fees	To meet the cost of fund managers for our investments	1,560
Capital Financing Costs	Funding required to service debt	1,661
Income (Crown Estate/Investments/recharges to other funds)	Net income from Crown Estate, Economic Investments, bank interest, recharges to other funds.	(7,092)
Total Centrally held budgets and contingency:		3,130

General Fund Financing:

i. Scottish Government funding

The Scottish Government is providing core revenue funding of £90.4m, excluding specific ring-fenced funding. This funding is the combination of the General Revenue Grant and our share of income from the National Non-Domestic Rates pool and is £1.8m more than the core revenue funding received as part of last year’s settlement (2023/24: £86m + £2.6m = £88.6m). The Settlement for 2024/25 includes £23.7m of specific ring-fenced revenue funding compared to £26.2m in 2023/24 (funding for Early Learning & Childcare of £2.6m has now been incorporated into the General Revenue Grant).

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 £15.44m from our long-term investments without adversely affecting future investment performance, and we will use this to supplement the General Fund revenue budget.

The General Fund revenue budget requires *more* than £15.44m in order to achieve financial balance in 2024/25. A further withdrawal of £22.8m to meet the funding gap we have been unable to resolve is affordable in the short term given the relative health of the investments, but it is not sustainable and deviates from *Our Medium-Term Financial Plan*.

iii. Council Tax

We have a legal obligation to set and collect Council Tax. The Council approved the Council Tax rates on 22 February 2024, the Council Tax was frozen at the 2023/24 levels. Additional funding is being provided by the Scottish Government for an equivalent of 5% rise in Council Tax.

The Council Tax rates for 2024/25 remain at the 2023/24 level and are as follows:

Band	Band Value	Multiplier	No. Properties in Band	Annual Increase	2024/25 Council Tax
A	£0 - 27,000	240/360	3010	£36.19	£840.41
B	£27,000 - £35,000	280/360	1893	£42.22	£980.47
C	£35,000 - £45,000	320/360	2920	£48.25	£1,120.54
D	£45,000 - £58,000	360/360	1921	£54.28	£1,260.61
E	£58,000 - £80,000	473/360	1537	£71.32	£1,656.30
F	£80,000 - £106,000	585/360	320	£88.21	£2,048.49
G	£106,000 - £212,000	705/360	72	£106.30	£2,468.69
H	£212,000 +	882/360	2	£132.99	£3,088.49

The Council also approved an increase to Second Homes Council Tax from 110% to 200% of the charge and 35% increase for Long Term Empty Properties Council Tax (report F-18-24 22 February 2024).

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	2024/25 Budget £000
1	Sullom Voe	14,395
2	Scalloway	1,419
3	Other Piers	854
4	Jetties & Spur Booms	3,579
5	TOTAL REVENUE EXPENDITURE (equals lines 1-4)	20,247
6	Harbour Fees & Charges	(26,586)
7	Jetties & Spur Booms	(3,579)
8	TOTAL REVENUE INCOME (equals lines 6-7)	(30,165)
9	HARBOUR ACTIVITY NET REVENUE SURPLUS (equals lines 5-8)	(9,918)
10	TOTAL CAPITAL EXPENDITURE	570
11	Capital Receipts	(30)
12	TOTAL CAPITAL INCOME (equals line 11)	(30)
13	NET CAPITAL DRAW ON RESERVES (equals lines 10 plus 12)	540
14	HARBOUR ACTIVITY REVENUE & CAPITAL NET SURPLUS (line 9 plus line 13)	(9,378)
15	Shetland Gas Plant	(1,500)
16	TOTAL SURPLUS (equals line 14 plus line 15)	(10,878)
17	Contribution to the Reserve Fund	10,878
18	BALANCED HARBOUR ACCOUNT (line 16 plus line 17)	0

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

For 2024/25 we are planning to increase charges by 4.9% on average across all ports and harbours in order to help offset the increasing cost of providing services. We anticipate that ports and harbour activity will generate a surplus of £9.4m in 2024/25, with a further £1.5m income from the Shetland Gas Plant.

The detailed budget proposal for 2024/25 has been presented to the Harbour Board and can be found in the following report:

Committee	Date	Report Ref.	Report Title
Harbour Board	6 March 2024	F-6-24-F	2024/25 Budget and Charging Proposals - Harbour Board

2.3 The Housing Revenue Account - Revenue and Capital Budget

As a social landlord, we are legally required to account for any income and expenditure that relates to the provision of housing separately from the General Fund. We maintain the Housing Revenue Account (HRA) to record all the income and expenditure that relates to our activities as a landlord, such as collecting housing rent, paying for maintenance and building or acquiring new housing stock. The proposed revenue and capital budget for 2024/25 is summarised below:

Line No.	Description	2024/25 Budget £000
1	Supervision & Management	973
2	Repairs & Maintenance	4,000
3	Void Rents & Charges	245
4	Garages	32
5	Capital Charges - Dwellings	1,153
6	Irrecoverable Debt	77
7	TOTAL REVENUE EXPENDITURE (equals lines 1-6)	6,480
8	Rents - Dwellings	(7,790)
9	Rents - Other i.e. garages/sites etc.	(277)
10	Interest on Revenue Balances	(36)
11	TOTAL REVENUE INCOME (equals lines 8-10)	(8,103)
12	NET REVENUE CONTRIBUTION to HRA RESERVE (line 7 plus line 11)	(1,623)
13	TOTAL CAPITAL EXPENDITURE	9,689
14	Capital Receipts	(35)
15	Capital Grants	(969)
16	NET CAPITAL DRAW from HRA RESERVE (lines 13-16)	8,685
17	Contribution from 2nd Homes Council Tax (Reserve)	(388)
18	Contribution from Housing Revenue Account (Reserve)	(6,674)
19	BALANCED HOUSING REVENUE ACCOUNT BUDGET (lines 12 plus 16 plus 17 plus 18)	0

Housing rents and charges were approved by the Council on 22 February 2024, these increased by 5%. The HRA budget has been developed on this basis and with regard to the HRA 30 year financial model. We expect the HRA to achieve a net revenue surplus of £1.6m. This surplus will offset total net planned capital expenditure of £8.7, with the remainder £7.1m being met from reserves.

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 2024/25 the HRA will require £6.7m from the HRA reserve in order to achieve financial balance and £0.4m from the Second Homes Council Tax Reserve.

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

The detailed budget proposal for 2024/25 has been presented to the Development Committee and can be found in the following report:

Committee	Date	Report Ref.	Report Title
Development	13 March 2024	F-15-24-F	2024/25 Budget and Charging Proposals - Housing Revenue Account

2.4 Other Revenue Budgets

Orkney & Shetland Valuation Joint Board

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

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

From the draft budget report, we have estimated our contribution to the O&SVJB to be £0.501m for 2024/25 a decrease of £2k from 2023/24.

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	TBC	TBC	Draft Budget 2024/25

Shetland Health and Social Care Partnership

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

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

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

Committee	Date	Report Ref.	Report Title
Integration Joint Board	TBC	TBC	2024/25 Budget

Zetland Transport Partnership

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

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

Committee	Date	Report Ref.	Report Title
ZetTrans	28 March 2024	ZTP-10-24-F	2024/25 Proposed Revenue Budget - ZetTrans

3. Capital Budgets for 2024/25

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 2024/25 is set out below:

Line No.	Description	2024/25 Budget £000
1	New Developments	13,770
2	Maintenance of Existing Assets	17,403
3	In-Year Slippage	(4,397)
4	TOTAL EXPENDITURE (equals lines 1-3)	26,776
5	Scottish Government General Capital Grant	(4,992)
6	Other Capital Grants	(4,542)
7	Capital Receipts (General Fund ,HA and HRA)	(565)
8	TOTAL FUNDING (equals lines 5-7)	(10,009)
9	FUNDING SHORTFALL (equals line 4 plus line 8)	16,677
10	Capital Funded from Current Revenue	(11,289)
11	Draw on Reserves	(5,388)
12	TOTAL FINANCING (equals lines 10-11)	(16,677)
13	TOTAL FUNDING AND FINANCING (equals line 8 plus line 12)	(26,776)
14	BALANCED ASSET INVESTMENT PLAN (equals line 4 plus line 13)	0

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

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

The proposed capital budget for 2024/25 has been revised after taking into consideration the likely level of activity that we can reasonably expect to achieve given our track record in managing capital expenditure. The proposed budget amounts to £26.8m and will be financed by a combination of:

- Scottish Government general capital grant (£5.0m);
- Scottish Government/Central Government specific capital grant (£4.5m);
- capital receipts (£0.6m);
- capital financed from current revenue (CFCR) (£11.3m); and
- draw on Reserves (£5.4m).

Over the five year period, we plan to spend £87.8m on the maintenance, acquisition and construction of assets. This will require funding from reserves of £15.2m and revenue funding of £33.5m. 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 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 part of the 2025/26 budget for purchase of vehicles and plant in 2024/25 of £1.752m due to the long lead-in time to receive the vehicles. Expenditure will only be incurred in 2025/26 but a budget requires to be approved in 2024/25 to allow the Service to commit to the purchases. The following shows the split between the funds:

General Fund	£1,408,000
Ports & Harbours	£93,000
HRA	£250,500
Overall Total	£1,751,500

Set out in Appendix 3 are potential projects which are awaiting Gateway approval and prioritisation for your information. For 2024/25 those which have already been costed amount to £20.1m and would require a draw on reserves of £3.1m and funding capital through revenue sources of £2.1m should these projects get approval to go ahead. The total over the 5 years amounts to £124.7m which would require a total from reserves of £71.8m along with £21.3m from revenue sources to fund all projects.

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

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

Committee	Date	Report Ref.	Report Title
Policy & Resources	14 March 2024	F-14-24-F	Shetland Islands Council Budget Book 2024/25 (AIP - Appendix 2)
		F-15-24-F	Treasury Management Strategy Statement & Annual Investment Strategy for 2024/25