OUR MEDIUM-TERM FINANCIAL PLAN

2021-2027

Contents

1. Introduction

A Medium-Term Financial Plan (MTFP) is a key component of effective financial planning in any organisation. We continue to live in an uncertain world, living with unpredictable uncertainty caused by a global pandemic. Councils across the UK often operate on the basis of one-year financial settlements from central government. A lack of certainty on future funding is no excuse for not developing medium-term plans. Planning ahead will enable us to navigate the potentially choppy waters ahead more easily and ensure decisions are made with the knowledge of longer-term financial implications.

Our MTFP is a key document within a wider suite of plans and strategy documents that collectively seek to define our ambition, strategic priorities and operational plans over a common, five-year period.

This MTFP attempts to summarise, in one place, all the factors that may affect our Council's financial position over the next five years. It brings together a range of assumptions on future income and expenditure over a five-year period which allows us to identify where, and when, we can expect to face financial pressures. In a time when resources are scarce, and becoming scarcer, we will need to adapt to new ways of working and change the way we will deliver services.

Our MTFP provides the framework for our annual budget-setting cycle, and will help us focus our resources on the priorities we identify through the wider suite of planning documents:

- '*Our Ambition'*,
- our Workforce Strategy,
- our refreshed Change Programme, and
- our annual revenue and capital budgets.

For ease, we have summarised our key financial planning assumptions in section 3 of this document, with further detailed information contained in annexes A, B and C. In section 4, we have translated our assumptions and financial modelling into three different scenarios:

- An optimistic, upside scenario,
- A central, most likely scenario, *and*
- A pessimistic, downside scenario.

It is important to note that these scenarios are intended to illustrate the potential impact on our Council and the scale of the challenge we may face, based on the fiscal environment in which we operate. They should not be treated as a budget, but rather as the baseline against which we should be aiming to demonstrate positive change and progress towards becoming a financially sustainable Council.

The financial forecasts and scenarios that we set out here are primarily focused on the General Fund, which is how we fund day-to-day service delivery. In addition to services funded by the General Fund, we also operate several ports and harbours across Shetland and manage thousands of houses as Shetland's largest social landlord. We manage and account for these operations separately from the General Fund, as we are required to by the law, through our Harbour Account and Housing Revenue Account (HRA). Both accounts are supported by longer-term business plans and are self-financing. We have not included any specific scenario planning for either the Harbour Account or HRA in this MTFP.

We plan to publish the first Change Programme Delivery Plan in early 2022, following the adoption of the Change Programme Policy Framework in April 2021. This will help us develop a longer-term model of likely capital spending, linked to our corporate priorities articulated in *Our Ambition* and the recently announced Islands Growth Deal. Many of these priorities have capital and longer-term revenue implications. We set our capital spending plans in the AIP, on a rolling five-year basis, each year alongside our revenue budgets. We will continue to do that, but we intend to create better links between our MTFP, Change Programme and the AIP in future iterations, so that we can clearly show the longer-term financial implications of the strategic capital investments.

The process of updating the Medium-Term Financial Plan is as important as the document itself. As a living document, we expect our assumptions will need to change over time to reflect the latest information and as more clarity becomes available. To that end, we will update our MTFP each autumn, in advance of our annual budgeting cycle. This will help ensure we are always looking ahead with due regard for longer-term financial implications in our decision-making and budgeting processes.

There is no way to disguise the fact that the figures presented in this document are stark. And that will come as no surprise to those familiar with our finances. We are not the only Council to face significant financial challenges, but unlike others, we have been able to tolerate year-on-year funding reductions and growth in our cost base by using our reserves in an unsustainable way.

This MTFP sets out the scale of the challenge that lies ahead. In the plainest possible terms, we still have a huge challenge on our hands if we are to become financially sustainable while focused on delivering all of the priorities identified in *Our Ambition*.

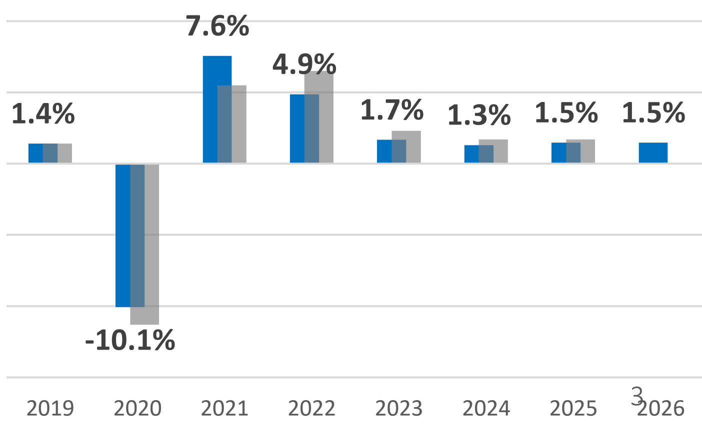
2. Economic and Fiscal Outlook

It is important to understand the wider economic and fiscal environment when developing financial planning assumptions that underpin our own Medium-Term Financial Plan. The performance of the UK economy has a very significant effect on UK public finances in the short and medium-term, which will ultimately affect the core funding we receive from the Scottish Government. To provide this economic and fiscal context, we have used a range of independent economic forecasts to inform the assumptions and financial modelling that underpins each of the three scenarios we set out in this MTFP. Many of the independent forecasts, which are also used to inform both the UK and Scottish Government budgets, were finalised just before the emergence of the Omicron variant of COVID-19. Forecasts have not been adjusted due to timing and lack of data. A summary of the data and publications used is included in Annex E.

The COVID-19 pandemic has continued to cause considerable uncertainty for society, the economy and for public sector budgets during 2021. A successful vaccination programme has weakened the links between case numbers, hospitalisations, severe illness and deaths. This enabled the gradual easing of restrictions across the UK, opening up the economy to a wider extent than in 2020. Economic recovery has been quicker and smoother than economists anticipated last year, despite certain restrictions remaining in place for the majority of the year. The emergence of the Omicron variant in late 2021 demonstrates that the virus continues to evolve, as does the public health response. Public health experts expect COVID-19 to become endemic in the longer term and will be managed largely through guidance and voluntary measures.

Severe social and economic restrictions imposed by government resulted in the contraction of the economy in 2020. In the last year, the economy has demonstrated a greater degree of resilience than anticipated, with GDP falling by 10.1% compared to a forecast reduction of 11.3%. The effective vaccination and booster programme coupled with the adaptability of consumers and businesses to varying public health restrictions through the year has resulted in a stronger than expected economic recovery.

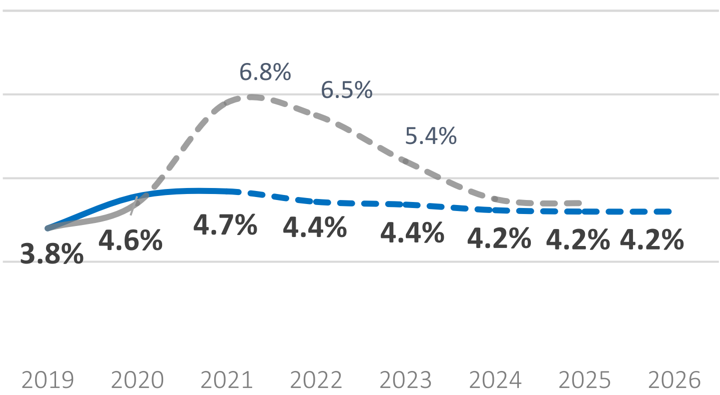
Forecast Change in GDP (% change)



The OBR expects the UK economy to grow by 6.5% in 2021, while the Scottish Fiscal Commission expect the Scottish economy to grow by 10.4%, reflecting a slight lag in the time taken for Scotland to recover from the initial economic shock experienced at the outset of the pandemic.

The labour market has also demonstrated a higher degree of resilience than anticipated during 2021. There was less demand for the furlough schemes than anticipated, with 3.2m workers exiting the Coronavirus Job Retention Scheme during the year before its closure in September 2021. The closure of the two key furlough schemes (the Coronavirus Job Retention Scheme and the Self-Employed Income Support Scheme) in September 2021 has not, so far, resulted in a spike of unemployment as had been predicted. This suggests the labour market has been able to accommodate those exiting the furlough schemes. Demand for labour also remains buoyant, with 1.2m vacancies recorded between September and November 2021.

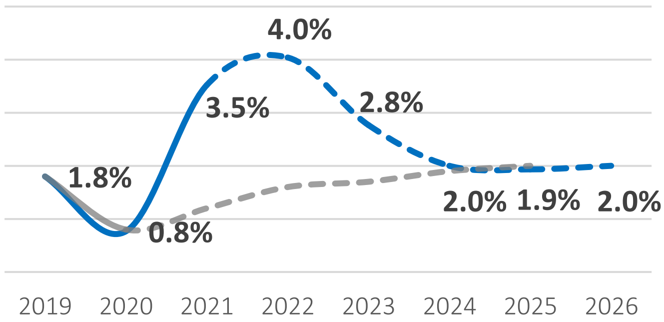
Forecast Unemployment Rate (% as at Q4)



The OBR still expects unemployment to peak at almost 5.0% in 2021, but has revised its future forecast downwards since its November 2020 forecast which predicted an unemployment rate of 6.8% in 2021 and 6.5% in 2022.

Although the economic rebound in 2021 has surpassed expectations, supply constraints present a risk to economic growth in the years to come. Supply chain bottlenecks have been exacerbated by changes in the trading and migration regimes following the UK's withdrawal from the European Union. Energy prices are soaring, supply chains have been disrupted and labour shortages in certain sectors are expected to contribute to increased inflation and lower growth expectations in the short- and medium-term. Accordingly, forecast growth in GDP has been revised downward from 2022 onwards.

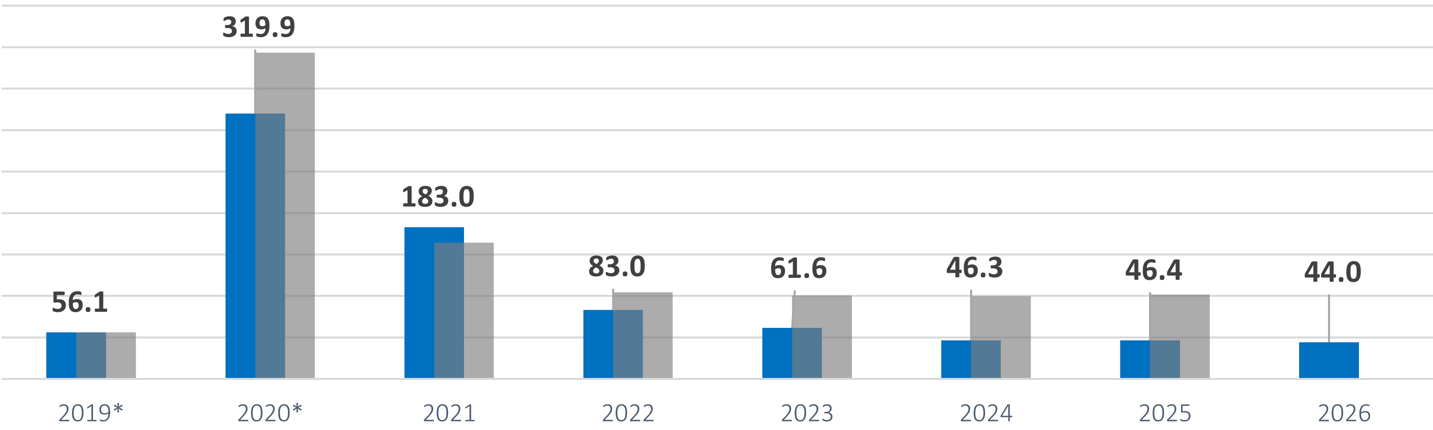
Forecast CPI Inflation (%)



The Consumer Prices Index (CPI) measure of inflation is expected to peak at circa 5.0% during 2022, although annual CPI averages 4.0% through the year. CPI is expected to fall back to the target 2.0% by the second half of 2024, as global demand, supply chain issues and energy prices fall back. In the meantime, high levels of inflation will increase costs for businesses, consumers and households.

The resilience demonstrated by the labour market and wider economy has had a positive impact on the public finances, in the form of increased tax receipts and reduced public spending. A stronger fiscal performance has allowed public sector net borrowing to fall by more than 40%, from a record high of £319.9bn in 2020/21 to £183.0bn in 2021/22. In addition, the UK Government is planning to increase taxes, primarily by introducing a health and social care levy of 1.25% on employees, employers and the self-employed from April 2022. A more positive economic outlook, coupled with the prospect of additional tax receipts in the future allows the UK Government to reduce public sector net borrowing considerably to £44bn by 2026/27, while increasing public spending on health and social care.

Forecast UK Public Sector Net Borrowing (£billions)



**actual outturn*

The UK Government published its Autumn Budget and Spending Review on 27 October 2021, outlining its spending plans and departmental budgets up to 2024/25. Public spending is set to increase over the three-year spending review period compared to pre-pandemic levels, although spending in 2022/23 falls sharply compared to 2020/21 and 2021/22 as pandemic-related financial support comes to an end. The planned increase in public spending results will translate into increases in the Block Grant provided by the UK Government.

The Scottish Government published its own Budget on 9 December 2021, outlining its spending plans for the forthcoming financial year, including the provisional financial settlement for local government for 2022/23. Overall, the Scottish Budget for 2022/23 is 2.6% lower than in 2021/22. This is because there are no specific COVID-19 funding lines as a consequence of pandemic-related financial support coming to an end in the UK Budget, along with a reduction in capital funding.

In the medium-term, the Scottish Budget is expected to increase by 10.0% in cash terms by 2026/27, as UK Government resource funding (otherwise known as revenue funding) increases. On a real-terms basis (i.e. adjusted for forecast inflation) the increase in the Scottish Budget equates to circa 1% over the five year period, with funding remaining broadly flat for 3 years before increasing in 2025/26 and 2026/27.

Further negative tax reconciliations are expected in the coming years as growth in the Scottish tax base lags behind the rest of the UK, for which an adjustment is made to the Block Grant.

Capital funding is expected to fall by 2026/27 by 7.4% in cash terms and by circa 15.0% in real terms, primarily because of the reduction in UK Government funding. The Scottish Government is approaching its borrowing limit and is planning to reduce capital funding over the next five years in order to reduce borrowing while ensuring a capital contingency remains available by 2026/27.

In terms of COVID-19, no additional funding has been allocated in either the UK Budget or Scottish Budget for 2022/23. Previous allocations for pandemic-related financial support that are continuing into 2022/23 now form part of general funding. Restrictions remain in force, to varying degrees across each of the four nations of the UK and they will continue to suppress economic and social activity to varying degrees. Most recently, concern about the Omicron variant of COVID-19 resulted in a tightening of restrictions in Scotland from mid-December until at least mid-January. The impact of restrictions present more risk to Scotland's economic recovery, largely exacerbating existing issues that are hampering growth:

- the impact on the supply of goods and services
- the impact on the demand for goods and services, and
- the impact and/or further shocks to the financial markets.

What does this mean for us?

As a local authority, most of our income comes from Scottish Government through the general revenue grant, non-domestic rates and any ring-fenced funding allocated for specific purposes. We also generate income from local taxpayers, by levying Council Tax. So, most of our income is effectively raised from tax receipts in one form or another.

Although the economy is expected to recover to its pre-pandemic peak by mid-2022, forecast growth in economy has been downgraded slightly while the UK Government seeks to reduce the high levels of borrowing used to finance pandemic-related expenditure. Additional hypothecated taxes are being introduced to finance planned changes in social care, which means any additional funding generated will be focused on health and social care. Although public spending is set to increase over five-years, higher inflation effectively means public spending remains broadly flat for the first three years.

The forecasts described in this section set out the likely fiscal position of the UK economy over the next five years. We also have a majority Conservative UK Government which has restated its commitment to reduce public sector net debt by introducing a new fiscal mandate: '*to have public sector net debt (excluding the Bank of England) as a share of GDP falling by the third year of the rolling forecast period.*'
Total UK public sector expenditure influences how much funding the Scottish Government receives in its Block Grant via the Barnett Formula. While the Block Grant is expected to increase over the five-year period, high inflation is expected to negate substantial increases in real terms, constraining the ability of the Scottish Government to increase public spending evenly.

The Local Government Financial Settlement, which was issued in December 2021 did not contain any significant increases in funding for local government, and represented a like-for-like reduction on a real-terms basis compared to 2021/22.

All of this taken together points to yet another challenging fiscal environment for Scotland. And while the Scottish Government has discretion to allocate funding towards national priorities, we expect spending on health to be protected in the current climate. And that will most likely result in less funding for local government in this next five-year period.

3. Our Financial Planning Assumptions

Trying to predict the future in an uncertain world is a tricky task. As a local authority, we provide a range of public services across Shetland for the benefit of individuals and businesses. Public services are sensitive to changes in the external environment and must be able to adapt to the ever-changing demands of the society we serve, often without the benefit of the certainty of future funding.

To help us plan for a range of possibilities in this MTFP, we have developed a set of assumptions covering different aspects of our income and expenditure. In this section, we explain the key assumptions and describe the variations to those assumptions that apply in the three different scenarios we outline – the central, upside and downside scenarios.

Annexes A, B and C provide a more concise summary of the assumptions used in each scenario, alongside the predicted financial implications and a financial forecast of income and expenditure.

Our Income

i) Scottish Government funding

The most significant component of our funding comes from the Scottish Government by way of the general revenue grant (GRG) and a share of national non-domestic rates (NDR). The Scottish Government allocates this funding to the 32 Scottish Local Authorities via an established distribution methodology, based on a range of different indicators. The total quantum of funding available to local government is not known until the Scottish Government presents its annual budget each year, after which each Council receives a circular outlining the Local Government Finance Settlement ('the settlement'). There remains a commitment from the Scottish Government to provide a multi-year financial settlement to local authorities, which would help provide more certainty for planning purposes, but this has not yet come to fruition.

Following a successful #MyFerry campaign, the settlement for 2021/22 included the full operating costs of our inter-island ferry services for the first time. All three scenarios now assume that the full costs of inter-island ferry services will continue to be met by the Scottish Government over the period of this MTFP.

We received the settlement on 20 December 2022, so we have used that information to inform the expected funding for 2022/23 in all three of our scenarios. The settlement indicates core revenue funding from the Scottish Government will remain broadly flat in cash terms for 2022/23, excluding any non-recurrent COVID-19 funding provided in the prior year. As noted in the Economic Outlook section, it is clear there that the UK's public finances will remain under pressure in the medium term, although Scotland is set to receive an increase in its Block Grant in 2022.

A change in how the Scottish Government provide funding for inter-island ferry services means our General Revenue Grant for 2022/23 appears to be considerably lower than in 2021/22. Funding for inter-island ferries is now provided, in full, as a specific ring-fenced revenue instead of a combination of general revenue grant and specific ring-fenced revenue grant.

In the central scenario, we expect that Scottish Government funding will reduce by 5.9% by 2026/27.

In our downside scenario, we estimate funding may reduce by 10.1% over the MTFP period.

ii) Council Tax – Charge

As a Local Authority we are obliged to levy a Council Tax on the local population to help pay for public services. Between 2008/09 and 2016/17, Councils received funding in return for freezing Council Tax rates. Since 2017/18, the Scottish Government has permitted local authorities to increase Council Tax subject to a maximum limit of 3.0%, known as the Council Tax 'cap'. In 2021/22, Councils were once again incentivised to freeze Council Tax rates in return for one-off funding.

For planning purposes, we previously assumed that Council Tax would increase by 3.0% in each year of the MTFP, aligned to the cap we expected to remain in place. The Settlement confirmed that Councils have complete freedom to set an appropriate Council Tax for its local area, so there is no cap in place for 2022/23. We do not expect to deviate from our current assumption, and therefore all three scenarios anticipate an increase in Council Tax by 3% each year over the five-year period.

Subject to the approval of each annual budget, this would mean the Council Tax bill for an average Band D property will increase to £1,398.24 by 2026/27, from the current rate of £1,206.33 in 2021/22.

iii) Council Tax – Tax Base

In previous years we have factored in modest growth of the Council Tax base to reflect the continued development of housing across Shetland and in line with the aspirations of the Local Development Plan. We acknowledge there has been a slowdown in development because of the pandemic during 2020 and 2021, alongside a slight dip in reported population estimates. We have realigned our expectations in the central scenario and have assumed the number of properties on our valuation roll – in other words, our Council Tax base - will remain broadly flat 2022/23, before gradually increasing from 2023/24 onwards.

In the upside scenario, we anticipate a return to modest growth a year earlier, from 2022/23.

In the downside scenario, we assume the reverse position, with a slight reduction in the number of properties from 2023/24.

iv) Fees and Charges

The Council provides a range of services to individuals, businesses, and other organisations. Fees and charges form an important source of income but are also important in helping us achieve our objectives and to help us influence behaviours in support of achieving those objectives.

We do not have complete freedom to charge for all the services we provide. Many services are provided for no direct charge, such as education, domestic refuse collection and street lighting for example. We do retain discretion to set fees and charges for a wide range of other services. The provision of all services come at a cost, usually driven by the human resources required to provide those services. Our charging policy seeks to recover the cost of services, which are themselves impacted by external inflationary pressures.
All three scenarios assume that we will continue to increase our fees and charges by inflation, to offset the pressures faced by us.

We anticipate increasing our fees and charges usually by the OBR's target Consumer Prices Index (CPI) measure of inflation *plus* an adjustment to reflect the higher costs associated with the procurement and delivery of goods and services in a remote, rural island setting. In recent months however, CPI has been increasing, peaking at 5.1% in November 2021, primarily reflecting difficulties in supply chains around the world and higher wholesale energy costs. As outlined in the previous section, inflation is expected to be higher in 2022 before falling more in line with the 2.0% target for CPI inflation by 2026/27. The main cost of providing services relates to pay, which is not expected to increase at the same rate as inflation.

In the central and upside scenarios, we therefore expect to increase our fees and charges by 2.7% in 2022/23, and 2.5% thereafter as inflation is expected to fall in line with the OBR's forecast. For the downside scenario, we estimate our fees and charges would need to increase by a further 0.5% in each year, to offset the expectation of higher inflation arising from further adversity and supply chain issues as the full impact of the UK's withdrawal from the EU becomes clearer.

v) Trading Income

The Council operates several ports and harbours around Shetland. Harbour operations are managed and accounted for through the Harbour Account, which is kept separate from the General Fund, in accordance with the Zetland County Council Act 1974.

The Harbour Account receives no direct public funding, nor can it be subsidised by the General Fund or Council Taxpayers. Instead, harbour operations rely on Harbour Charges which are collected for purpose of managing, maintaining and/or improving harbour services and facilities. Harbour Charges are set annually based on full cost recovery *plus* a return on our investment in ports and harbours. This charging regime ensures the Harbour Account can operate effectively and generate a surplus over the period of this MTFP. Any surplus generated is credited to the Harbour Account Reserve Fund and can be utilised by the Council to support General Fund activity. This MTFP assumes a contribution of £6m will continue to be made to the General Fund to support public service delivery while ensuring sufficient resources will be held to fund decommissioning activity whenever required.

In addition, the Shetland Gas Plant has been operational for several years and has provided a further income stream based on ground rent and throughput. Previous assumptions regarding future income have proven optimistic because of lower-than-expected volumes of gas and lower gas prices, although that trend has been reversed since September 2021. Our assumptions have been adjusted to reflect differing levels of optimism associated across all three scenarios, with respect to an anticipated temporary uplift in gas prices. Having said that, even our most optimistic, upside scenario estimates future income of gas throughput that is well below what was previously considered in 2018 to be the 'very worst' case.

In our central scenario, we expect total trading income to remain broadly consistent at the current level, driven by contractual increases in ground rent received from the Shetland Gas Plant plus additional income arising from the temporary uplift in gas prices. The upside scenario assumes growth in trading income of 4.8% by 2025/26 whereas the downside scenario envisages trading income will reduce by 9.7% over the five-year period.

vi) Investment Income

We are fortunate amongst our peers in that we hold a healthy level of reserves. Contrary to popular belief, our reserves are not held as cash nor hidden away in a kist. Our reserves are held as long-term investments, managed by external Fund Managers on our behalf, which provide us with additional income to supplement the funding we receive from other sources.

Our investment strategy is predicated on investments achieving, on average, a return of 7.3% over the long-term. The target return rate of 7.3% has two aims and can be split into two elements:

i) 'inflation-proofing' - to protect the value of our underlying investments from the effects of inflation. For this 'inflation-proofing' element, we anticipate our underlying investments to grow by 2.1%, on average, over the long term.
ii) growth in investments. Growth of 5.2% in the investments over and above that of inflation allows us to 'bank' those returns to supplement our general spending. This is the element of our investment income that we refer to as our 'sustainable draw from reserves'.

We are confident that we can withdraw circa £14-15m in each year of this MTFP without eroding the underlying investment base in a way that would affect future investment returns.

Withdrawing too much from the investments in any one year will reduce the underlying investment base and reduce future investment returns. Positive investment growth of 5.2% is not guaranteed and will fluctuate from month to month, and from year to year. We therefore need to limit how much we withdraw so that we protect and maintain the buying power of our underlying investments, so they continue to generate returns for years and decades to come.

All three scenarios outlined in this MTFP assume we will supplement the funding received and generated from other sources in line with the investment strategy. An illustration of how we plan to use the income from our investments is included in Annex D.

Our Expenditure

i) Pay

As an organisation that delivers public services, pay is the most significant element of our annual expenditure. Approximately 85% of our net revenue budget is spent on pay every year. Pay across local government is centrally negotiated on behalf of all 32 Scottish Councils. A one-year pay award covering 2021/22 was recently agreed in November 2021. At the time of writing, there is no clarity on any further pay award proposals covering the period beyond 1 April 2022 for either teaching or non-teaching staff.

The Distant Islands Allowance (DIA) is paid in addition to a base salary, but forms part of our overall pay bill. The DIA is also negotiated centrally on behalf of all Councils, but negotiations take place separately from the main pay awards for teaching and non-teaching staff. Any increase to the DIA takes effect from 1 October each year. In late 2021, we received notification that the DIA for the next 12 month period represented an increase of 5.8%. This has been factored into our overall assumptions on pay in all three scenarios.

In our central scenario, we anticipate that any pay award proposals will consist of lower-than-inflation increases to pay over the MTFP period.

In both upside and downside scenarios, we expect pay award proposals to be more closely aligned to forecast inflation. In the upside scenario, the financial burden of increased pay is offset by additional funding from the Scottish Government. In the downside scenario, we assume no additional funding would be received to offset any planned increases in pay.

Across all scenarios, we assume parity between pay awards negotiated on behalf of teaching and non-teaching staff.

In September 2021, the UK Government announced its intention to introduce a Health and Social Care Levy to fund planned changes to the provision and funding of social care in England. The levy will take the form of a 1.25% tax on earnings for employees, employers and the self-employed and will be applied across the UK. The additional tax receipts generated by this new levy will ultimately result in additional funding being passed to the Devolved Administrations through the Barnett Formula. In advance of the implementation of the Health and Social Care Levy from April 2023, the UK Government will temporarily increase National Insurance Contributions by 1.25% for employees, employers and the self-employed for one year, from April 2022. The temporary increase to employer National Insurance Contributions and the Health and Social Care Levy will result in an increase to the pay bill. We have adjusted all three scenarios to recognise this additional cost.

ii) Pensions

Almost all our staff and our elected members are automatically enrolled in a pension scheme:

i. Non-teaching staff are enrolled in the Local Government Pension Scheme (LGPS) which is administered by us as the local authority.
ii. Teaching staff are enrolled in the Scottish Teacher's Pension Scheme (STPS) which is administered by the Scottish Public Pensions Agency.

Both the LGPS and STPS are statutory schemes and we are required to participate as an employer. Employer contributions and are set by the scheme's respective administering authority. Contribution rates are linked to salaries which are expected to increase, as set out above.

The LGPS scheme that we administer for non-teaching staff was formally valued during 2021 which resulted in increased employer contributions rates being set with effect from 1 April 2022.

Employer contribution rates to the STPS increased significantly in 2019 (from 17.2 to 22.4%) and are currently 23%. The STPS scheme is subject to a formal valuation as of 31 March 2020 but the outcome of the valuation, and therefore contribution rates, will not be known until late 2022 or early 2023.

Our central and downside scenarios both assume small increases for three years from 2022/23. The upside scenario takes an optimistic view that our locally administered LGPS scheme will achieve a financial position following the next triennial valuation (in 2023/24) that would allow employer contribution rates to be reduced from 2024/25 onwards.

iii) Non-Pay costs

Non-pay inflation covers the impact of inflation on a variety of goods and services that we need to purchase for us to deliver public services. Inflation affects different types of goods and services in different ways, so we have applied specific percentage uplifts to different categories rather than applying a generic, percentage uplift to all non-pay expenditure.

We have used a general inflation factor, based on the CPI measure of inflation, to estimate the impact on the costs of administration, premises and property, supplies, services, and transport. The same factor is also applied to 'Fees and Charges' as outlined in the previous section.

In the central scenario, we expect the costs of administration, premises and property, supplies, services and transport to increase on average by 2.7% in 2022/23, and 2.5% thereafter as inflation is expected to fall in line with the OBR's forecast.

The upside scenario assumes a more optimistic view of forecast inflation, in which costs would not be impacted quite as highly as the central scenario. The downside scenario anticipates that inflation will run in excess of 3.0% over the MTFP period.

Fuel and energy costs are subject to greater volatility. We have now adjusted our previous assumptions across all three scenarios to reflect a significantly different outlook on fuel and energy compared to our previous assumptions. For the central scenario, we have assumed an inflationary uplift of 8.5% in 2022/23 (compared to 3.0% in the 2020 MTFP).

Further detail on the inflationary factors applied in each scenario are contained in Annexes A, B and C.

iv) Unitary charge

The unitary charge relates to the new Anderson High School and the Design, Build, Finance and Maintain (DBFM) agreement. The amount paid each year includes repayment of the building itself plus any associated service charges. Increases in the annual charge are contractual, based on annual indexation rather than general inflation.

v) Borrowing

In recent years, our capital grant allocation has averaged circa £5.5m per year, which is used to partially fund maintenance of assets, infrastructure, and our estate. We spend roughly £12m a year to maintain our existing assets, infrastructure, and estate, so we are increasingly reliant on capital receipts and borrowing to fund not only investment in new assets, but also to fund the maintenance of our existing asset base.

We have assumed a modest increase in borrowing requirements, an estimated £27.5m over five years, in all three scenarios to recognise the need for further capital investment in the five-year period. Although interest rates for new borrowing are currently at a record low, the debt will still need to be serviced. Financing costs are expected to increase across all scenarios to recognise this additional revenue expense.

Further detail about our plans for capital investment in 2022/23 will be presented as part of our revenue and capital budgets in the first quarter of 2022. Capital investment plans in subsequent years will be informed by the priorities identified in '*Our Ambition*' and reflected in a refreshed Change Programme.

vi) Brexit Uncertainty

We still consider the UK's withdrawal from the European Union as a key risk to our operations. The UK/EU Trade and Co-operation Agreement was signed on 30 December 2020 and came into force from 1 January 2021. A number of planned changes to customs controls have been deferred in the last 12 months, so the practicalities and true financial impact of leaving the European Union remain unclear. Further changes to custom controls relating to the importation and exportation of goods come into force from 1 January 2022.

We have experienced challenges in sourcing materials required to complete certain projects, and we are seeing higher prices for commodities due to supply chain issues following the UK's withdrawal from the EU. These issues are exacerbating global supply chain issues caused by reduced economic output because of the COVID-19 pandemic. We continue to monitor developments and revise our planning assumptions.

We set aside additional contingency as part of our 2021/22 budget to help mitigate the direct costs arising as a result of the new UK/EU Trade and Co-operation Agreement. In our central and downside scenarios, we will continue to hold some contingency in reserve to meet any unexpected financial consequences.

For planning purposes, we will continue to hold a contingency fund to help mitigate against increased costs as we do not yet fully understand the financial impact of leaving the EU. A central contingency fund to meet any potential 'Brexit-related' costs will enable to us monitor the impact and release funds if required, rather than providing a general increase to service budgets across the board.

The central scenario includes a contingency of £0.25m in 2022/23 and 2023/24. The upside scenario assumes that any additional costs will be met by central government, so no contingency has been factored in. The downside scenario expects no additional support and includes additional contingency of up to £4m over the MTFP period, peaking at £1.5m in 2022/23, providing cover during the first financial year in which full implementation of customs controls is expected.

vii) COVID-19

COVID-19 continues to dominate much of what we do, almost two years since it was declared a global pandemic. In the last year, vaccinations have been administered to the population at pace and the tiered levels of economic and social restrictions were eased as Scotland moved 'beyond level 0' in August 2021. In recent months, the emergence of the Omicron variant of COVID-19 led to some restrictions being reintroduced in December 2021, illustrating that the pandemic is still creating uncertainty and disruption.

As a Council, we have felt the financial impact of not being able to operate or deliver our full range of services during some periods in the year. We have been required to make adaptations to some services, so that we can provide them as safely as possible. And we are still experiencing disruption to some services which we expect to continue in the short term.

We have been supported by the Scottish Government with additional funding to help offset the extra costs we have faced in 2020/21 and 2021/22. This funding was provided on a non-recurring basis and the Settlement for 2022/23 does not include any further funding to help mitigate any further financial pressures due to the pandemic.

Looking ahead, we know that we will be living with COVID-19 for quite some time, but the full impact on the Council and Shetland more widely remains unknown at this point. We expect to incur further expenditure as our response to the pandemic progresses through the recovery and renewal phases.

We have adjusted our assumptions to include a further central contingency that can be released, if required, to meet any direct COVID-19 costs that are not otherwise covered by external funding sources.

The scale of the contingency set aside for this varies in each scenario. For the central scenario, we estimate a contingency of up to £0.4m is required in 2022/23. The upside scenario assumes all COVID-19 costs would be met by central government, therefore no contingency has been factored in.

The downside scenario assumes pessimistically that we would bear a greater proportion of the financial pressure over a longer period, with a contingency of up to £2.5m over the MTFP period. We expect this to be front-loaded as £1.75m across the first two financial years, with up to £0.25m each year thereafter.

4. Scenario planning

We have developed a financial model that allows us to quantify the financial impact of changes in the external environment over the next five years. To illustrate the uncertainty we face, we have used scenario planning to model the impact of the key assumptions, in three different scenarios:

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

We have used our 2021/22 budget as the baseline starting position for developing financial forecasts for each scenario, along with the following principles that guide the development of future revenue budgets:

- we will set balanced budgets, as required by law, so we can live within our means,
- we will continue to utilise *some* of the returns achieved from our long-term investments to supplement core General Fund revenue budgets. We will limit the amount we use each year to the sustainable draw (as set out in Annex D) to ensure the longevity of underlying investment base for generations to come,
- the cost of capital, including additional borrowing, will be recognised in revenue budgets, to reflect the recurring cost of servicing debt each year,
- a risk-based approach will be used to manage uncertainty, with a prudent level of contingency held centrally to help mitigate impact of Brexit, COVID-19 and other financial pressures that services may face.
- the MTFP will identify the likely level of resources, expenditure and budgetary deficits in order for us to develop further plans for:
  - i) investment to facilitate changes in service provision,
  - ii) efficiency,
  - iii) commercialization, and,
  - iv) disinvestment.

NB: we utilised £8.09m from our reserves, over and above the sustainable draw from reserves, to set a balanced budget for 2021/22. This amount has been stripped out from each scenario so that the true scale of the financial challenge is clear for all to see.

The scenarios outlined in this section provide an illustration of the likely financial position over the next five years, on a 'like-for-like' basis that does not factor in any future or planned changes to service provision. The purpose of this is to demonstrate the budgetary deficit we will likely face if we do not change what we do and how we do things.

Even the most optimistic scenario with favourable funding settlements indicates financial pressure each year, with a significant cumulative budgetary deficit building by the end of the MTFP period.

The Central Scenario

Our central scenario reflects the most probable outcome, or the mid-case estimate of our likely financial position. Excluding the effect of any major change in service provision, this scenario anticipates an *additional £4.0m* of expenditure in 2022/23 compared to the 2021/22 baseline starting position. We expect a reduction of £3.5m in available funding*, which effectively results in a likely financial pressure of £7.5m in 2022/23.

Further financial pressure is expected in subsequent years, ranging from £2.7m to £3.5m. We anticipate a need for additional contingency in respect of a continued response to COVID-19 and to meet potential costs arising from Brexit uncertainty in 2022/23 and 2023/24, and this means the financial pressure we expect to face is elevated in the early years of this MTFP, before falling to circa £2.7m annually in years three, four and five.

If left unaddressed, these pressures translate into annual budgetary deficits which range from £14.9m in 2022/23 to £26.0m by 2026/27. On a cumulative basis, this amounts to £102.8m by the end of this MTFP period.

Further detail about the planning assumptions and financial forecasts from this scenario can be found in Annex A.

The Upside Scenario

Our upside scenario reflects an optimistic, or best-case estimate of our likely financial position if these circumstances transpire. Excluding the effect of any major change in service provision, this scenario anticipates an additional £3.3m of expenditure in 2022/23 compared to the baseline starting position. This scenario includes the known core funding available to us in 2022/23 as confirmed in the settlement. The scenario assumes an increase of available funding of £6.5m over the MTFP period. However, a deficit of £12.4m still exists in 2022/23 which represents growth in baseline budgets that we have not managed to eliminate in previous years

Financial pressure of £5.3m is expected in 2022/23, with an expectation of less pressure thereafter. This is because we assume future settlements will include funding for pay awards, and there will be less need for us to set aside contingency funds to meet further COVID-19 costs or as mitigation for Brexit uncertainty. Collectively, this provides some relief to the pressures anticipated in the less optimistic central and downside scenarios.

Over the five-year period, the estimated financial pressures translate into annual budgetary deficits which range from £11.8m to £12.5m. On a cumulative basis, this amounts to £61.2m by 2026/27.

Further detail about the planning assumptions and financial forecasts from this scenario can be found in Annex B.

The Downside Scenario

Our downside scenario reflects a pessimistic, worst-case scenario where the cards are stacked against us. Excluding the effect of any major change in service provision, this scenario anticipates an additional £6.9m of expenditure in 2022/23 compared to the baseline starting position. This scenario factors in a pessimistic outlook in terms of income, which further intensifies the financial pressure faced by changes in the external environment. The net effect is a pressure of £12.1m in 2022/23.

Further financial pressure is expected in subsequent years, within a range of £5.4m to £8.3m. Financial pressure throughout the MTFP period remains elevated because we anticipate a need to bear a greater financial burden from managing both COVID-19 and Brexit uncertainty, and for us to manage this burden over a longer period.

In this scenario, we also anticipate a reduction in trading income, driven by a phased reduction in ground rent from the Shetland Gas Plant, should that facility begin to wind up operations during this MTFP period.

Over the five-year period, the estimated financial pressures translate into annual budgetary deficits of between £17.7m and £38.6m. On a cumulative basis, this totals £142.1m by 2026/27.

Further detail about the planning assumptions and financial forecasts from this scenario can be found in Annex C.

Summary of scenario planning

The scenarios are intended to illustrate a range of possible outcomes, based on an up-to-date interpretation of the external environment and how the economic and fiscal outlook will affect our likely financial position in the future. The chart and table on the following page provide a summary of the range of outcomes that we have modelled under each scenario. The scenarios are not intended to form a menu, from which we pick and choose the bits we like and ignore the less palatable options. That does not make for effective financial planning.

Setting out a range of different fiscal scenarios in advance will help inform decision-making over the medium term. Prudent decision-making, where decisions are made with a clear understanding of the longer-term financial implications will help us manage our financial position over the medium-term. We can clearly see that we have a huge challenge ahead of us, even in the most optimistic of the scenarios. As we develop our annual budgets in the years to come, we do so with an acute awareness that we need to take action to ensure our financial sustainability in the longer-term.

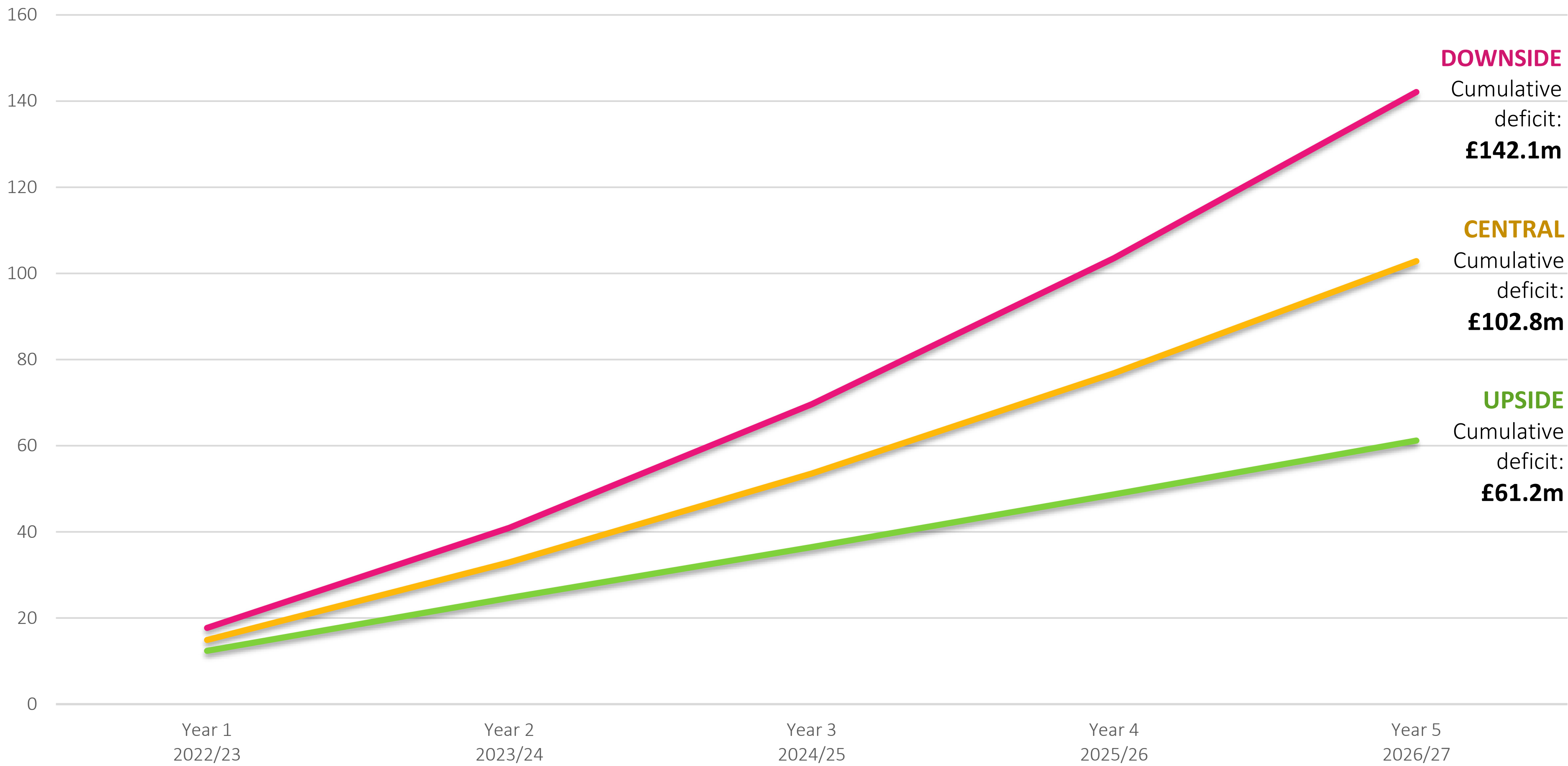
We also know from '*Our Ambition'* that we have aspirations for a more sustainable Shetland; environmentally, economically, socially, and financially. Having a commitment to community sustainability, may on occasion work contrary to achieving financial sustainability for the Council, so we know there will be challenging decisions when it comes to prioritising our resources.

This MTFP doesn't contain all the answers. Effective public financial management cannot be achieved in a vacuum, and as mentioned in the introduction, this MTFP forms part of a wider suite of documents that collectively define what we seek to achieve as a Council over the next five years and how we will go about it. This suite of planning documents will include:

- *'Our Ambition'* contains the strategic corporate and political priorities that we will seek to deliver
- *The Workforce Strategy* which sets the framework for how we make changes to our organisation so that we deliver our key priorities effectively and at pace.
- *The Change Programme* will translate our corporate priorities and parts of the COVID-19 Recovery and Renewal Framework into a rolling five-year programme of change activity. The Programme will consist of distinct projects, organised in strands that will focus on transformation of future service delivery.
- *The Asset Investment Plan* contains our capital expenditure plans for the next five years, *and*
- *The Annual Budget* is the tactical financial plan that sets our spending priorities for each service for the forthcoming financial year.

The suite of strategies and plans will enable us to consider our priorities from a range of different perspectives and should facilitate a holistic 'One Council' approach to making proportionate and sustainable changes for the benefit of everyone in Shetland.

Anticipated cumulative budgetary deficit / (surplus), by scenario:



	Scenario	YEAR 1 **2022/23** £m	YEAR 2 **2023/24** £m	YEAR 3 **2024/25** £m	YEAR 4 **2025/26** £m	YEAR 5 **2026/27** £m
Cumulative budgetary deficit / (surplus)	**UPSIDE**	12.4	24.6	36.5	48.7	61.2
	CENTRAL	14.9	32.9	53.5	76.8	102.8
	DOWNSIDE	17.7	40.9	69.6	103.5	142.1

5. Next Steps

Our attention in the coming months will be to set our revenue and capital budgets for 2022/23 alongside the first year of Change Programme activity.

Budget-setting 2022/23

We know from experience that adopting a short-term attitude to balance annual budgets on a yearly basis compromised our ability to plan for intelligent and outcomes-focused change to service delivery. We have acknowledged in the past that internal capacity constraints result in us not being able to deliver all the changes we would like to make as quickly as we would like, or that we bring in consultants at a premium which might offset any financial savings we might expect. We are still experiencing difficulties in recruitment which is limiting the ability of services to devote resources to projects without affecting day-to-day service delivery. We need to prioritise which aspects of *Our Ambition* we can genuinely focus on with the resources we have at our disposal.

We also understand the benefit of investment in early intervention and prevention – despite the inherent difficulty in quantifying the benefits that might flow from targeted investment, to us or even other organisations.

As part of our 2020/21 budget, we committed to taking action to help us live within our means, by taking advantage of our strong financial position and the short-term use of reserves to support projects that would lead to longer-term reform of public services.

We developed a four-point strategy with the aim to mitigate growing demand for services, increase our income streams and reduce our cost base and overall expenditure. The strategy included a range of actions we planned to take under 4 broad categories:

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

It is essential that we embed the four-point strategy during 2022 and to commit to delivering tangible, cash-releasing savings as part of future revenue budgets if we are to demonstrate any progress towards aligning our planned expenditure with the likely level of income illustrated by this MTFP. Moreover, our failure to address our longer-term financial sustainability will severely limit our ability to borrow from the Public Works Loans Board to fund investment in new assets.

Links to other plans and strategies

i) ‘*Our Ambition*’

This strategic plan – which is closely aligned with the Shetland Partnership Plan, sets out our strategic key priorities that we will seek to achieve over the next five years and focuses on delivering better outcomes for Shetland.

ii) Workforce Strategy

This MTFP is, by its nature, heavily focused on the financial resources that we are likely to have at our disposal over the medium term. Our finances are not the only precious resource we have available. We wouldn’t be able to deliver a fraction of the services that we currently deliver without significant human resources – our staff. The Workforce Strategy is effectively the MTFP-equivalent for our people and is focused on making sure that we have the right people in the right place to deliver our key priorities. The strategy uses three guiding principles to inform future workforce planning:

- the right shape,
- the right skills, and
- the right culture.

The Workforce Strategy was published in December 2020 and was followed by the publication of a more detailed Workforce Plan in September 2021. The Workforce Plan sets out how we will approach strategic workforce planning and is updated annually. Annual revenue budgets will reflect changes to workforce planning assumptions and will be factored into future MTFP updates once embedded.

iii) Revenue Budgeting

This MTFP has focused on the financial implications of a changing fiscal environment on our General Fund net revenue budgets. We pay for all day-to-day services through the General Fund, and this is where we expect to face significant recurrent financial pressure. Our annual budget forms the operational plan for how we expect to manage that ongoing financial pressure. We expect to set our 2022/23 budget in February 2022 in line with the approach outlined in the previous section.

A Change Programme Delivery Plan will set out the programme of change activity that will be undertaken in 2022/23. We expect our future revenue budgets, from 2023/24 onwards, to benefit from investment in early intervention and prevention along with other planned changes to service delivery as identified in our Change Programme

Our Ambition contains a commitment to reduce overall net revenue expenditure from 2022/23. We are unlikely to meet that commitment in 2022/23 compared to 2021/22, and our ability to reduce revenue expenditure in future years will have a direct impact on whether we can deliver all the aspirations set out in *Our Ambition*. We need to translate those aspirations into Specific, Measurable, Achievable, Relevant and Time-bound (SMART) objectives, including feasible timescales. That will enable decision-makers to prioritise which projects move forward each year, with due consideration to both capacity constraints within the organisation and also the financial constraints which we expect to face. A failure to adequately plan ahead, to address our long-standing financial sustainability, will result in this Council being unable to borrow the significant sums required to finance new investments. This is because we will not be able to demonstrate that our capital plans are prudent, affordable and sustainable as required by the Prudential Code.

iv) Capital Budgeting

We set our capital spending plans as contained in the Asset Investment Plan (AIP), on a rolling five-year basis, each year alongside our revenue budgets. We expect to present our plans for capital expenditure for the 2022/23-2026/27 period in February 2022.

Once we have translated our priorities from '*Our Ambition'* and our refreshed Change Programme into tangible plans, with *SMART* objectives and identifiable key deliverables, we will be able to model the financial impact in both revenue and capital terms, but also profile the anticipated investment and benefits over the longer-term.

In the 12 months to December 2021, we considered a range of business cases and made investment decisions totalling £35m of additional capital expenditure on top of our existing five-year AIP. We have also adopted other strategic outline programmes, for example, for the Learning Estate and for Climate Change, that will likely result in further capital commitments over the life of this MTFP period and beyond. Furthermore, we are committed to the Islands Growth Deal which will require elements of match-funding to complement funding due to be received from the Scottish and UK Governments. It is not beyond the realms of possibility that our capital commitments could increase by more than £100m over the life of this MTFP period.

We intend to create better links between our MTFP, Change Programme and the AIP in future iterations, so that we can clearly show the longer-term financial implications of our priorities. This will enable us, and our stakeholders to monitor progress and more importantly, measure success.

Financing our future plans

Day-to-day revenue budgets are funded primarily by grant funding received from the Scottish Government, supplemented by Council Tax and income received from our investments. Our Treasury Management and Investment Strategy is updated each year, at the same time as we set our annual revenue and capital budgets. This strategy is a statutory requirement and sets out how we manage our day-to-day cash flow requirements and investments, and how we intend to finance our spending plans for the forthcoming financial year, including the use of capital receipts, borrowing and income from our long-term investments. We will present our updated Treasury Management and Investment Strategy in February 2022, with our budget plans.

Financing our future capital plans, however, is becoming increasingly difficult. We have a statutory obligation to comply with the Prudential Code when determining how much we can afford to borrow in order to finance planned capital expenditure. Our long-standing financial unsustainability means we will not be able to comply with the requirements of the Prudential Code when we know increasing our borrowing will result in additional revenue costs in excess of the resources we expect to have at our disposal.

The alternative, and perhaps more obvious source of funding would be using our reserves. And while that remains an option, the trade-off will undoubtedly be less funding available to support our annual revenue budgets. Our current expectation is for £14.3m to be drawn from reserves (on a sustainable basis) to support revenue expenditure in 2022/23, rising to £15.7m in 2026/27. As an illustration, taking an extra £25m a year from reserves to finance capital expenditure (£125m in total over the five-year period) would result in a lower underlying investment base that generates the returns we rely upon to supplement our annual revenue budgets. Assuming that reserves are not otherwise utilised to balance revenue budgets, the effect of using the reserves to finance our capital spending would mean only £9.2m would be available for use in the 2026/27 revenue budget, a reduction of £6.5m against our current expectation. This would only act to increase pressure on services to accommodate a reduction in available funding in the future.

We need to accept that we cannot achieve everything that we would like to achieve with our available resources and we need to prioritise which projects are taken forward in the future, with due regard for the longer-term financial implications on both revenue and capital budgets. A failure to prioritise will likely result in a future Council being forced into making very difficult decisions on service provision.

Keeping this MTFP up to date

And finally, having an MTFP in place to inform future budgeting and to guide decision-making is an important component of effective financial management. But keeping the MTFP updated is just as important as the MTFP itself. This ensures the organisation remains forward-looking and is aware of potential changes in the external environment and what may be lurking over the horizon.

We intend to update the financial planning assumptions and financial modelling contained in this MTFP on an annual basis, to help inform the development of future budgets. We will present an updated MTFP to the Council each autumn ahead of the annual budget-setting cycle. This will mean we can always be looking five years ahead, developing future budgets that consider any progress towards achieving financial sustainability.

6. Summary

Once again, there is no way to sugar coat the figures presented in this document – they are a stark reminder that we are not living within our means. It shouldn't come as a surprise. We already know that we are not in a financially sustainable position and our auditors regularly remind us of our predicament.

We are not the only Council to face significant financial challenges, but we have been in an enviable position being able to use our reserves to meet the shortfall between the income we receive and what we spend delivering services. We have been able to tolerate year-on-year funding reductions and accommodate growth in our cost base but this has been achieved by using our reserves in an unsustainable way. Our failure to address longer-term financial sustainability will effectively mean we will not be in a position to borrow to fund investment in new assets, curtailing the aspirations of *Our Ambition*. If we continue to manage our finances in this way, our reserves will ebb away within a decade. That will leave future Councils with very difficult decisions to make.

This MTFP sets out the scale of the financial challenge that we face in plain terms. It is not dissimilar to the previous iteration presented in December 2020 and we have not made as much progress as we would have liked.

We now have the tools to enable us to meet the challenges ahead, with the full suite of planning and strategy documents that set out our priorities, a refreshed programme of change and transformational activity and detailed workforce plans to make sure we have the right people in the right place. We need to use these tools to prioritise our activities and develop tangible and SMART plans that lead to sustainable changes in how we deliver services so that we begin to live within our means.

Annex A – Central Scenario

Table A1. Assumed inflationary factors used to forecast the financial impact of the central scenario:

Income	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**
Government Funding (GRG/NNDR)	-5.8%*	-1.5%	-1.5%	-1.5%	-1.5%
Council Tax Charge (% increase)	3.0%	3.0%	3.0%	3.0%	3.0%
Council Tax (est. Band D Charge)	1,242.52	1,279.80	1,318.19	1,357.74	1,398.47
Council Tax base (% increase)	0.0%	1.0%	1.0%	1.0%	0.0%
Fees and Charges	2.7%	2.5%	2.5%	2.5%	2.5%
Sustainable Draw from Reserves	-14.37 M	-14.69 M	-15.02 M	-15.36 M	-15.70 M
Total Trading Income	7.46	6.71	6.72	6.72	6.72
Utilisation of Harbour Account surplus	6.06	6.06	6.06	6.06	6.06
Shetland Gas Plant Income	1.40	0.65	0.66	0.67	0.67

Expenditure	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**
Pay - Teaching Staff	2.0%	1.0%	1.0%	1.0%	1.0%
Pay - Non-Teaching Staff	2.0%	1.0%	1.0%	1.0%	1.0%
Pensions - LGPS	0.3%	0.0%	1.0%	0.0%	0.0%
Pensions - SPPA	0.3%	1.0%	0.0%	0.0%	0.0%
Inflation – General (property, admin, supplies & services)	2.7%	2.5%	2.5%	2.5%	2.5%
Inflation – Energy & Fuel	8.5%	8.0%	7.5%	5.0%	5.0%
Unitary Charge (AHS - PFI)	0.52%	0.52%	0.52%	0.54%	0.54%
Brexit uncertainty Contingency	0.25 M	0.25 M	0.00 M	0.00 M	0.00 M
COVID-19 Contingency	0.40 M	0.00 M	0.00 M	0.00 M	0.00 M

**The reduction in Government Funding appears as 5.8% compared to 2021/22 due to (I) discontinuation of COVID-19 funding provided in 2021/22 and (ii) changes in how in how the General Revenue Grant and specific ring-fenced revenue funding is provided to the Council. In 2022/23, the full revenue costs of inter-island ferry services are funded via a specific ring-fenced revenue grant, whereas in 2021/22, the full costs of inter-island ferry services were partly funded by specific ring-fenced revenue grant in addition to an element of the General Revenue Grant. Income from specific ring-fenced revenue grants has been offset against the corresponding gross revenue expenditure and is therefore not shown as part of the General Revenue Grant in the table above. The financial forecast is presented on a net expenditure basis.*

Annex a – Central Scenario

Table A2. Financial implications of inflationary factors and assumptions for the central scenario, by year:

GENERAL FUND NET REVENUE BUDGET	YEAR 1 2022/23 £m	YEAR 2 2023/24 £m	YEAR 3 2024/25 £m	YEAR 4 2025/26 £m	YEAR 5 2026/27 £m
PAY	**2.12**	**1.08**	**1.10**	**1.10**	**1.11**
NON-PAY of which:	**1.28**	**1.15**	**1.18**	**1.10**	**1.13**
Costs not subject to Inflation	-	-	-	-	-
Increase to the Unitary Charge (PFI)	0.02	0.02	0.02	0.02	0.02
Fees & Charges	(0.63)	(0.59)	(0.60)	(0.62)	(0.63)
Admin, Property, Supplies, Services & Transport	1.56	1.38	1.41	1.45	1.48
Energy & Fuel	0.34	0.34	0.35	0.25	0.26
TOTAL NET SERVICE DELIVERY EXPENDITURE	**3.40**	**2.24**	**2.27**	**2.20**	**2.24**
CONTINGENCY, RECHARGES, OTHER INC. & FINANCING of which:	**0.60**	**0.28**	**0.03**	**0.06**	**0.09**
Contingency - General	-	-	-	-	-
Contingency - COVID-19	0.40	-	-	-	-
Contingency - Brexit	0.25	0.25	-	-	-
Crown Estate	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Spend to Save	-	-	-	-	-
Financing Costs (incl. borrowing)	-	0.08	0.08	0.12	0.14
Economic Development Income	-	-	-	-	-
Interest on Revenue Balances	-	-	-	-	-
Recharges (to/from other funds)	(0.05)	(0.05)	(0.05)	(0.05)	(0.05)
TOTAL NET REVENUE EXPENDITURE	**4.00**	**2.51**	**2.30**	**2.26**	**2.33**
CORE INCOME of which:	**4.53**	**0.85**	**0.83**	**0.80**	**0.77**
Core Government Funding (GRG+ NDR)	4.84	1.17	1.15	1.14	1.12
Council Tax	(0.31)	(0.32)	(0.33)	(0.34)	(0.35)
FUNDED BY:	**(1.00)**	**0.42**	**(0.34)**	**(0.34)**	**(0.34)**
Crown Estate	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Spend to Save Reserve	-	-	-	-	-
Trading Income (Harbour A/C + SGP)	(0.75)	0.74	(0.01)	(0.01)	-
Sustainable use of Investment Returns	(0.25)	(0.32)	(0.33)	(0.34)	(0.34)
Unsustainable Draw from Reserves					
TOTAL REVENUE INCOME & FUNDING	**3.53**	**1.27**	**0.49**	**0.45**	**0.43**
Additional Expenditure / (Savings)	4.00	2.51	2.30	2.26	2.33
Anticipated (Increase) / Reduction in Available Funding	3.53	1.27	0.49	0.45	0.43
TOTAL FINANCIAL PRESSURE / (HEADROOM)	**7.53**	**3.79**	**2.79**	**2.71**	**2.76**

Annex A – Central Scenario

Table A3. Forecast Income & Expenditure for the central scenario:

GENERAL FUND NET REVENUE BUDGET	YEAR 1 2022/23 £m	YEAR 2 2023/24 £m	YEAR 3 2024/25 £m	YEAR 4 2025/26 £m	YEAR 5 2026/27 £m
PAY	**109.18**	**110.27**	**111.36**	**112.46**	**113.57**
NON-PAY of which:	**20.41**	**21.56**	**22.73**	**23.83**	**24.96**
Costs not subject to Inflation	(19.18)	(19.18)	(19.18)	(19.18)	(19.18)
Unitary Charge (PFI)	3.82	3.84	3.86	3.88	3.90
Fees & Charges	(23.51)	(24.10)	(24.70)	(25.32)	(25.95)
Admin, Property, Supplies, Services & Transport	55.00	56.37	57.78	59.23	60.71
Energy & Fuel	4.29	4.63	4.98	5.22	5.49
TOTAL NET SERVICE DELIVERY EXPENDITURE	**129.59**	**131.82**	**134.10**	**136.29**	**138.54**
CONTINGENCY, RECHARGES, OTHER INC. & FINANCING of which:	**(3.64)**	**(4.01)**	**(4.23)**	**(4.17)**	**(4.08)**
Contingency - General	1.20	1.20	1.20	1.20	1.20
Contingency - COVID-19	0.40	-	-	-	-
Contingency - Brexit	0.25	0.25	-	-	-
Crown Estate	(1.36)	(1.37)	(1.37)	(1.37)	(1.37)
Spend to Save	0.25	0.25	0.25	0.25	0.25
Financing Costs (incl. borrowing)	1.61	1.69	1.77	1.89	2.03
Economic Development Income	(0.97)	(0.97)	(0.97)	(0.97)	(0.97)
Interest on Revenue Balances	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Recharges (to/from other funds)	(4.99)	(5.04)	(5.09)	(5.15)	(5.20)
TOTAL NET REVENUE EXPENDITURE	**125.95**	**127.82**	**129.87**	**132.13**	**134.46**
CORE INCOME of which:	**(88.74)**	**(87.89)**	**(87.06)**	**(86.26)**	**(85.49)**
Core Government Funding (GRG+ NDR)	(78.13)	(76.95)	(75.80)	(74.66)	(73.54)
Council Tax	(10.62)	(10.93)	(11.26)	(11.60)	(11.95)
FUNDED BY:	**(22.31)**	**(21.89)**	**(22.23)**	**(22.57)**	**(22.92)**
Crown Estate	(0.24)	(0.24)	(0.24)	(0.24)	(0.24)
Spend to Save Reserve	(0.25)	(0.25)	(0.25)	(0.25)	(0.25)
Trading Income (Harbour A/C + SGP)	(7.46)	(6.71)	(6.72)	(6.72)	(6.72)
Sustainable use of Investment Returns	(14.37)	(14.69)	(15.02)	(15.36)	(15.70)
Unsustainable Draw from Reserves	-	-	-	-	-
TOTAL REVENUE INCOME & FUNDING	**(111.05)**	**(109.78)**	**(109.29)**	**(108.84)**	**(108.41)**
Annual Budgetary Deficit / (Surplus)	**14.90**	**18.04**	**20.58**	**23.29**	**26.05**
CUMULATIVE BUDGETARY DEFICIT / (SURPLUS)	**14.90**	**32.93**	**53.51**	**76.80**	**102.85**

Annex B – Upside Scenario

Table B1. Assumed inflationary factors used to forecast financial impact of the upside scenario:

Income	2022/23	2023/24	2024/25	2025/26	2026/27
Government Funding (GRG/NNDR)	-4.0%	3.0%	2.0%	1.5%	1.5%
Council Tax Charge (% increase)	3.0%	3.0%	3.0%	3.0%	3.0%
Council Tax (est. Band D Charge)	1,242.52	1,279.80	1,318.19	1,357.74	1,398.47
Council Tax base (% increase)	1.0%	1.0%	1.0%	1.0%	0.0%
Fees and Charges	2.7%	2.5%	2.5%	2.5%	2.5%
Sustainable Draw from Reserves	-14.37 M	-14.69 M	-15.02 M	-15.36 M	-15.7 M
Total Trading Income	7.71	7.21	7.02	7.02	7.02
Utilisation of Harbour Account surplus	6.06	6.06	6.06	6.06	6.06
Shetland Gas Plant Income	1.65	1.15	0.96	0.97	0.97

Expenditure	2022/23	2023/24	2024/25	2025/26	2026/27
Pay - Teaching Staff	2.1%	1.1%	1.1%	1.1%	1.1%
Pay - Non-Teaching Staff	2.0%	2.0%	2.0%	2.0%	2.0%
Pensions - LGPS	0.0%	0.0%	0.0%	-1.0%	-1.0%
Pensions - SPPA	0.0%	1.0%	0.0%	0.0%	-1.0%
Inflation – General (property, admin, supplies & services)	2.5%	2.3%	2.3%	2.3%	2.3%
Inflation – Energy & Fuel	8.3%	7.8%	7.3%	4.8%	4.8%
Unitary Charge (AHS - PFI)	0.51%	0.52%	0.52%	0.54%	0.54%
Brexit uncertainty Contingency	0.00 M	0.25 M	0.00 M	0.00 M	0.00 M
COVID-19 Contingency	0.00 M	0.00 M	0.00 M	0.00 M	0.00 M

Annex B – Upside Scenario

Table B2. Financial implications of inflationary factors and assumptions for the upside scenario, by year:

GENERAL FUND NET REVENUE BUDGET	YEAR 1 2022/23 £m	YEAR 2 2023/24 £m	YEAR 3 2024/25 £m	YEAR 4 2025/26 £m	YEAR 5 2026/27 £m
PAY	**2.16**	**1.14**	**1.14**	**1.15**	**1.15**
NON-PAY of which:	**1.23**	**1.00**	**1.02**	**0.93**	**0.96**
Costs not subject to Inflation	0.09	-	-	-	-
Increase to the Unitary Charge (PFI)	0.02	0.02	0.02	0.02	0.02
Fees & Charges	(0.63)	(0.59)	(0.60)	(0.62)	(0.63)
Admin, Property, Supplies, Services & Transport	1.42	1.24	1.26	1.29	1.32
Energy & Fuel	0.33	0.33	0.33	0.23	0.25
TOTAL NET SERVICE DELIVERY EXPENDITURE	**3.39**	**2.14**	**2.16**	**2.08**	**2.11**
CONTINGENCY, RECHARGES, OTHER INC. & FINANCING of which:	**(0.05)**	**0.28**	**0.03**	**0.06**	**0.09**
Contingency - General	-	-	-	-	-
Contingency - COVID-19	-	-	-	-	-
Contingency - Brexit	-	0.25	-	-	-
Crown Estate	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Spend to Save	-	-	-	-	-
Financing Costs (incl. borrowing)	-	0.08	0.08	0.12	0.14
Economic Development Income	-	-	-	-	-
Interest on Revenue Balances	-	-	-	-	-
Recharges (to/from other funds)	(0.05)	(0.05)	(0.05)	(0.05)	(0.05)
TOTAL NET REVENUE EXPENDITURE	**3.34**	**2.41**	**2.19**	**2.14**	**2.19**
CORE INCOME of which:	**3.01**	**(2.71)**	**(2.02)**	**(1.59)**	**(1.62)**
Core Government Funding (GRG+ NDR)	3.32	(2.39)	(1.64)	(1.26)	(1.27)
Council Tax	(0.31)	(0.32)	(0.38)	(0.34)	(0.35)
FUNDED BY:	**(1.05)**	**0.24**	**(0.13)**	**(0.34)**	**(0.34)**
Crown Estate	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Spend to Save Reserve	-	-	-	-	-
Trading Income (Harbour A/C + SGP)	(1.00)	0.49	0.19	(0.01)	-
Sustainable use of Investment Returns	(0.05)	(0.25)	(0.32)	(0.33)	(0.34)
Unsustainable Draw from Reserves					
TOTAL REVENUE INCOME & FUNDING	**1.96**	**(2.46)**	**(2.15)**	**(1.93)**	**(1.96)**
Additional Expenditure / (Savings)	3.34	2.41	2.19	2.14	2.19
Anticipated (Increase) / Reduction in Available Funding	1.96	(2.46)	(2.15)	(1.93)	(1.96)
TOTAL FINANCIAL PRESSURE / (HEADROOM)	**5.30**	**(0.05)**	**0.04**	**0.21**	**0.23**

Annex B – Upside Scenario

Table B3. Forecast Income & Expenditure for the upside scenario:

GENERAL FUND NET REVENUE BUDGET	YEAR 1 2022/23 £m	YEAR 2 2023/24 £m	YEAR 3 2024/25 £m	YEAR 4 2025/26 £m	YEAR 5 2026/27 £m
PAY	**109.23**	**110.36**	**111.50**	**112.65**	**113.80**
NON-PAY of which:	**20.26**	**21.26**	**22.28**	**23.21**	**24.16**
Costs not subject to Inflation	(19.18)	(19.18)	(19.18)	(19.18)	(19.18)
Unitary Charge (PFI)	3.82	3.84	3.86	3.88	3.90
Fees & Charges	(23.51)	(24.10)	(24.70)	(25.32)	(25.95)
Admin, Property, Supplies, Services & Transport	54.86	56.10	57.36	58.66	59.98
Energy & Fuel	4.28	4.61	4.94	5.18	5.42
TOTAL NET SERVICE DELIVERY EXPENDITURE	**129.49**	**131.62**	**133.78**	**135.86**	**137.96**
CONTINGENCY, RECHARGES, OTHER INC. & FINANCING of which:	**(4.29)**	**(4.01)**	**(4.23)**	**(4.17)**	**(4.08)**
Contingency - General	1.20	1.20	1.20	1.20	1.20
Contingency - COVID-19	-	-	-	-	-
Contingency - Brexit	-	0.25	-	-	-
Crown Estate	(1.36)	(1.37)	(1.37)	(1.37)	(1.37)
Spend to Save	0.25	0.25	0.25	0.25	0.25
Financing Costs (incl. borrowing)	1.61	1.69	1.77	1.89	2.03
Economic Development Income	(0.97)	(0.97)	(0.97)	(0.97)	(0.97)
Interest on Revenue Balances	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Recharges (to/from other funds)	(4.99)	(5.04)	(5.09)	(5.15)	(5.20)
TOTAL NET REVENUE EXPENDITURE	**125.20**	**127.62**	**129.55**	**131.69**	**133.89**
CORE INCOME of which:	**(90.26)**	**(92.97)**	**(94.99)**	**(96.58)**	**(98.20)**
Core Government Funding (GRG+ NDR)	(79.65)	(82.03)	(83.68)	(84.93)	(86.20)
Council Tax	(10.62)	(10.93)	(11.31)	(11.65)	(12.00)
FUNDED BY:	**(22.56)**	**(22.39)**	**(22.72)**	**(22.87)**	**(23.21)**
Crown Estate	(0.24)	(0.24)	(0.24)	(0.24)	(0.24)
Spend to Save Reserve	(0.25)	(0.25)	(0.25)	(0.25)	(0.25)
Trading Income (Harbour A/C + SGP)	(7.71)	(7.21)	(7.21)	(7.02)	(7.02)
Sustainable use of Investment Returns	(14.37)	(14.69)	(15.02)	(15.36)	(15.70)
Unsustainable Draw from Reserves					
TOTAL REVENUE INCOME & FUNDING	**(112.82)**	**(115.36)**	**(117.71)**	**(119.45)**	**(121.41)**
Annual Budgetary Deficit / (Surplus)	**12.38**	**12.26**	**11.84**	**12.25**	**12.47**
CUMULATIVE BUDGETARY DEFICIT / (SURPLUS)	**12.38**	**24.63**	**36.48**	**48.72**	**61.19**

Annex C – Downside Scenario

Table C1. Assumed inflationary factors used to forecast the financial impact of the downside scenario:

Income	2022/23	2023/24	2024/25	2025/26	2026/27
Government Funding (GRG/NNDR)	-5.8%*	-3.0%	-3.0%	-2.5%	-2.0%
Council Tax Charge (% increase)	3.0%	3.0%	3.0%	3.0%	3.0%
Council Tax (est. Band D Charge)	1,242.52	1,279.80	1,318.19	1,357.74	1,398.47
Council Tax base (% increase)	0.0%	-1.0%	-1.0%	-1.0%	-2.0%
Fees and Charges	3.2%	3.0%	3.0%	3.0%	3.0%
Sustainable Draw from Reserves	-14.37 M	-14.69 M	-15.02 M	-15.36 M	-15.7 M
Total Trading Income	7.46	6.38	6.22	6.06	6.06
Utilisation of Harbour Account surplus	6.06	6.06	6.06	6.06	6.06
Shetland Gas Plant Income	1.40	0.33	0.16	-	-

Expenditure	2022/23	2023/24	2024/25	2025/26	2026/27
Pay - Teaching Staff	2.5%	2.5%	2.5%	2.5%	2.5%
Pay - Non-Teaching Staff	2.5%	2.5%	2.5%	2.5%	2.5%
Pensions - LGPS	0.3%	0.0%	1.0%	0.0%	0.0%
Pensions - SPPA	0.3%	1.0%	0.0%	0.0%	0.0%
Inflation – General (property, admin, supplies & services)	3.2%	3.0%	3.0%	3.0%	3.0%
Inflation – Energy & Fuel	9.0%	8.5%	8.0%	5.5%	5.5%
Unitary Charge (AHS - PFI)	0.52%	0.52%	0.52%	0.54%	0.54%
Brexit uncertainty Contingency	1.50 M	1.00 M	0.75 M	0.50 M	0.25 M
COVID-19 Contingency	1.25 M	0.50 M	0.25 M	0.25 M	0.25 M

Annex C – Downside Scenario

Table C2. Financial implications of inflationary factors and assumptions for the downside scenario, by year:

GENERAL FUND NET REVENUE BUDGET	YEAR 1 2022/23 £m	YEAR 2 2023/24 £m	YEAR 3 2024/25 £m	YEAR 4 2025/26 £m	YEAR 5 2026/27 £m
PAY	**2.65**	**2.71**	**2.78**	**2.84**	**2.92**
NON-PAY of which:	**1.55**	**1.34**	**1.37**	**1.31**	**1.35**
Costs not subject to Inflation	0.09	-	-	-	-
Increase to the Unitary Charge (PFI)	0.02	0.02	0.02	0.02	0.02
Fees & Charges	(0.74)	(0.71)	(0.73)	(0.75)	(0.77)
Admin, Property, Supplies, Services & Transport	1.82	1.66	1.71	1.76	1.81
Energy & Fuel	0.36	0.37	0.37	0.28	0.29
TOTAL NET SERVICE DELIVERY EXPENDITURE	**4.20**	**4.05**	**4.16**	**4.15**	**4.27**
CONTINGENCY, RECHARGES, OTHER INC. & FINANCING of which:	**2.70**	**1.45**	**0.95**	**0.70**	**0.45**
Contingency - General	-	-	-	-	-
Contingency - COVID-19	1.25	0.50	0.25	0.25	0.25
Contingency - Brexit	1.50	1.00	0.75	0.50	0.25
Crown Estate	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Spend to Save	-	-	-	-	-
Financing Costs (incl. borrowing)	-	-	-	-	-
Economic Development Income	-	-	-	-	-
Interest on Revenue Balances	-	-	-	-	-
Recharges (to/from other funds)	(0.05)	(0.05)	(0.05)	(0.05)	(0.05)
TOTAL NET REVENUE EXPENDITURE	**6.89**	**5.50**	**5.10**	**4.85**	**4.71**
CORE INCOME of which:	**4.53**	**2.03**	**2.05**	**1.51**	**1.10**
Core Government Funding (GRG+ NDR)	4.84	2.34	2.27	1.84	1.43
Council Tax	(0.31)	(0.32)	(0.23)	(0.33)	(0.34)
FUNDED BY:	**0.70**	**0.82**	**(0.16)**	**(0.17)**	**(0.34)**
Crown Estate	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Spend to Save Reserve	-	-	-	-	-
Trading Income (Harbour A/C + SGP)	0.75	1.07	0.16	0.16	-
Sustainable use of Investment Returns	(0.05)	(0.25)	(0.32)	(0.33)	(0.34)
Unsustainable Draw from Reserves					
TOTAL REVENUE INCOME & FUNDING	**5.23**	**2.85**	**1.89**	**1.34**	**0.76**
Additional Expenditure / (Savings)	6.89	5.50	5.10	4.85	4.71
Anticipated (Increase) / Reduction in Available Funding	5.23	2.85	1.89	1.34	0.76
TOTAL FINANCIAL PRESSURE / (HEADROOM)	**12.12**	**8.34**	**6.99**	**6.19**	**5.47**

Annex C – Downside Scenario

Table C3. Forecast Income & Expenditure for the downside scenario:

GENERAL FUND NET REVENUE BUDGET	YEAR 1 2022/23 £m	YEAR 2 2023/24 £m	YEAR 3 2024/25 £m	YEAR 4 2025/26 £m	YEAR 5 2026/27 £m
PAY	**109.71**	**112.42**	**115.21**	**118.05**	**120.96**
NON-PAY of which:	**20.58**	**21.92**	**23.29**	**24.60**	**25.95**
Costs not subject to Inflation	(19.18)	(19.18)	(19.18)	(19.18)	(19.18)
Unitary Charge (PFI)	3.82	3.84	3.86	3.88	3.90
Fees & Charges	(23.63)	(24.34)	(25.07)	(25.82)	(26.59)
Admin, Property, Supplies, Services & Transport	55.26	56.92	58.63	60.40	62.21
Energy & Fuel	4.31	4.67	5.05	5.32	5.62
TOTAL NET SERVICE DELIVERY EXPENDITURE	**130.29**	**134.34**	**138.50**	**142.65**	**146.92**
CONTINGENCY, RECHARGES, OTHER INC. & FINANCING of which:	**(1.54)**	**(2.84)**	**(3.39)**	**(3.69)**	**(4.00)**
Contingency - General	1.20	1.20	1.20	1.20	1.20
Contingency - COVID-19	1.25	0.50	0.25	0.25	0.25
Contingency - Brexit	1.50	1.00	0.75	0.50	0.25
Crown Estate	(1.36)	(1.37)	(1.37)	(1.37)	(1.37)
Spend to Save	0.25	0.25	0.25	0.25	0.25
Financing Costs (incl. borrowing)	1.61	1.61	1.61	1.61	1.61
Economic Development Income	(0.97)	(0.97)	(0.97)	(0.97)	(0.97)
Interest on Revenue Balances	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Recharges (to/from other funds)	(4.99)	(5.04)	(5.09)	(5.15)	(5.20)
TOTAL NET REVENUE EXPENDITURE	**128.75**	**131.50**	**135.10**	**138.95**	**142.92**
CORE INCOME of which:	**(88.74)**	**(86.72)**	**(84.67)**	**(83.16)**	**(82.07)**
Core Government Funding (GRG+ NDR)	(78.13)	(75.78)	(73.51)	(71.67)	(70.24)
Council Tax	(10.62)	(10.93)	(11.16)	(11.49)	(11.83)
FUNDED BY:	**(22.31)**	**(21.57)**	**(21.73)**	**(21.91)**	**(22.25)**
Crown Estate	(0.24)	(0.24)	(0.24)	(0.24)	(0.24)
Spend to Save Reserve	(0.25)	(0.25)	(0.25)	(0.25)	(0.25)
Trading Income (Harbour A/C + SGP)	(7.46)	(6.38)	(6.22)	(6.06)	(6.06)
Sustainable use of Investment Returns	(14.37)	(14.69)	(15.02)	(15.36)	(15.70)
Unsustainable Draw from Reserves					
TOTAL REVENUE INCOME & FUNDING	**(111.05)**	**(108.28)**	**(106.40)**	**(105.07)**	**(104.32)**
Annual Budgetary Deficit / (Surplus)	**17.70**	**23.22**	**28.70**	**33.88**	**38.60**
CUMULATIVE BUDGETARY DEFICIT / (SURPLUS)	**17.70**	**40.92**	**69.62**	**103.50**	**142.10**

Annex D – Using our investments

As explained in the body of this MTFP, we hold long-term investments that are externally managed in a diverse portfolio. These investments fluctuate in value on a daily basis, but the general trend over the long-term has seen a positive return on the investments held, far more than the level of interest that may have been generated if we had invested the underlying resources in an interest-bearing savings account.

For the purposes of our financial planning, we use the value of our ***underlying investments*** to estimate how much we can afford to withdraw from the investments to support our annual budget without creating a risk to the underlying asset base or future performance. This is because it is impossible to estimate how well the financial markets will perform in any one year, and to recognise that there is an element of risk in the markets we are invested in. Positive returns are not guaranteed every year, and some years will see a contraction in the value of our investments, as we saw at the end of March 2020. We are therefore discounting the 'noise' caused by the volatility and daily, weekly, monthly, and quarterly fluctuations that we talk about when we report the gross value of the investments every quarter.

Our investment strategy is predicated on our externally managed investments achieving, on average, a return of 7.3% over the long-term. The target return rate of 7.3% has two aims and can be split into two elements:

- 'inflation-proofing' - to protect the value of our underlying investments from the effects of inflation. For this 'inflation-proofing' element, we anticipate our underlying investments will increase in by 2.1%, on average, over the long term. When inflation is factored in, this means the buying power of our underlying investments is maintained into the future.
- growth in investments, for which we anticipate being able to utilise 5.2% of returns over and above that of inflation-proofing element. This is the element of our investment returns that is available for general spending which we are using to supplement our annual revenue budgets.

If we can limit the amount that we take from our investment returns to the 'sustainable draw', as set out in the table below, we are confident that we can withdraw between £14-15m in each year of this MTFP without eroding the underlying investment base in a way that would affect future investment returns.

Table D1. Estimated value of underlying investments if withdrawals are limited to a sustainable amount:

Year	Opening Balance	Additions/Growth		Withdrawals / Transfers		Closing Balance
		+ 2.1%	*+ 5.2%*	Sustainable Draw	Unsustainable Draw	
2021/22	271.5	5.7	14.1	(14.1)	-	277.2
2022/23	277.2	5.8	14.4	(14.4)	-	283.1
2023/24	283.1	5.9	14.7	(14.7)	-	289.0
2024/25	289.0	6.1	15.0	(15.0)	-	295.1
2025/26	295.1	6.2	15.3	(15.3)	-	301.3
2026/27	301.3	6.3	15.7	(15.7)	-	307.6
2027/28	307.6	6.5	16.0	(16.0)	-	314.1
2028/29	314.1	6.6	16.3	(16.3)	-	320.7
2029/30	320.7	6.7	16.7	(16.7)	-	327.4
2030/31	327.4	6.9	17.0	(17.0)	-	334.3
2031/32	334.3	7.0	17.4	(17.4)	-	341.3

In recent years, we have taken more than the sustainable draw so that we can set a balanced budget. In 2021/22, we took an additional £8.089m to meet the shortfall we encountered between our total income and our total expenditure. The scenarios we have described in this MTFP have been prepared on the basis that we will use *only* the sustainable draw to support future revenue spending. All three scenarios predict budgetary deficits, which vary in scale, in each of the five years covered by the MTFP.

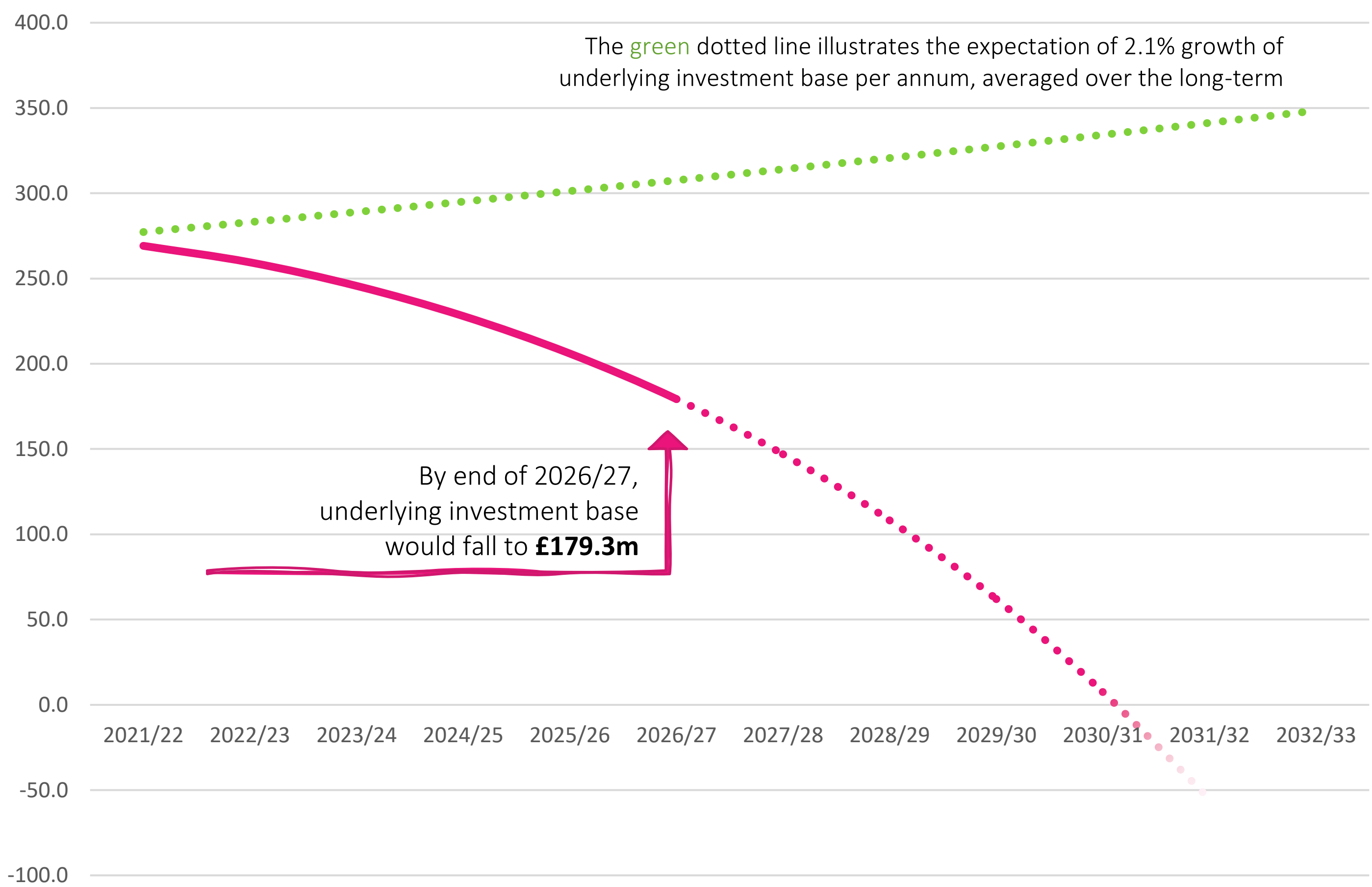
Table D2 and chart D1 help illustrate the impact on our investments if we were to use the reserves to meet the anticipated budgetary deficits over this MTFP period and beyond. Table D2 details the estimated impact on underlying investment values, and chart D1 plots that trajectory, compared to the expected growth of investments as per the Investment Strategy.

Table D2. Estimated value of underlying investments if withdrawals are made to balance annual budgets:

Year	Opening Balance	Additions/Growth		Withdrawals / Transfers		Closing Balance
		+ 2.1%	*+ 5.2%*	Sustainable Draw	Unsustainable Draw	
2021/22	271.5	5.7	14.1	(14.1)	(8.1)	269.2
2022/23	269.2	5.7	14.0	(14.0)	(15.3)	259.5
2023/24	259.5	5.4	13.5	(13.5)	(19.3)	245.7
2024/25	245.7	5.2	12.8	(12.8)	(22.8)	228.0
2025/26	228.0	4.8	11.9	(11.9)	(26.8)	206.0
2026/27	206.0	4.3	10.7	(10.7)	(31.0)	179.3
2027/28	179.3	3.8	9.3	(9.3)	(36.1)	147.0
2028/29	147.0	3.1	7.6	(7.6)	(41.9)	108.2
2029/30	108.2	2.3	5.6	(5.6)	(48.4)	62.1
2030/31	62.1	1.3	3.2	(3.2)	(55.9)	7.5
2031/32	7.5	0.2	0.4	(0.4)	(47.9)	(40.3)
2032/33	(40.3)	-0.8	-2.1	2.1	(54.2)	(95.3)

[NB: this illustration is modelled on the central scenario if no changes are made to mitigate growth in budgets (i.e., the 'do nothing approach'). The 'unsustainable draw' has been adjusted to offset the reduction in value of the sustainable draw due to lower investment returns than has been included in the central scenario model]

Chart D1. Impact on underlying investment values if used to manage annual budget deficits:



Annex E

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

Office for Budgetary Responsibility:

- *Fiscal Risks Report*, July 20201
- *Economic and Fiscal Outlook*, October 2021

EY Item Club:

- *Summer Forecast*, July 2021
- *Autumn Forecast*, October 2021

Fraser of Allander Institute:

- *FAI Economic Commentary 2021 Q4, December 2021*
- *FAI Economic Commentary 2021 Q3, September 2021*
- *FAI Economic Commentary 2021 Q2, June 2021*

National Institute for Economic and Social Research:

- *UK Economic Outlook. Recovery: stalling not soaring*, November 2021

Office for National Statistics:

- monthly GDP data

National Records of Scotland:

- mid-year population estimates & demographic profiles

HMT:

- Consolidated Economic Forecasts (21 individual forecasts) issued monthly latest dataset issued December 2021

Scottish Fiscal Commission:

- *Scotland's Economic and Fiscal Forecasts, December 2021*
- *Scotland's Economic and Fiscal Forecasts, August 2021*