

# Our Budget Challenge

Shetland Islands Council is facing extreme funding challenges. The money we receive from government to provide vital services is expected to stay at the same level, while we continue to face rising costs and demands.

Our funding **shortfall** between 2023 and 2026 is expected to be around **£106 million**. This budget gap is the difference between what the council needs to spend to maintain our services at current levels, and the amount of funding it gets from the Scottish Government and other sources of income, such as council tax.

If government funding stays the same and costs continue to rise, we will have no option but to reduce and reshape services and increase our charges, including council tax.

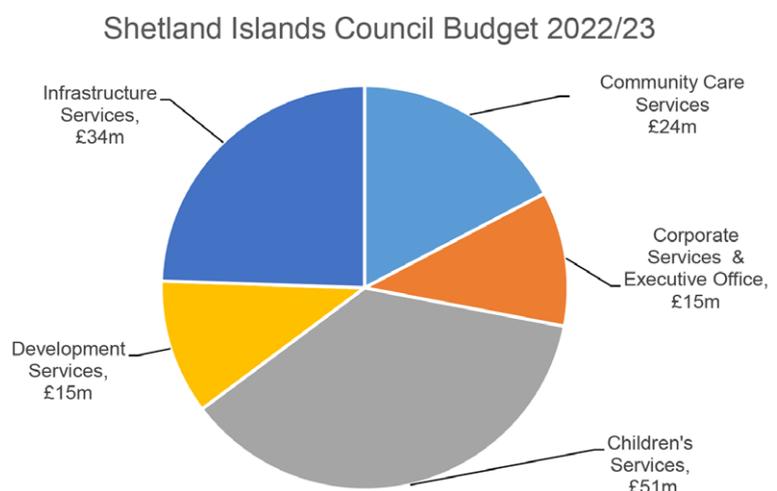
It is our responsibility to let you know how significant the challenges are, and to warn of potential changes which will have to be made to our services when the Council agrees its budget in March 2023.

## Where we get our money from, and how we spend it

Shetland Islands Council budgeted to spend **£139 million** in 2022-23.

Most of that money, by law, has to be spent on essential services – such as education, early learning and childcare, and supporting older and vulnerable people.

We have added costs in Shetland because of our geography. For example, we provide some services that other councils don't, such as ferries and air services. We work across all our islands, which means that it costs more for us to deliver the same services that Councils on mainland Scotland do.



Our annual grant settlement from the Scottish Government for 2022-23 was **£98.9 million**. That hasn't increased in line with inflation for a number of years now, and every year we have had to find savings and dip into our reserves to help balance our budget. The level of funding we receive from the Scottish Government does not cover the services we currently provide.

Shetland residents paid **£10.3 million** in council tax last year which is only around **8%** of our total annual funding.

There are complicated rules around how we can spend our money. Some is 'ring-fenced', meaning it can only be spent on specific things – for example, council house rents can only be spent on housing – and some Scottish Government funding comes with conditions. All this means there isn't a lot of flexibility around what money can be spent where.

We have reserves, but their value can go down as well as up, and we can't control that. On 31st March their total value stood at **£415 million** – in November that had gone down to **£388 million**.

We were recently challenged by the Accounts Commission in our recent Best Value Assurance Report for relying on drawing too much money down from our reserves every year to achieve a balanced budget. We believe we can afford to spend around **£15 million** a year and still keep the reserves sustainable.

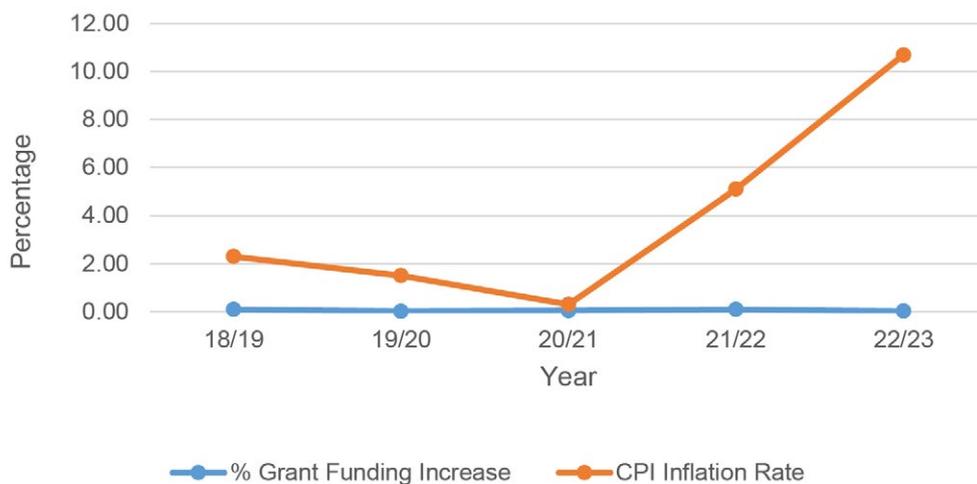
We are committed to get to a situation where we no longer rely on our reserves in this way to balance our yearly budget – we know that no one can keep 'paying the bills from the savings account' – but to do that, we will have to change how we work, and what we do.

## Risks and uncertainties

We are dealing with some very difficult issues, which continue to put pressure on budgets and services.

- Inflation currently stands at over 10.5% with the costs of energy, fuel and food all going up at a rate that outstrips our income.
- There is an increasing demand on some services due to the changing nature of our community, for example, its age profile.
- Brexit has made it difficult for us to source some raw materials, led to higher prices due to supply chain issues, and problems recruiting staff to some services.
- COVID-19 disrupted many of our activities. This had a financial impact - including loss of income through reduced service delivery, and spending more on things like employing agency staff to maintain services. The Council was at the forefront of supporting the community through the pandemic, and its impact will affect us all for years to come.
- Proposals for a National Care Service plans for structural re-organisation of care responsibilities and delivery could have a significant impact on the quality of care.
- In common with most Councils, there are areas where we have constant difficulties recruiting staff – we must accept this, and redesign our services accordingly, rather than continue to fail to fill vacant posts which puts additional pressure on remaining staff.
- Public sector funding is not likely to allow for further pay increases or inflation – adding to the projected funding gap in future years.
- The cost of living crisis means more people in Shetland are likely to look to the Council for help as they struggle to make ends meet.
- The global climate emergency means the Council will need to spend significantly in the coming years to reach net zero.
- Our infrastructure (roads, ferries, buildings) are ageing and will need more maintenance or replacement in the coming years.

## Difference between Inflation and SIC Government Grant Funding



Our Council services work 24 hours a day, 7 days a week, 365 days a year. Staff are constantly providing services which are crucial to the fabric of our community. We support the wellbeing of individuals, families and our wider society, as well as local economic development.

We are facing one of the most economically unstable and difficult times in living memory. We are not alone. Councils across the country are facing the spiralling costs of goods, services and energy along with growth in demand while also trying to deliver vital frontline services, support the most in need and meet their legal duties.

We need to change and innovate, and work closely with other organisations in Shetland to go forward in these extraordinary times. We want to make sure we are focusing our reducing resources on what matters most to our community.

Our management team is working through the different possibilities with elected members, who will come together to make final decisions on next year's budget and spending in March. Before that point, we'll be sharing our thoughts with you on the potential way forward, and asking you for your input.

In the meantime, you can see more information on how the Council spends and invests your money on our website at [www.shetland.gov.uk/budget-finance](http://www.shetland.gov.uk/budget-finance)