



Glasgow City Council

All Political Groups

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Financial Forecast 2015-16

1. Introduction

- 1.1 The purpose of this report is to outline the Financial Forecast for the Council in 2015-16. Members may then wish to consider an appropriate budget strategy for this period.

2. Background

- 2.1 The Scottish Government has provided local authorities with a provisional budget settlement for both revenue and capital allocations for 2015-16. This is earlier than usual but the normal consultation process will still take place in early December. The settlement is therefore still subject to change.
- 2.2 It also excludes a number of allocations for funding including Council Tax Reduction Scheme, Discretionary Housing Payments, Scottish Welfare Fund and Free School Meals for P1 to P3.
- 2.3 The overall local government settlement for 2015-16 is cash standstill when compared to 2014-15. However needs based indicators have been updated resulting in a provisional allocation for Glasgow for 2015-16 of £1,174.097 million. This represents a reduction of £13.1 million (1.1%) on 2014/15.
- 2.4 In previous years there has been a requirement for local authorities to meet certain commitments in order to receive their full provisional revenue settlement. If councils did not agree to meet these commitments then the provisional settlement would have been reduced. The commitments from 2014-15 are noted below:
- (i) Maintain a council tax freeze in each of the three years of the spending Review;
 - (ii) Maintain teacher numbers in line with pupil numbers and secure places for all probationers who require one under the teacher inductions scheme;
- The council agreed to these commitments as part of its 2013-15 budget. As part of the Scottish Budget announcement for 2015/16 the Scottish Government have confirmed that (i) above remains unchanged however there are plans to move (ii) to an outcomes basis. It is planned that this will be agreed by 1 March 2015. The implications of not agreeing to the commitments will remain although they are suspended for (ii) until the review is complete.
- 2.5 In furtherance of its commitment to implementing both the Statement of Ambition and the Statement on Joint Working and Resourcing, the Council will work with its

community planning partners to develop a means to share budget, investment and resource planning information to inform the decision making process.

3. Financial Forecast

- 3.1 In establishing a Financial Forecast for 2015-16 each element of the Council's budget should be considered separately.

Resources

Central Government Grant

- 3.2 Based on the current provisional settlement central government grant is expected to reduce by £13.1 million in 2015-16. The forecast assumes that the council will agree to meet the prescribed requirements of the Scottish Government and will therefore receive its full provisional allocation.

Council Tax Buoyancy

- 3.3 The current Council Tax Band D is £1,213.00. Over recent years the level of gross council tax billed has increased however this has been off-set by commensurate increases in exemptions mainly resulting from the economic downturn. More recently the level of exemptions has stabilised and therefore it is deemed reasonable to assume a prudent increase in the level of net council tax billed for 2015-16 of £800,000.

Spending Commitments

Inflation

- 3.4 The financial framework must recognise the impact of inflation on expenditure and income for the forthcoming year.
- 3.5 Inflation can be categorised across a few broad themes. These are:
- Pay Inflation To cover the ongoing cost of employees and associated costs
 - Non Pay inflation Where there are specific cost increases in particular areas either linked to contracts or services.
 - Income General increase in Fees and Charges for customers and clients.
- 3.6 Having reviewed inflation levels in light of the current economic climate it is anticipated that the overall increases are as set out in Table 2.

Table 2 - Inflation 2015-16

	2015-16 £m
Pay Inflation	6.2
Non Pay Inflation	2.8
Income	-0.4
Total Net Impact of Inflation	8.6

- 3.7 This assumes an increase in the pay bill as a result of pay awards, contractual payments aligned to estimated inflation rates and income inflation at 1%.
- 3.8 In recognition of the fact that this forecast assumes a reduction in overall grant levels there has been no provision made in respect of Social Work Services including residential care charges, residential schools, foster care etc. Inflation in these areas would normally be considered in light of the overall settlement. It should also be noted that in many cases actual increases in these areas are determined nationally and are not within the power of the Council to dictate.
- 3.9 If there is an inflationary increase applied to charges met by Social Work Services then this will require to be managed corporately within the overall budget for 2015-16.

Unavoidable Spending Pressures

- 3.10 Spending pressures represent increases in costs that are necessary to maintain the current level of service provision and are either directly associated with the previous decisions of the Council or result from significant increases in external costs. These are detailed below.

	2015-16 £m
Superannuation	0
Revenue Consequences of Capital	2.0
SPT	0
Other Cost Increases	5.0
Total Spending Pressures	7.0

- 3.11 Strathclyde Pension Fund is currently subject to an actuarial valuation, the outcome of which would impact on 2015/16. Early indications are that there may be no requirement for an increase to current employers' contributions and this position has been reflected in the forecast. An allowance of £2million has been provided in recognition of additional recurring revenue costs resulting from current capital projects. The council provides funding to Strathclyde Passenger Transport (SPT) however the forecast currently assumes no increase in its precept.
- 3.12 A corporate provision of £5 million has been made for other cost increases. This includes increases in landfill tax, carbon tax and welfare reform.

Financing Costs

- 3.13 The council's Investment Programme is funded mainly from borrowing but also from external income (including grants) and capital receipts. The Financial Forecast takes account of the estimated borrowing resulting from the council's current approved and completed programme of investment through financing costs. City Deals will form a significant element of the approved programme from 2015/16 onwards and any financial implications from cashflow funding will be met from the Financing Costs budget. The assumption is that any new capital projects for 2015-16 will be funded within overall council resources.

Full Year Effects

- 3.14 A number of previous budget savings decisions have an ongoing impact into 2015-16. These total £2 million and relate to Corporate Transport and Agile Council.

Balances

- 3.15 The Council has established a policy of restoring reserve balances to 2% of Net Expenditure over the medium term. In light of the economic climate contributions to General Fund reserves were deferred over the period 2011-15. The estimated level of General Fund reserves by March 2015 is £18.3m, equivalent to 1.3%.
- 3.16 To achieve the target of 2% of Net Expenditure a sum of £10.5million is required. It is considered prudent to re-instate contributions to General Fund reserves at a level of £3million from 2015/16 onwards.

4. Probable Outturn 2014-15

- 4.1 It is expected that net expenditure will be in line with budget in 2014-15. Executive Directors will be expected to take all necessary action to contain net expenditure within approved budgets. This includes delivery of the Service Reform programme savings.

5. Summary

- 5.1 The above analysis outlines the key budget movements that affect the Financial Forecast for 2015-16. These are summarised below:

	2015-16
	£m
<u>Resources</u>	
Central Government Grant	-13.1
Council Tax Buoyancy	0.8
Total Available Resources	<u>-12.3</u>
<u>Spending Commitments</u>	
Inflation	8.6
Unavoidable Spending Pressures	7.0
Financing Costs	0.0
Total Spending Commitments	<u>15.6</u>
Initial Spending Gap	27.9
ADD	
Full Year Effects	-2.0
Contribution to General Fund	3.0
Net Spending GAP	<u>28.9</u>

6. Growth

- 6.1 This framework does not include any provision for growth. Each political group has to determine its own level of growth. This would have to be funded through additional savings over and above those identified above.

7. Risks

7.1 The financial framework has been based on the best understanding of the Council's current financial position and the prudent use of professional judgement in relation to variable factors. The key risks include:

- Financial Settlement The sums included in the forecast are provisional and may be subject to further revision.

- Inflation Although an assumption has been made in respect of all aspects of inflation the pay awards for 2015-16 have yet to be agreed. In addition general inflation factors will vary and will have either a favourable or adverse impact on the forecast.

There are no general inflation provisions in respect of Social Work Services or SPT. The actual level of inflation associated with these areas will be subject to external decisions over which the Council will not have control.

- 2014-15 Budget Monitoring It is anticipated that the Council family will take all necessary action to ensure that net expenditure is contained within approved budgets.

- Service Reform The Service Reform programme forms a key element of the current budget and failure to achieve these targets would place a significant budget pressure on the current and future years budgets.

- National Reforms Welfare Reform and the Integration of Health and Social Care are all major national reforms impacting over the period of this forecast. As the implementation of the reforms is developing there is still a level of uncertainty around all of the financial implications.

8. Future Years

8.1 This forecast is for 2015-16 only as information on future years will not be available until the next UK Government Spending Review is published. This is not expected before Autumn 2015.

8.2 Economic forecasts over the last few years have consistently suggested that by 2013 only a third of public spending revenue reductions had been implemented by the UK Government and that financial year 2017-18 could experience the worst reduction followed by 2011-12 and then 2016-17. For context in 2011-12 the Scottish Local Government revenue settlement reduced by £250 million with the Glasgow settlement reducing by £45 million.

9. Conclusions and Recommendations

- 9.1 This Forecast provides Members with a basis to develop their budget strategy for 2015-16.
- 9.2 Members are therefore asked to consider the Financial Forecast identified above and develop a strategy to meet the spending gap for the 2015-16 Budget.