



Glasgow City Council

City Administration Committee

Report by Executive Director of Finance

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Additional Item

3rd November 2022

FINANCIAL FORECAST 2023-26

Purpose of Report:

To provide City Administration Committee with information on the current Financial Forecast for the financial years from 2023/24 to 2025/26

Recommendations:

City Administration Committee is asked to;

- a) Note the content of the report;
- b) Ask the Executive Director of Finance to provide further updates as information becomes available from UK and Scottish Government Budget Announcements in the lead up to Glasgow City Council setting its Budget.

Ward No(s):

Citywide:

Local member(s) advised: Yes No consulted: Yes No

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1 Financial Forecast

- 1.1 The Financial Forecast (Appendix 1) considers the Spending Gap which the Council is likely to face over the next three year period. It is considered by the Strategic Budget Group with Budget Options being presented by Officers to the Cross party Budget Group ahead of Council setting The Budget and Council Tax for 2023/24 before the statutory deadline in March.
- 1.2 The Council has had to identify savings in order to produce a balanced budget for a number of years. With the current inflationary pressures within the system, the scale of savings which will be required are considerably higher than have been faced in previous years.
- 1.3 The Financial Forecast is produced using the best available information and reasonable assumptions. At this stage, the forecast is not accounting for any increase in demand for services as a result of the cost of living crisis or as a result of inflationary pressures elsewhere within public services.
- 1.4 The Financial Forecast is produced using a range of scenarios. based on our Central Assumptions, we have a spending gap of £196.2m over the three year period with a gap of £119.4m in 2023/24.

2 Policy and Resource Implications

Resource Implications:

Financial: Services will be required to produce significant savings options to produce a balanced budget

Legal: Council has a legal requirement to produce a balanced budget.

Personnel: Savings on this scale cannot be made without impacting on staff levels

Procurement: N/A

Equality and Socio-Economic Impacts:

Does the proposal support the Council's Equality Outcomes 2021-25? Please specify.

What are the potential equality impacts as a result of this report?

(no significant impact, positive impact or negative impact)

Please highlight if the policy/proposal will help address socio-economic disadvantage.

Climate Impacts:

Does the proposal support any Climate Plan actions? Please specify:

What are the potential climate impacts as a result of this proposal?

Will the proposal contribute to Glasgow's net zero carbon target?

Privacy and Data Protection Impacts:

3 Recommendations

City Administration Committee is asked to;

- a) Note the content of the report;
- b) Ask the Executive Director of Finance to provide further updates as information becomes available from UK and Scottish Government Budget Announcements in the lead up to Glasgow City Council setting its Budget.



Glasgow City Council

All Political Groups

Date September 2022

**Report by Martin Booth, Executive Director of Finance
Ext: 73837**

APPENDIX

Financial Forecast 2023-26

1. Introduction and Background

- 1.1 This report establishes the Financial Forecast 2023-26. In considering the forecast spending gaps over the next three years it is recognised that there is a degree of uncertainty over a number of the key elements. This is particularly relevant in the current climate of inflationary pressures and public sector funding challenges. This report looks at each of these key elements and includes the most likely in the final forecast.
- 1.2 For many years the council has had to identify savings in order to balance its budget. As a result, the ability to identify opportunities for efficiency savings and service reform was becoming increasingly difficult. However, the current levels of inflation are significant and are forecast to have a profound effect on the finances of the council family over the next 3 years. This will severely affect the type and range of savings the council family are able to identify for the period of this Financial Forecast.

2. Implications from previous year's budgets

2.1 Covid Funding

- 2.1.1 Some of the funding provided by the Scottish Government to support Covid related expenditure and lost income in 2020-21 was carried forward into 2021-22. The Scottish Government also committed additional funds in 2021-22. After Covid pressures experienced in 2021-22 a balance of £32.2 million was carried forward into 2022-23. This is expected to primarily manage ongoing income pressures in Glasgow Life and Parking resulting from Covid. It is anticipated that an element of this balance will be available for carry forward into 2023-24. This Forecast assumes that from 2024-25 any residual Covid implications on service/ALEO budgets are either managed through existing budgets or through the application of Budget Pressures funding.

2.2 Previously Approved Decisions

- 2.2.1 In the 2021-22 Budget option 21GL01 reduced the Glasgow Life service fee by £4.7 million. This reduction was to be restored in full by January 2023. The 2022-23 Forecast included the restoration of £1.2 million therefore the balance of £3.5 million is included for 2023-24.

2.2.2 The Property and Land Strategy is forecast to achieve savings of £3 million over the period of 2023-2024. These savings have already been built into the base and are underpinned by ear-marked reserves until they are delivered.

3. Funding

3.1 Central Government Grant

3.1.1 The Scottish Budget for 2023-24 is expected to be announced in December 2022. It is expected that the Local Government settlement will be available shortly thereafter. However in May 2022 the Scottish Government published a Resource Spending Review for its budget for the next 5 years. That indicated that the revenue settlement to local government would be flat cash compared to 2022-23 for the period of this Forecast.

3.1.2 The Forecast also considers the impact of distributional changes which occur as part of the process of updating indicators through the settlement process. It is assumed that any reductions to Glasgow allocations will be mitigated by the Floor mechanism.

3.2 Council Tax Buoyancy

3.2.1 Council tax buoyancy reflects increases in the council tax base (i.e. the number and bands of housing within the city and the collection patterns of council tax). The number of properties and bandings has continued to increase and have a positive impact on the overall amount billed. Collection patterns continue to be challenging to forecast due to volatility caused by Covid and Cost of Living awards through Council Tax bills. It is also assumed that inflationary pressures affecting households will increase bad debts but it is too early to assess. However, taking these factors into account it is estimated that a prudent assumption would be an increase of £3 million in 2023-24 from buoyancy.

3.3 Council Tax Increase

3.3.1 The current Council Tax Band D is £1,428.00. This forecast does not include any increase in council tax during the period 2023-24 to 2025-26. A 1% increase in the council tax Band D is estimated to generate a net £2.4 million per annum after allowing for increased expenditure on Council Tax Reduction. This is provided for planning purposes for political groups as the exact amount will be dependent on the final proposed Band D increase.

4. Spending Pressures

4.1 Inflation

4.1.1 Inflation can be categorised across a number of broad themes and will apply across the council family. Inflation has been on an increasing trend in recent months and this is forecast to continue. The biggest impact for this forecast is in pay, contracts and utilities. Best estimates based on information at this time have been applied to the Forecast but will be kept under review. The assumptions for 2023-24 to 2025-26 are shown below:

Theme	Assumption
Pay Inflation	The pay award for 2022-23 has not yet been settled but is currently assumed at 5% with minimum and maximum

Theme	Assumption
	<p>payments based on staff salary levels. The base budget for 2022-23 assumed inflation at the level of the Public Sector Pay policy announced with the Scottish Budget. The Scottish Government have indicated that funding will be made available to Local Government to assist with the pay award for 2022-23. The net impact of the increased cost of the pay award in the base budget is reflected in the Spending Gap for 2023-24.</p> <p>Based on the current levels of inflation and the 2022-23 pay award an increase in 2023-24 of 5% is assumed. For future years an increase of 2% is assumed.</p>
Non Pay inflation	No increase except where there are provisions for specific increases linked to contracts or services. As provision for utilities inflation is not normally included in the Financial Forecast this is shown under Budget Pressures.
Income	General increase in fees and charges of 2% across council services except where these are determined externally or related to contractual arrangements. Although this is an increase below inflation this recognises the challenges households are already facing from other inflationary pressures.

4.1.2 In light of these assumptions the projected level of inflation over the next three years is outlined below:

Inflation 2023-2026

	2023-24 £m	2024-25 £m	2025-26 £m	Total £m
Pay Inflation	60.0	25.1	25.7	110.8
Adjustment to Base Budget for Pay Inflation 2022-23	48.2			48.2
Scottish Government Funding for 2022-23 Pay	-28.1			-28.1
Non Pay Inflation	7.7	5.2	3.0	15.9
Income	-0.6	-0.6	-0.6	-1.8
Total Net Impact of Inflation	87.2	29.7	28.1	145.0

4.2 Pensions

4.2.1 The Strathclyde Pension Fund (SPF) actuarial valuation of 2020-21 resulted in no change to employers' contributions for 2021-22 to 2023-24. At this time it is assumed

that the next actuarial valuation applicable for 2024-25 will result in no increase to the employer's contribution rate. This will be kept under review as further details emerge.

4.2.2 The council has a legislative obligation to regularly re-enrol staff who are not members into the SPF; this is called auto-enrolment. The next auto-enrolment could increase the value of employer's contributions for 2023-24. Based on previous experience of auto-enrolment this is estimated at £3 million.

4.3 Budget Pressures/Revenue Consequences of Capital (RCOC)

4.3.1 Budget pressures reflect unavoidable spending pressures that the council must meet over and above inflation. Revenue Consequences of Capital represent the ongoing revenue costs of operating facilities and activities that have been supported through the council's investment programme.

4.3.2 It is proposed to create a general allowance of £5.0m per annum to manage revenue consequences of capital and other cost pressures including any variation to inflation including pay. It has not been the practice in the Financial Forecast to allow for Utilities inflation; however recognising the unprecedented increases being experienced in this area an allowance of £10 million is included. This reflects that around half of the estimated consumption has been pre-purchased through national procurement contracts.

4.3.3 A sum of £11.7 million is included to reflect the new rental payments the council will require to make to City Property in respect of the proposed new Sale & Leaseback arrangements. This is to support the payment of Equal Pay Liabilities.

4.3.4 This forecast assumes that any other underlying budget pressures being experienced and reported by services or ALEOs during 2022-23 will be contained within their overall budgets for 2023-24 and future years unless explicitly provided for during the budget process.

4.4 Joint Boards

4.4.1 The council provides precept funding to the Strathclyde Partnership for Transport (SPT) to support both Concessionary Fares and Passenger Transportation. In light of the overall funding position it is proposed to align the change to these precepts by the average grant movement of constituent authorities.

4.5 Investment Programme and Financing Costs

4.5.1 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.

4.5.2 As part of the 2022-23 Budget significant additional capital expenditure was approved for the next 3 years and the financing costs associated with this built into budget estimates. It is not anticipated at this time that significant new capital expenditure will be proposed through this budget. This will be kept under review through the council's Capital Planning Board.

4.5.3 The Scottish Government published a Capital Spending Review in February 2021. Based on that the assumption is that the General Capital Grant funded by the Scottish

Government will remain at current levels of £50 million per annum. This assumption has already been built into capital planning.

4.5.4 Consideration is also being given to potential opportunities around accounting for service concessions and debt restructuring. Taking these into account no increase in financing costs is forecast for 2023-24. Increases are forecast for 2024-25 and 2025-26 but will be kept under review.

4.5.5 Any investment proposals outside the terms of these assumptions require to be funded either through spend to save prudential investment or a realignment within the council's overall resources.

4.5.6 In assessing the financial impact of any investment decisions it is assumed that for every £17 of capital investment, £1 of revenue expenditure will be incurred via financing costs.

4.6 Contributions from ALEOs

4.6.1 The base budget assumes a £6 million contribution from City Building and a £3.965 million contribution from City Property. After review, it is concluded that there is no capacity to increase the contributions from City Building or City Property.

5 Probable Outturn

5.1 It is expected that net expenditure will be in line with budget in each year of this forecast. Executive Directors and Managing Directors will be expected to take all necessary action to contain net expenditure within approved budgets.

6 Growth

6.1 This forecast 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 through the budget process to meet any spending gaps.

7 Reserves

7.1 The council's existing policy is to retain uncommitted general fund reserves at 2% of net expenditure over the medium term (£35m). As part of the annual budget process the council is required to review its level of reserves to ensure they remain prudent and appropriate.

7.2 As at 31 March 2022 the council held £33.3 million (1.9%) in uncommitted general fund reserves. The budget for 2022-23 approved the use of reserves for a number of investments; it was noted in the budget papers that the recurring costs of two of these investments would be met from future year's technical adjustments. This is reflected in the Spending Gap. No assumption is included for any contribution to balances.

8 Scenario Planning

8.1 Within the financial forecast there are a number of key factors where any variance to the assumption will have a significant effect on the spending gap. These are central government grant and pay inflation and the report has highlighted some of the variables. These have been considered and a range of scenarios (Upper, Central and Lower) have been prepared with the Central scenario representing the most likely

outcome. This results in a Spending Gap of £119.4 million for 2023-24 and £196.2 million over the 3 year period of this forecast.

8.2 The impact on the forecast should some of these key factors vary is noted below and outlined in detail within the Appendix 1:

8.2.1 Upper Range Scenario – Pay Inflation and Central Government Grant reduction at high range of assumptions. This would increase the projected spending gap to £277.8 million over the three years.

8.2.2 Lower Range Scenario - Pay Inflation and Central Government Grant at low range of assumptions. This would decrease the projected spending gap to £114.6 million over the three years.

8.3 It is proposed that financial planning should target budget options to the central range scenario value. In the event that those budget options are not required to meet the spending gap then these provide capacity for future years' pressures.

9 Summary

9.1 Based on the Central scenario assumptions the budget changes over the term of this forecast are summarised below:

	2023-24 £m	2024-25 £m	2025-26 £m	Total £m
<u>Funding Movement</u>				
Central Government Grant	0.0	0.0	0.0	0.0
Council Tax Buoyancy	3.0	0.0	0.0	3.0
Total Net Funding Movement	3.0	0.0	0.0	3.0
<u>Spending Pressures</u>				
Inflation	87.2	29.7	28.1	145.0
Pensions Auto-enrolment	3.0	0.0	0.0	3.0
Budget Pressures/RCOC	26.7	5.0	5.0	36.7
Joint Boards	0.0	0.0	0.0	0.0
Financing Costs	0.0	3.0	6.0	9.0
Contribution from ALEOs	0.0	0.0	0.0	0.0
Previously Approved Decisions	3.5	0.0	0.0	3.5
Restoration of Balances	2.0	0.0	0.0	2.0
Total Spending Pressures	122.4	37.7	39.1	199.2
Net Spending Gap	119.4	37.7	39.1	196.2

10 Risks

10.1 The financial forecast 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 estimated and reflect a like for like movement in Central Government Grant. The figures will be updated on receipt of the settlement from the Scottish Government and may have a favourable or adverse impact on the forecast.

The funding to be provided by the Scottish Government to support the 2022-23 pay award has been estimated. In addition, an element of it is due to be paid as General Capital Grant. It is assumed that this can be applied in the budget to release revenue savings to the full value of the grant.
- Inflation

Although an assumption has been made in respect of all aspects of inflation the pay awards are estimates. The award for 2022-23 has not yet been finalised and this could result in a further increase to the base budget. Future years pay awards are also very uncertain in the current economic climate. In addition, the impact of future inflation on contracts and utilities has been estimated and will have either a favourable or adverse impact on the forecast.
- Probable Outturn

It is anticipated that the Council family will take all necessary action to ensure that net expenditure is contained within approved budgets. Failure to achieve this will result in a requirement to either draw on reserves or identify additional savings and identify areas of budget pressure.
- Equal Pay

The council are in discussions with claimants' representatives on a settlement of equal pay liability from 1 April 2018 until the new pay and grading scheme is in place. The financial implications of this have been included under Budget Pressures. The financial implications of the new pay and grading scheme are not able to be assessed at this time. This will continue to be monitored and reported accordingly.
- Covid-19

It is assumed that any residual financial pressures from Covid will be met from carried forward balances in 2023-24. In future years it is assumed that these will be met from approved budgets.

11 Considerations for Budget Strategy

- 11.1 In previous years the Scottish Government has established protocols that restrict the level of savings that can be applied to Social Work Services in line with the additional funding provided for the development of IJBs. The council has continued to assume a

level of funding for pay inflation in relation to Social Work Services staff costs. For information, the value of funding provided for the IJB in the Financial Forecast in 2023-24 amounts to £21.6m rising to £32.2m over the three years of the forecast.

- 11.2 The Scottish Government commitment to teacher numbers has been in place for a number of years and there is currently no proposal to change that. Savings proposals from Education Services will clearly show the impact on teacher numbers.

- 11.3 Taking into account the forecast spending gap, savings of 15% would be required over the three years. This is before consideration of savings for 2023-24 and future years, approved as part of previous years budgets. This also assumes no contribution from a council tax increase to meet the spending gap. This would result in target savings as outlined in Appendix 2.

12 Conclusions and Recommendations

- 12.1 This forecast provides Members with a basis to commence development of their budget strategy for the next three years including the level of savings to be sought from services and ALEO's. A further update will be provided on receipt of the local government settlement from the Scottish Government.

SCENARIO PLANNING

A) Upper Range Scenario

- Changes to Assumptions:
- Grant reduction of 1% per annum
 - Pay awards increase by 1% more per annum

Impact of changed assumption

	2023-24 £m	2024-25 £m	2025-26 £m	Total £m
Central Scenario	119.4	37.7	39.1	196.2
Grant reduction of 1%	14.8	14.8	14.8	44.4
Pay Awards increase by 1.0%	11.9	12.5	12.8	37.2
Upper Range Scenario	146.1	65.0	66.7	277.8

B) Lower Range Scenario

- Changes to Assumptions:
- Grant increase of 1% per annum
 - Pay awards less by 1%

Impact of changed assumption

	2023-24 £m	2024-25 £m	2025-26 £m	Total £m
Central Scenario	119.4	37.7	39.1	196.2
Grant increase of 1%	14.8	14.8	14.8	44.4
Pay Awards reduce by 1%	11.9	12.5	12.8	37.2
Lower Range Scenario	92.7	10.4	11.5	114.6

SAVINGS TARGETS

APPENDIX 2

	2023-24	2024-25	2025-26	Total
	£m	£m	£m	£m
Chief Executives	4.0	1.3	1.3	6.6
Education Services	47.5	15.0	15.5	78.0
Financial Services	3.4	1.1	1.1	5.6
Neighbourhoods, Regeneration & Sustainability	11.5	3.6	3.8	18.9
Social Work Services	44.9	14.2	14.7	73.8
Glasgow Life	7.7	2.4	2.6	12.7
Jobs and Business Glasgow	0.4	0.1	0.1	0.6
Total Savings	119.4	37.7	39.1	196.2
% of Budget	9.0	3.0	3.0	15.0