



**Glasgow City Council**

**Political Groups**

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## **Financial Forecast 2013-2015**

### **1. Introduction**

- 1.1 The purpose of this paper is to outline the Financial Forecast for the Council in 2013-15. Members may then wish to consider an appropriate budget strategy for this period.

### **2. Background**

- 2.1 The Scottish Government provided local authorities with a 3 year budget settlement in December 2011 indicating the provisional revenue and capital allocations for the period 2012-15. The council approved its budget for 2012-13 in February 2012, the first year in the 3 year period. This forecast covers the remaining 2 years of that 3 year settlement period.
- 2.2 Since 2010-11 the council has experienced year-on-year cash reductions in its settlement from the Scottish Government resulting from the current economic climate and the UK Government's reduction in public sector finances. Although the overall Scottish local government budget will be standstill over the 3 year period 2012-15 the methodology used to distribute funds means that individual local authority budgets will still be subject to fluctuation. For Glasgow, the result is that over the next 2 years, the council's revenue allocation will continue to reduce in cash terms. In addition the level of capital grant will reduce in 2013-14 but will increase in 2014-15. This reflects the Scottish Government's re-profiling of local authority capital grant over the period 2012-16.
- 2.3 The terms of the 3 year settlement from the Scottish Government includes a requirement for local authorities to meet certain commitments in order to receive their full provisional revenue settlement. If councils do not agree to meet these commitments then the provisional settlement would be reduced. The council agreed to these commitments as part of its 2012-13 budget and it is anticipated that the Scottish Government will ask councils to agree to these commitments again for the next 2 years. There were 3 commitments, the first 2 of which are detailed 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;

- 2.4 The third commitment was that local authorities had “to pass on their full share of funding to Police Boards in line with the existing agreed level for 2011-12”. This was to contribute to maintaining police numbers. This commitment will no longer be directly relevant as a result of the decision of the Scottish Government to re-organise police boards into a single police authority from April 2013. As such, the council will no longer be required to make an annual payment to Strathclyde Police. However discussions are ongoing regarding how the allowance in local authorities’ settlements for police provision will be removed. Similar discussions are also ongoing regarding funding for fire services.

### **3. Financial Forecast**

- 3.1 In establishing a Financial Forecast for 2013-15 each element of the Council’s budget should be considered separately.

#### **Resources**

##### Central Government Grant

- 3.2 Based on the 3 year provisional settlement central government grant is expected to reduce, after accounting for Police grant, by £8million over the next 2 years. The forecast assumes that the council will agree to meet the Scottish Government commitments and will therefore receive its full provisional allocation.

##### Council Tax Buoyancy

- 3.3 The current Council Tax Band D is £1,213.00. Over a number of years the council has experienced a shortfall in its council tax income levels. This has resulted firstly from council tax exemptions being higher than budgeted and latterly due to increasing difficulties in collection of council tax arrears. The level of shortfall has been slowly reducing and income levels are expected to be on budget during 2012-13. However, due to the current difficult economic climate, previous years’ assumptions on overall income collection remain challenging and it would not be prudent to assume any increased level of Council Tax income through buoyancy at this time.

#### **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 into across a few board 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 2013-15

	2013-14 £m	2014-15 £m
Pay Inflation	6.9	6.5
Non Pay Inflation	2.8	2.8
Income	-0.5	-0.5
Total Net Impact of Inflation	9.2	8.8

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 2013-15.

#### 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.

	2013-14 £m	2014-15 £m
Superannuation	0	0
Revenue Consequences of Capital	2.0	2.0
Joint Boards	0.1	0
Other Cost Increases	8.5	8.5
Total Spending Pressures	10.6	10.5

3.11 The recent actuarial valuation of Strathclyde Pension Fund concluded there was no requirement for any increase to current employers' contributions over the next 3 years. An allowance of £2million has been provided in recognition of additional recurring revenue costs resulting from current capital projects. Under Joint Boards, the forecast assumes that the removal of funding from the council's settlement relating to police and fire will result in no net impact on the council's budget. The council will continue to provide funding to Strathclyde Passenger Transport (SPT) however as there is no overall increase in grant there is no general inflationary provision in precepts for SPT other than for Concessionary Fares.

- 3.12 Provision of £8.5million has been made for other cost increases. This includes the council's contribution to the funding of the council tax benefit replacement scheme due for introduction in April 2013, part of the Welfare Reform changes. Although funding for this scheme will be transferred from the Department for Works and Pensions (DWP) to the Scottish Government, the DWP will be applying a 10% reduction. It was agreed through COSLA that this would be met jointly by the Scottish Government and local authorities in 2013-14 in order that current claimants do not suffer any financial detriment when they transfer to the new scheme. As no announcement has been made regarding the scheme's operation in 2014-15 an assumption has been made that the council will need to meet the 10% reduction in full.
- 3.13 The provision for other cost pressures will also contribute to increases in landfill tax and carbon tax and other national reforms including auto-enrolment for pensions.

#### Financing Costs

- 3.14 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. Expenditure on financing costs is forecast to reduce over the next few years due to the repayment of loans. However, for planning purposes, it has been assumed that there will be no net change to the financing costs budget in recognition of future capital spending plans based on the Council Strategic Plan, mainly on schools, and other requirements to ensure the council's asset base remains fit for purpose. A more detailed report will be provided in Autumn 2012 on Capital Pressures. Commonwealth Games related expenditure is included in the Investment Programme financial planning.

#### Full Year Effects

- 3.15 A number of previous budget decisions have an ongoing impact into 2013-14. These options are listed in Appendix 1.

#### Balances

- 3.16 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 2011-13. The estimated level of General Fund reserves by March 2013 is £18.7m, equivalent to 1.2%.
- 3.17 It is considered prudent to re-instate contributions to General Fund reserves in 2013-14 and a sum of £3million is planned.
- 3.18 It is also expected that a share of existing Strathclyde Police and Fire Board reserves will be allocated back to local authorities during 2013-14 however the value and timing of this is still to be determined.

### **4. Probable Outturn 2012-13**

- 4.1 It is expected that Services net expenditure will be in line with budget in 2012-13. 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 2013-15. These are summarised below:

	2013-14 £m	2014-15 £m	Total £m
<u>Resources</u>			
Central Government Grant	-4.9	-3.1	-8.0
Council Tax Buoyancy	0.0	0.0	0
Total Available Resources	-4.9	-3.1	-8.0
<u>Spending Commitments</u>			
Inflation	9.2	8.8	18.0
Unavoidable Spending Pressures	10.6	10.5	21.1
Financing Costs	0.0	0.0	0
Total Spending Commitments	19.8	19.3	39.1
Initial Spending Gap	24.7	22.4	47.1
<u>ADD</u>			
Full Year Effects	-16.3	0.0	-16.3
Contribution to General Fund	3.0	0.0	3.0
Council Strategic Plan	10.0	-2.0	8.0
Service Reform Programme	7.0	0.0	7.0
<b>Net Spending GAP</b>	<b>28.4</b>	<b>20.4</b>	<b>48.8</b>

## 6. Other Provisions

- 6.1 This framework includes additional provision for funding the commitments in the Council Strategic Plan. This framework does not include any other 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.
- 6.2 The framework also includes provision for current projects at risk of non-delivery in the Service Reform Programme.

## 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. Inevitably however there remain elements of financial risk within the overall framework. The key risks include:

- Financial Settlement                      The sums included in the forecast are provisional and may be subject to further revision. The final grant allocations for the following financial year are usually notified in December.

- Inflation

Although an assumption has been made in respect of all aspects of inflation the pay awards for 2013-15 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 the ultimate decision.
- 2012-13 Budget Monitoring

It is anticipated that Executive Directors 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. An allowance has been made in the forecast for projects at risk of non-delivery.
- National Reforms

Welfare Reform, Police & Fire 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 still being developed there is still a high level of uncertainty around all of the financial implications.

## **8. Future Years**

- 8.1 This forecast has concentrated on the next 2 financial years however some early work has been undertaken in respect of projections beyond 2015. Initial conclusions are that the current trend of cash reductions in the council's settlement is expected to continue. Scottish Government are anticipating that the Scottish budget will continue to reduce until at least 2016-17. It is difficult at this early stage to accurately forecast the impact for the council but initial projections suggest the reduction in grant over that 2 year period could be in the region of around £50million. This is before any allowance for spending commitments.

## **9. Conclusions and Recommendations**

- 9.1 This Forecast provides Members with a basis to develop their budget strategy for 2013-15.
- 9.2 Members are therefore asked to consider the Financial Forecast identified above and develop a strategy to meet the spending gap for the 2013-15 Budget.

## Appendix 1 – Full Year Effects 2013-14

		£m
<b>10. Corporate Savings</b>		
11GF122	Workforce Planning	-10.1
11GF123	Tomorrow's Office	-1.9
11GF124	Twice As Much By 2013	-0.8
12GF65	Improved Productivity – staffing	-2.0
12GF66	Support Services Review – Back Office	-1.0
12GF67	Advertising and Sponsorship	-0.5
<b>11. Total</b>		<b>-16.3</b>