



Glasgow City Council

Political Groups

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Financial Forecast 2011–13

1. Introduction

- 1.1 The purpose of this paper is to outline the Financial Forecast for the Council in 2011-13. This covers the final two years of this Council and Members will wish to consider an appropriate budget strategy for this period.

2. Background

- 2.1 This financial forecast is being developed against a backdrop of severe financial pressure across the whole of the public sector. The current UK government's clear aim is to reduce the size of the national debt through a mixture of fiscal measures and reductions in public expenditure.
- 2.2 At this time it is unclear how these decisions will affect the council directly. However the Westminster government have planned a budget for late June with the normal public spending announcements expected in the autumn. The Scottish Government will thereafter develop their own budget proposals and present these to parliament in late October and local authorities would then receive their grant settlements in early December. This year should also be the first year of a new three year settlement covering the years 2011-14. Clearly given the timescales outlined above the Council must make prudent assumptions around the likely impact of any public sector spending cuts and develop the financial forecast to reflect the impact on the council.
- 2.3 Chief Executives and Directors of Finance commissioned Glasgow University's Centre for Public Policy for Regions (CPPR) to estimate the potential movement in the total Scottish government budget, revenue and capital from 2011-12 to 2013-14. This was considered by COSLA who endorsed a planning assumption of 4% reduction in cash terms (12 % reduction in real terms) over the next 3 years. Commentators are suggesting that the recent budget reductions of £6billion and the deferral of the impact in Scotland into 2011-12 will require a front-loading into next year of the reduction.
- 2.4 Overall the impact of these reductions has been assessed as a 3.8% cash reduction in funding in 2011-12 and a further cash reduction of 1.3% in 2012-13. These reductions would affect both revenue and capital grants over this period.
- 2.5 In developing the financial framework for 2011-13 we have therefore adopted this assessment as the base position in relation to the funding received by the council. The incidence of these reductions has been reflected within this forecast on the same basis as reductions were made to the 2010-11 funding of the council. Prudent assessments of the likely levels of inflation that will affect the council and all other known unavoidable spending pressures have also been considered.

3. Financial Forecast

- 3.1 In establishing a Financial Forecast for 2011-13 each element of the council's budget should be considered separately.

Resources

Central Government Grant

- 3.2 In line with the above the financial forecast includes a cash reduction in grant of 3.8% in 2011-12 and a further reduction of 1.3% in 2012-13. This assumes that all Councils are treated equally, however Glasgow City Council in 2010-11 received the lowest percentage increase in its settlement in Scotland. It is also assumed that Local Government is not disadvantaged through a protection of areas of spend such as Health and Police.
- 3.3 If there is any increase in the settlement for 2011-13 it will require a review of assumptions on expenditure as it may result in additional spending commitments.
- 3.4 It is our assumption that the Scottish Government will provide additional revenue grant to support the equivalent of a 3.2% increase in Council Tax until the end of the current parliament and that previous years allocations remain in the base budget thereafter. This financial forecast therefore includes provision of an additional £7.8m in respect of 2011-12 but no additional grant in 2012-13 as this represents the first year of a new parliament.
- 3.5 The overall impact of these changes to central government grant are detailed below:

Revenue Grants	2011-12 £m	2012-13 £m	Total
Central Government Grant ¹	-45.7	-15.0	-60.7
Council Tax Freeze	7.8		7.8
Total Reduction in Grant	-37.9	-15.0	-52.9

Council Tax Levels

- 3.6 In line with our assumption an additional grant of £7.8million has been allowed in 2011-12 to freeze Council Tax. In relation to 2012-13 Council Tax levels are again assumed to be frozen but there is no assumption of additional grant.

Council Tax Buoyancy

- 3.7 Over the past two years the Council has evidenced an increase in the number of Council tax exemptions mainly related to properties being empty for longer periods. This has led to an overall shortfall in the level of Council Tax income received against budget. Whilst efforts continue to improve both the "in year" and overall level of collection it would not be prudent to assume any increased level of Council Tax income through buoyancy at this time.

¹ Excludes Police Specific Grant

Spending Commitments

Inflation

3.8 The financial framework recognises and element of the impact of inflation on expenditure and income for the forthcoming year.

3.9 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.

3.10 Having reviewed inflation in light of the current economic climate it is anticipated that the overall increases will be:

Inflation	2011-12 £m	2012-13 £m	Total £m
Pay Inflation	5.0	5.1	10.1
Non Pay Inflation	0.6	0.8	1.4
Income	-0.5	-0.5	-1.0
Total Increase	5.1	5.4	10.5

3.11 The underlying assumption for pay inflation is based on pay negotiations at this time It also includes ongoing impact of the Tomorrow's Workforce programme. This analysis also assumes that the new Westminster government reverses the decision to increase national insurance rates by 1% from 1 April 2011.

3.12 There is no provision in respect of Social Work Services relating to residential care charges, residential schools, foster care etc, similarly there has been no provision for residential schools within Education Services. 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. Inflation in these areas would normally be considered in light of the overall grant increase.

3.13 If there is an inflationary increase applied to charges met by Social Work or Education Services then this will require to be managed corporately.

Unavoidable Spending Pressures

3.14 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:

Unavoidable Spending Pressures	2011-12 £m	2012-13 £m	Total £m
Superannuation	3.2	3.2	6.4
Revenue Consequences of Capital	4.5	6.0	10.5
Joint Boards	-4.7	-0.4	-5.1
Other Cost Increases	3.2	5.0	8.2
Total Increase	6.2	13.8	20.0

- 3.15 Increases reflect the know impact of Superannuation increases and a prudent estimate of the likely operating costs of new facilities such as the Riverside Museum and NISA. Reductions in Joint Boards reflect the general reduction in overall revenue grant received by the council.

Financing Costs

- 3.16 The council's currently net Investment Programme totals £915.2 million as at Period 2 of 2010-11. The Financial Forecast takes account of this programme of investment through Financing Costs. Increases in Financing Costs for are budgeted at £17.6m in 2011-12 and £13.9m in 2012-13. The level of financing costs will be reviewed once settlement details are received and budgeted levels will be considered over a 5 year period.

Full Year Effects

- 3.17 As part of the 2010-11 budget a number of budget options were approved that had an ongoing impact into 2011-12 and 2012-13. As a result of these early decisions these options will provide some mitigation against the spending gap and provide net additional savings of £13.5m going forward. These savings are listed in Appendix 1.

Balances

- 3.18 The Council has established a policy of holding reserve balances at 2% of Net Expenditure. Based on the current budget this now equates to approximately £32 million. At March 2010 the unallocated General Fund totals £28million.
- 3.19 A further contribution of £5 million to General Fund reserves is planned in each year from 2011 to 2013 to reflect risk around the financial assumptions including the challenges faced by Services to implement the required level of savings.

Probable Outturn 2010-11

- 3.20 It is expected that Services net expenditure will be in line with budget in 2010-11. Executive Directors are required to take all necessary action to contain net expenditure within approved budgets.
- 3.21 Regular monitoring reports will be assessed by the Executive Committee and Finance and Audit Scrutiny Committee throughout the year and any necessary corrective action identified and implemented. Projected outturns will be completed at key points during the year.

Growth

- 3.22 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 within this report.

4. Summary

4.1 The above analysis outlines the key budget movements that affect the Financial Forecast for 2011-12 and 2012-13. These are summarised below:

	2011-12 £m	2012-13 £m	Total £m
<u>Resources</u>			
Central Government Grant	-37.9	-15.0	-52.9
Council Tax	0.0	0.0	0.0
Total Resources	-37.9	-15.0	-52.9
<u>Spending Commitments</u>			
Inflation	5.1	5.4	10.5
Unavoidable Spending Pressures	6.2	13.8	20.0
Financing Costs	17.6	13.9	31.5
Total Spending Commitments	28.9	33.1	62.0
Initial Spending Gap	66.8	48.1	114.9
Less:			
Full Year Effects	-14.1	0.6	-13.5
Final Spending Gap	52.7	48.7	101.4

Note: Savings will be required from Workforce Planning and through other efficiencies.

5. Workforce Planning

5.1 The council is currently finalising plans for the realignment of services following the release of staff over the next three years through the Tomorrow's Workforce programme. Savings generated through this process will be used to offset the spending gap identified above.

5.2 All staff will be advised by the end of June of their agreed leaving dates and thereafter service reform proposals will be established by Services.

6. Capital Grants

6.1 The CPPR analysis assumed that capital grants would also be subject to reductions in line with the overall grant reductions outlined above. The impact of these reductions of the council's capital grants is detailed below.

Capital Grant	2011-12 £m	2012-13 £m	Total £m
General	3.9	1.3	5.2
Specific	7.5	2.5	10.0
Total Reduction	11.4	3.8	15.2

6.2 The council would have to consider how it delivers its existing investment programme within the available resources.

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** At this stage the level of reduction in grant support remains uncertain and subject to the impact of national and Scottish Government budget decisions. The final grant allocations are unlikely to be available until December 2010.

- **Targeted Funding** Within an overall reduction in funding either the national or Scottish Government may protect specific areas e.g. Police, Health. This has the effect of reducing available funding for other services, eg local government, and potentially creates additional spending pressures within the council's budget.

It has also been assumed that Glasgow City will receive the average level of funding in its settlement. If it receives a below average settlement then this will also create additional spending pressures in the council's budget.

- **Inflation** Although an assumption has been made in respect of all aspects of inflation the pay awards for 2011-13 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 either Social Work Services or Education Services. 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.

- **2010-11 Budget Monitoring** It is anticipated that Executive Directors will take all necessary action to ensure that net expenditure is contained within approved budgets. Any overspends will impact on the level of General Fund reserves and would have to be recovered in future years.

- **Service Reform** These proposals form a key element of the current budget and any failure to achieve these targets would place a significant budget pressure on the current and future years' budgets.

8. Conclusions and Recommendations

8.1 This Forecast provides Members with a basis to develop their budget strategy for 2011-13.

8.2 Members are therefore asked to consider the Financial Forecast identified above and develop a strategy for the 2011-13 Budget.

Appendix 1 – Full Year Effects 2010-11

		2011-12 £m	2012-13 £m	Total £m
10GF32	Phasing Out Non Contractual Overtime	-1.6		-1.6
10GF33	Streamlining of Middle Management	-3.0		-3.0
10GF36	Grants Integration Project	-4.8		-4.8
10GF37	Reduction spending on travel/conferences etc	-0.1		-0.1
10GF39	Review of SSC and CCC	-0.6	-0.7	-1.3
10GF45	Transport Review - Reduction in Staff Mileage	-0.3		-0.3
	Total Corporate	-10.4	-0.7	-11.1
10DR13	Air Route Development Fund	0.1		0.1
10DR21	Office Accommodation - Tomorrow's Office	-0.9	1.6	0.7
10DR22	Property Management	-0.1	-0.1	-0.2
10DR23	Review of Economic & Social Initiatives Budgets	-0.2	-0.2	-0.4
	Total Development and Regeneration Services	-1.1	1.3	0.2
10ED10	Demographic Changes	-1.3		-1.3
10ED11	SWES Realignment	-0.5		-0.5
10ED22	English as an Additional Language	-0.2		-0.2
10ED24	Home to School Transport	-0.2		-0.2
10ED27	Knightswood Dance School - Residential Provision	-0.2		-0.2
10ED29	Cluster Support Service	-0.4		-0.4
10ED30	Community Learning	-0.1		-0.1
	Total Education Services	-2.9		-2.9
10SW29	Non Statutory Services	0.8		0.8
10ED11	SWES Realignment	-0.5		-0.5
	Total Social Work Services	0.3		0.3
	Total Full Year Effects	-14.1	0.6	-13.5

Note: The phasing of programme implementation results in a net cost over 2011-13. This is recovered from savings from 2013-14 onwards.