Glasgow City Council

City Administration Committee

Date: 20th August 2026

Item 4
20th August 2026

Report by Robert Emmott, Executive Director of Financial Services

Financial Outlook

1. Introduction and Background

1.1 A draft two-year spending gap for 2027 to 2029 was published in the 2026/27 Budget Report in February 2026. Since then, further updates have been made based on more up-to-date information and work has also been undertaken to prepare a draft longer-term forecast to 2037 that includes the costs associated with the new Pay and Grading Structure that is the subject of a concurrent Report.

1.2 This Report sets out those forecasts and makes recommendations to ensure the financial sustainability of the Council.

2. Outlook Assumptions

Settlement

2.1 The Financial Forecast contains several key assumptions. The projections for the Local Government Settlement are based on the Scottish Spending Review 2026 which was published alongside the Scottish Budget 2026/27 in January 2026. This provided indicative allocations for 2027/28 and 2028/29 that were broadly flat cash and the forward assumption for these, and future years, is for no growth in the Settlement.

2.2 The Spending Review also set out Portfolio Efficiency and Reform plans based on the Scottish Government's Public Service Reform Strategy. The spending Review notes that "the future fiscal outlook for Local Government will bring challenges that will require it to participate in further efficiencies, and undertake transformation of services, in line with our strategic ambitions. However, Local Government will have the flexibility in how they find the savings that are equivalent to the quantum necessary and fit their local circumstances." It is assumed that any expected savings from the Scottish Government Public Service Reform Strategy are contained within the flat cash settlement assumptions.

2.3 The council is continuing to develop its own activity based on the principles of Public Service Reform. It is assumed that this will support the delivery of future savings required to meet the spending gaps outlined in this report.

Pay Inflation

2.4 One of the considerations for pay inflation assumptions is the Scottish Government Public Sector Pay Policy. The most recent policy from 2025/26 covered three years from 2025 to 2028. Although the policy does not apply to local government it is seen as a benchmark in influencing expectations on local government pay. The policy set out a 9% financial envelope over the three years. To date the approved pay awards for 2025 to 2027 total 7.5%. This would in theory leave a balance of 1.5% inflation from 2027-28.

2.5 Another consideration is UK Government inflation. This is currently reporting at 2.8%, and, although increases are anticipated due to the ongoing conflict in the Middle East, the outlook is uncertain.

2.6 Taking these factors into account the assumption for pay inflation is for 3% in 2027-28 and 2% for future years which is aligned to the UK target for inflation. These assumptions will be kept under review.

Homelessness

2.7 The Council has committed to meeting the cost of the estimated overspend on homelessness within the Health and Social Care Partnership. The net cost of this in 2025/26 was £38 million which the council funded mainly from the Budget Support Fund. That fund is now fully extinguished. In the current year the council has budgeted to fund the estimated cost of £56 million mainly from a permission by the Scottish Government to vary the conditions on the use of General Capital Grant (GCG) in 2025-26.

2.8 The current estimates, assuming no additional actions beyond those currently being taken by the Council, are that costs of homelessness will increase to £75 million in 2027/28 and £93 million in 2028/29. It is assumed for the purposes of this forecast that homelessness costs remain static beyond 2028/29.

2.9 An additional £2.5 million of GCG was also awarded to the council in 2025-26 to assist with the additional borrowing costs that emerge from the use of the flexibility noted at 2.8. This was used to balance the 2026/27 Budget, however, as this was a one-off allocation, it still needs to be funded in the budget in 2027/28. There were full year effects from approved savings which partly offset this pressure resulting in a net £2.2 million additional cost in the 2027-28 budget.

2.10 The UK Government have not engaged with the Council in relation to this matter, but extensive dialogue has taken place with the Scottish Government. The additional costs are driven by the combined impact of Home Office policies and the statutory obligations arising under Scottish legislation with most of the additional cost attributable to temporary accommodation hotel and B&B accommodation arising from the cumulative impact of the 2,548 refugees, granted leave to remain outwith Glasgow since 2023, who have presenting as homeless in the city.

2.11 In February 2026, the then Cabinet Secretary for Finance and Local Government provided flexibility that enabled the Council to meet the homelessness cost pressure in 2026/27. In August 2026 the Deputy First Minister confirmed that the 2027/28 Local Government Settlement will include specific provisions to provide financial support and that the Council can therefore assume in its financial projections that the Local Government Settlement will include a meaningful contribution towards Glasgow's unique issues on homelessness.

Pension Fund Contributions

2.12 The current assumption is that employer pension contributions to Strathclyde Pension Fund (SPF) will reduce to 15% from April 2027. This is based on interim work undertaken by SPF during 2025. A full triennial actuarial valuation is currently being undertaken with indicative results expected in the autumn.

2.13 At the last valuation, the value of employer pension contributions reduced to 6.5% for two years before increasing to 17.5% in the current year. Given the funding level of SPF has increased from that at the last valuation, and it is a reasonable assumption therefore that the results will be similar to that of the last valuation. On this basis the estimated additional saving across the total Council Family, including the impact of the new PGS is £48 million.

2.14 The core assumptions are summarised below:

- a flat cash settlement from Scottish Government from 2027/28 onwards;
- Council Tax buoyancy of £2.6m in 2027/28 and a 2% increase per year thereafter;
- pay awards of 3% for 2027/28 and 2% for 2028/29 and future years;
- no provision for inflation, except where contractual;
- a general allowance of £7.5 million per annum for demand pressures;
- costs of Reducing Class Contact Time from August 2027 are fully funded as per the agreement with Scottish Government;
- a reduction in employers pension contributions to 6.5% from 2027/28;
- provision for the costs of the current approved capital investment programme with any new capital being funded from future General Capital Grant anticipated to be approximately £50 million per annum;
- a flat cash settlement from the council to the HSCP;
- homelessness costs assume no additional actions to mitigate demand; and
- the use of a one-off benefit in 2027-28 of £14.6 million being the balance of unused GCG from 2026-27.

2.15 The forecast makes no assumptions on a Council Tax increase however a 1% increase would raise £3.1 million in 2027/28.

3. Pay and Grading Scheme (PGS) Costs

3.1 The assumptions above relate to the ongoing financial position. However, the financial implications of the proposals set out in the Concurrent Report on the implementation of a new PGS also need to be reflected in the financial forecast,

3.2 The additional recurring costs of the recommended model are an estimated £82.5 million with £65.4 million required in 2027/28 and £16.5 million in 2028/29 with the remainder in 2029/30.

3.3 In addition to the recurring revenue costs of the new PGS the Council will need to address the one-off costs of any residual equal pay liabilities. These have still to be agreed but the Council has been granted approval to enable it to raise upwards of £170 million through the refinancing of existing loans releasing a discount which can be classed as revenue. This would result in a recurring cost of £15.5 million per annum of debt charges. It should be noted that the exact sum raised will depend on several factors including interest rates at the time of borrowing and the final agreed structure of the scheme.

3.4 In the absence of any certainty about these costs the Council has also sought permission to use capital to fund one off costs. This requires approval from the Treasury it can be reasonably anticipated, based on support for equal pay settlements in other councils, that this will be approved.

3.5 Taking account of all aspects of the PGS proposals and estimates of one-off costs, including borrowing costs the financial impact of implementation is estimated at £120.8 million. This will contribute significantly to the financial gap each year and it is proposed to smooth the cost over five years, being the period that was originally assumed over which additional costs would accrue. This would be achieved by using the same flexibility used for homelessness costs in 2026/27. This is subject to Scottish Government approval which it is assumed will be granted.

3.6 This approach would incur additional debt charges estimated at £8.4 million (which are included in the costs) but would provide time to implement savings which have been profiled on the basis of 10% in 2027-28 increasing incrementally to 30% in 2031/32.

3.7 Whilst different parts of the Council Family are not expected to fund their actual share of the costs of implementation it is considered that all parts of the council family share of the overall costs and therefore a proportion would fall to the HSCP. These contributions could reduce the net impact on the spending gap by £24.9 million

3.8 The financial implications of PGS costs over a five-year period, are shown in the table below.

	27-28 £m	28-29 £m	29-30 £m	30-31 £m	31-32 £m	Total £m
Additional costs from PGS	57.2	12.4	14.9	17.1	19.2	120.8

4. Financial Forecast 2027-29

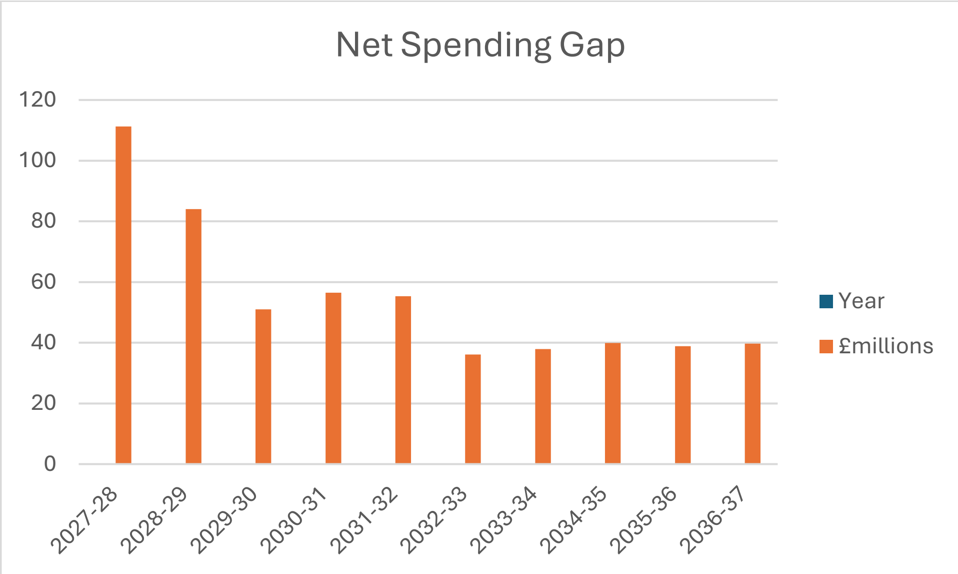
4.1 Based on the above the budget assumptions, including the PGS implications the financial forecast for the next two financial years is summarised below:

	2027/28 £m	**2028/29 £m**	**Total £m**
Funding Movement			
Central Government Grant	0.0	0.0	0.0
Council Tax Buoyancy	2.6	2.7	5.3
Total Net Funding Movement	2.6	2.7	5.3
Spending Pressures			
Inflation	40.3	27.4	67.7
Pensions Employers Contribution to 15%	-10.4	0.0	-10.4
Demand Pressures	7.5	7.5	15.0
Financing Costs	5.0	6.8	11.8
Homelessness	75.0	18.0	93.0
Full Year Effect from 2026-27 Budget	2.2	0.0	2.2
Pensions Employers Contribution to 6.5% from 15%	-48.3	0.0	-48.3
Total Spending Pressures	71.3	59.7	131.0
Net Spending Gap	**68.7**	**57.0**	**125.7**
Less SG support for homelessness	tbc	tbc	tbc
Less GCG carried forward	-14.6	14.6	0.0
Add Costs of PGS	57.2	12.4	69.6
Net Gap	**111.3**	**84.0**	**195.3**

5. Medium Term Financial Forecast

5.1 A longer-term forecast has also been undertaken applying similar assumptions to those noted at 2.12. The other key assumption relates to the PPP contract which ends in June 2030. There are several financial implications including the removal of Scottish Government Level Playing Field Support funding, the application of service concession flexibilities and its impact on debt charges after 2030, costs of the replacement operational model and property lifecycle costs. At this time, it is assumed that these changes will be cost neutral.

5.2 It is recognised that the further forward the forecast is projected the more uncertain the estimated spending gap. However, based on these assumptions, the annual spending gap from 2027-28 onwards varies from £36 million to £111 million. This is detailed in the table below:



6. Risks

6.1 This 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:

- Homelessness — The costs of homelessness are significant in the next two years. The commitment of the Scottish Government to make a meaningful contribution to these costs will reduce this, but the impact of this is not yet known.

- Pay and Grading — The financial implications of the new pay and grading scheme are based on the current model as proposed by the Council and is subject to approval by City Administration Committee. There is uncertainty on the level of one-off backdated costs resulting from the new scheme as these are still subject to ongoing negotiation with trade unions.

	It is assumed that a reduction in employers pension contribution to 6.5% will result from the current valuation of SPF which will be used to mitigate the increased costs. A 1% increase or decrease in this is equivalent to a £5 million movement over 5 years.
• Financial Settlement	The grant funding assumes a flat cash settlement in 2027/28 and 2028/29. A 1% reduction in funding would lead to an increase in the annual gap of £18 million. There is also risk from distributional changes, however, these would mostly be mitigated by the floor. There is also a possibility that there could be an increase in the settlement thus reducing the value of savings required.
• Probable Outturn	The P3 Monitoring report is highlighting some areas of pressure which will require to be addressed. It is therefore 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.
• Delivery of Savings	It is assumed that all approved savings will be delivered.
• Pay Inflation	A 1% increase or decrease in pay inflation equates to £10.8 million (excluding HSCP employee costs).

7. Conclusions

7.1 The latest projections forecast a budget gap of £195.3 million for 2027-29 including Homelessness. The Scottish Government has committed to contributing to the £93m pressure arising from homelessness and to working with the Council on a solution, however, at the time of writing the Report the extent of the financial support, which will be critical to the 2027/28 budget, is unknown.

7.2 Given the scale of the financial gap, it is essential that the Council takes steps immediately to prepare for the 2027/28 budget. This is especially important in the context of the medium-term projections which indicate sustained fiscal pressure.

7.3 In August 2025 the Committee established a Public Service Reform and Financial Strategy Political Oversight Group with a remit that included oversight of the budget process. Chaired by the Treasurer this Group supported the delivery of an outturn in line with budget estimates for 2025/26 and a balanced budget for 2026/27.

7.4 It is proposed that the Council instructs the Chief Executive and Executive Director of Financial Services, in consultation with the Public Service Reform and Financial Strategy Political Oversight Group develop a forward budget strategy to address the financial gap and that this be presented to Committee on 17 September 2026.

8. Recommendations

8.1 It is recommended that the Committee:

(a) notes the financial projections set out in the Report;

(b) welcomes the commitment from the Scottish Government to support homelessness in the city;

(c) notes that representations will continue to be made to the UK Government on the impact of Home Office decision-making;

(d) notes that engagement with COSLA and the Scottish Government on the 2027-29 budgets will continue, highlighting the impact of flat cash settlements; and

(e) notes the ongoing discussion with the Scottish Government in relation to Homelessness; and

(f) instructs the Chief Executive and Executive Director of Financial Services, in consultation with the Public Service Reform and Financial Strategy Political Oversight Group, to develop a forward budget strategy to address the financial gap set out this Report and that this be presented to Committee on 17 September 2026.