



Glasgow City Council

City Administration Committee

Date 21 August 2025

Report by Robert Emmott, Executive Director of Financial Services

Item 4

21st August 2025

Financial Outlook 2026-28

1. Introduction

- 1.1 This report presents the financial outlook for the Council over the next two financial years, 2026/27 and 2027/28, in the context of the current UK and Scottish economic climate and provides indicative saving requirements for this period.
- 1.2 In response the Report sets out recommendations that the Council engages with the UK and Scottish Governments on the key issues and agrees governance arrangements and processes for:
- delivering the investment agreed in the 2025/26 budget;
 - realising the savings required in the 2025/26 budget;
 - monitoring and managing the 2025/26 budget;
 - setting the 2026/27 and 2027/28 budgets;
 - developing medium and long-term financial plans; and
 - driving Public Sector Reform.

2. Background

- 2.1 The Council's Budget Strategy covering the three-year period 2024-2027 was published in November 2023. This approved a three-year approach to savings including the first year of this forecast of 2026/27. In February 2024, the Council approved its 2024/25 budget and agreed indicative Council Tax increases of 5% for 2025/26 and 2026/27 in order to meet the forecast spending gap of £107.7 million over the three years.
- 2.2 During the budget process for 2025/26 further updates were made to the 2026/27 Financial Forecast and a forecast was prepared for 2027/28.
- 2.3 In the context of savings of over £360m delivered over the past 10 years it is essential that early consideration is given to future budget to allow time for considering service redesign options as the ability to identify and implement savings is becoming increasingly difficult. This approach also aligns to the commitment by the Corporate Management Team to Public Service Reform.

3. Economic Outlook

- 3.1 In March 2025, the Office of Budget Responsibility (OBR) downgraded their UK GDP growth forecast from 2% to 1%, based on weaker productivity and a downturn in business (due to tax rises and less prospect of falling interest rates). The longer-term view of the OBR is that growth will average 1.75% over the rest of the decade. Higher energy and food prices and wage growth are expected to drive inflation to a high of 3.7% in 2025.
- 3.2 The current position is that GDP growth of 0.7% has exceeded expectations in the first quarter of 2025, CPI inflation rose to 3.5% and the Bank of England reduced interest rates to 4.25% in May 2025.
- 3.3 The International Monetary Fund (IMF) expects global growth to be 3.3% in 2025 but caveats this with uncertainty arising from trade tensions and policy uncertainties. In the UK trade tariffs on exports to the US are expected to impact adversely on GDP.
- 3.4 Rising long term borrowing costs have impacted on the UK budget and the Spring Statement set out a commitment to fiscal rules of stability (with day-to-day spending met by revenues) and investment (with net financial debt falling as a share of GDP by the fifth year of the forecast).
- 3.5 The Fiscal Framework agreement between the UK and Scottish Governments sets out the rules for Scottish Government funding. When there are changes in departmental spending for devolved services there is additional funding through the Block Grant. When there are changes to devolved tax revenues or social security spending there are adjustments to the Block Grant. Consequently, the fiscal position for Scotland is directly impacted by the decisions the UK Government makes to meet its fiscal rules.
- 3.6 The UK Spending Review was announced on 11 June 2025. For the current year (2025/26) this indicated only minor changes. For 2026/27 the total resource and capital funding through the block grant will increase by £1.7 billion compared to 2025/26 (3.4% in cash terms), by a further £1 billion in 2027/28 (2.0% in cash terms), and by a further £1.3 billion in 2028/29 (2.4% in cash terms).
- 3.7 This means that funding for the Scottish Government is set to grow at an average of 0.8% a year after accounting for inflation. The Scottish capital block grant increases by £0.6 billion (7.7% in real terms) next year but is then to fall back to below 2025/26 levels by the end of the decade.
- 3.8 A new 'local growth fund' was also announced, to invest in deprived communities across the UK, as well as investment in up to 350 deprived communities across the UK, to fund interventions including community cohesion, regeneration and improving the public realm. The level of Scottish funding from this will be "the same overall level in cash terms as under the UK Shared Prosperity Fund in 2025/26". (This includes investment in two trailblazer projects in Glasgow and Fife.)

4. Scottish Outlook

- 4.1 The April 2025 Fiscal Sustainability Report by the Scottish Fiscal Commission took a long-term look at sustainability. The Report highlights that the Scottish Government will face significant challenges funding public services, due to an aging population requiring increasing Health and Social care and concludes that improvements to the health of the population could ease this pressure. Most significantly it states that current projections for devolved public spending are unsustainable.

- 4.2 The Scotland's Economic and Fiscal Forecasts Report published by the Scottish Fiscal Commission in May 2025 estimates real terms growth in revenue funding of 1.2% and 0.9% in 2026/27 and 2027/28, respectively. The report also highlights the impact increased spending on Social Security will have on the Scottish Budget as the policies of the Scottish and UK governments diverge. However, the report recognises that the outcome of the spending review will require these estimates to be updated.
- 4.3 The Accounts Commission published a briefing on 2025/26 Local Government Budgets in May 2025 with the key messages of this report being:
- Scottish Government funding to local government in 2025/26 is increasing by six per cent in real terms, to £15.2 billion. However, local government continues to face recurring pressures in excess of funding uplifts, such as inflation, annual pay deals and growing demand for services, and most of the increase will be used to deliver previously agreed national commitments. Alongside this, councils are facing additional costs related to the increase in employer's National Insurance contribution rates, and investing in new buildings and assets is increasingly expensive.
 - At a time of constrained public finances and growing demand, not all cost increases can be met from central government funding and councils need to take local action to achieve budget balance over the short and medium term. At the time of setting their budgets, councils identified a difference of £647 million between anticipated expenditure and the funding and income they receive (the 'budget gap'). Councils are required to set balanced budgets and have agreed a range of actions to achieve this and close this gap. This includes all councils raising council tax rates, by between six and 15.6 per cent, identifying savings, drawing on reserves and increasing or introducing charges for accessing some services.
 - Councils continue to make savings across a broad range of services to address financial challenges and have been successful in identifying recurring measures that will help to address underlying pressures. Despite this, councils are still forecasting that more will need to be done in future years to achieve financial sustainability given their projected increases in both costs and level of service demand.
 - Councils' budget-setting processes vary, partly reflecting differences in organisational structures and local priorities, and this makes it difficult to compare information across Scotland. There remains an underlying issue with the transparency of how budget information is being presented.
 - Most councils engaged communities in some way to make decisions on their budgets for 2025/26, but there were variations in the depth and level of this engagement. By improving the accessibility and transparency of how they are reporting budget information, councils can better inform and include their local communities in making the choices required to address ongoing financial challenges.
- 4.4 The Scottish Government subsequently published its Medium-Term Financial Strategy on 25 June 2025. The central funding scenario is set out in the table below. It will be for the Scottish Government to determine how it will deliver a balanced budget to close the projected shortfall.

| | 2025-26 | 2026-27 | | 2027-28 | | 2028-29 | | 2029-30 | |
|---------------------------|---------------|---------------|-------------|---------------|-------------|---------------|-------------|---------------|-------------|
| | | £m | Change | £m | Change | £m | Change | £m | Change |
| Social Security | 6,772 | 7,544 | 11.4% | 7,976 | 5.7% | 8,379 | 5.1% | 8,825 | 5.3% |
| Health & Social Care | 20,200 | 21,459 | 6.2% | 22,487 | 4.8% | 23,635 | 5.1% | 24,810 | 5.0% |
| Local Government | 12,824 | 13,164 | 2.7% | 13,516 | 2.7% | 13,861 | 2.6% | 14,207 | 2.5% |
| Other | 12,828 | 12,772 | -0.4% | 13,153 | 3.0% | 13,577 | 3.2% | 13,881 | 2.2% |
| Totals | 52,624 | 54,939 | 4.4% | 57,132 | 4.0% | 59,452 | 4.1% | 61,723 | 3.8% |
| Central funding outlook | 52,623 | 53,975 | 2.6% | 55,235 | 2.3% | 57,100 | 3.4% | 59,099 | 3.5% |
| Modelled shortfall | | -964 | | -1,897 | | -2,352 | | -2,624 | |

5. Glasgow City Council Projections.

5.1 Officers have updated the Council's budget projections for 2026-28 based on the following key assumptions:

- a central scenario of a 2.7% growth in the settlement from the Scottish Government;
- Council Tax buoyancy of £2.5m per year;
- pay awards of 3%;
- no provision for inflation, except where contractual;
- the delivery of the already agreed 2025-28 savings;
- no new budget pressures carried forward from 2025/26;
- pension auto-enrolment costs of £1.5m in 2026/27;
- a general increase of 2% in income in 2026-27;
- £1.5m per year to restore General Fund balances; and
- provision for the costs of the agreed capital investment programme.

5.2 The 2.7% growth scenario is based on the Scottish Government's Medium Term Financial Strategy which assumes 3.3 per cent real growth per year on average for social care non-pay spending, Public Sector Pay Policy to social care pay and real-terms growth to remaining Local Government spending.

5.3 It is estimated that this would increase revenue funding by around £45m of which £5m would be needed for the pay award that is above the Public Sector Policy and £19m would require to be allocated to Health and Social Care leaving net additional funding of £21m.

5.4 As it will be a matter for the Scottish Government to determine how to bridge its projected shortfall a low funding scenario based on a flat cash settlement should also be noted.

- 5.5 The Strathclyde Pension Fund (SPF) actuarial valuation of 2023/24 resulted in a reduction to the value of employers' contributions from April 2024 in recognition of the funding levels of SPF. This is a long-term reduction in the employers' contribution rate of 1.8%, reducing from 19.3% to 17.5% and a short-term two-year greater reduction to 6.5%. The financial implications of this were reflected in the previous estimates for 2026/27 and there is no change to these assumptions. The next actuarial valuation will take effect from April 2027. Although current funding levels in the SPF remain positive it is not until the next valuation is concluded that the actual rates will be known. However, an interim valuation will be commissioned later in 2025 to inform budget planning.
- 5.6 In addition, the Council has committed to meeting the costs associated with the overspend on homelessness, from those granted leave to remain, within the Health and Social Care Partnership. The outturn cost of this in 2024/25 is £27m, though £12.4m of this will be met from reserves, leading to a net cost to the Council of £14.6m. Unless there is a change in policy projections are that this will rise to £43m in 2025/26 and £66m in 2026/27. It is estimated that around 56% of the applications from those granted leave to stay in 2025/26 will arise from individuals granted leave to remain whilst in Glasgow, with the balance due to applicants choosing to settle in Glasgow from other parts of the UK outwith Scotland.
- 5.7 A pause in both dispersal to Glasgow and the requirement to house applicants from outwith Scotland would, if implemented from October 2025, reduce estimated costs to £36m in 2025/26 and then to £13m in 2026/27.
- 5.8 There is a budgeted contribution to the Budget Support Fund of £8.8 million in 2025/26. This will increase the balance of £28.5m, as set out in the concurrent Report on the 2024/25 financial outturn, to £37.3 million. Even assuming no other draws on the Budget Support Fund, this is likely to be fully used offsetting the impact of homelessness in 2025/26.
- 5.9 Based on the above the budget changes over the term of this forecast are summarised below:

| | 2026-27 £m | 2027-28 £m | Total £m |
|-----------------------------------|-----------------------|-----------------------|---------------------|
| <u>Funding Movement</u> | | | |
| Central Government Grant | 45.9 | 45.9 | 91.8 |
| Council Tax Buoyancy | 2.5 | 2.5 | 5.0 |
| Total Net Funding Movement | 48.4 | 48.4 | 96.8 |
| <u>Spending Pressures</u> | | | |
| Inflation | 42.1 | 36.2 | 78.3 |
| Pensions Employers Contribution | 38.2 | 0.0 | 38.2 |
| Pensions Auto-enrolment | 1.5 | 0.0 | 1.5 |
| Budget Pressures | -5.3 | 7.5 | 2.2 |
| Integration Joint Boards | 19.0 | 19.0 | 38.0 |
| Financing Costs | 5.0 | 5.0 | 10.0 |
| Contribution to Reserves | 1.5 | 0.0 | 1.5 |
| Homelessness | 65.7 | 0.0 | 65.7 |
| Total Spending Pressures | 167.7 | 67.7 | 235.4 |
| Net Spending Gap | 119.3 | 19.3 | 138.6 |

| | 2026-27 £m | 2027-28 £m | Total £m |
|---------------------------------|---------------|---------------|--------------|
| Less previously agreed savings | 20.6 | 0.0 | 20.6 |
| Reversal of Contribution to BSF | 8.3 | 0.0 | 8.3 |
| Net Gap | 90.4 | 19.3 | 109.7 |

- 5.10 The most significant risk to the funding gap relates to Scottish Government funding. If the local government settlement is on a flat cash basis this would add around £21m to the net gap in each year.
- 5.11 There is no assumption for a Council Tax increase included in the figures, however, the 2024/25 Budget did include an indicative Council Tax rise of 5% which would generate £14.5 million.
- 5.12 No provision has been made in the Budget for Equal Pay. The financial premise of the new Pay and Grading Structure is that it will be cost neutral on future revenue budgets. However, there is a risk that there may be one-off costs associated with implementation. Any additional costs will require to be addressed through further savings elsewhere in the budget.

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:
- Financial Settlement**

The grant funding assumes a 2.7% increase in funding in 2026/27 and 2027/28. If the settlement is flat cash then this will add a net £21m per year to the spending gap. A 1% reduction in funding would lead to an increase in the gap of £17 million. There is also risk from distributional changes – though 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**

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.
 - Equal Pay**

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.
 - Delivery of Savings**

It is assumed that all approved savings will be delivered.

7. Conclusions

- 7.1 The latest projections forecast a budget gap of £109.7m for 2026-28, before any Council Tax increase with £65.7m of this relating to pressures associated with homelessness.
- 7.2 The value of the spending gap equates to 9.8% of the budget over the two years. If the value of teachers' employee costs were to be protected, to reflect current Scottish Government expectations, then the gap increases to 16%.
- 7.3 A council tax increase of 5% in each of the two years would reduce the spending gap to £80.7 million and reduce the savings required to 7.2% or 11.8% if teachers' budgets are protected.

8. Recommendations

- 8.1 Appendix A sets out the proposed governance arrangements to manage the challenge facing the Council and it is recommended that the Council:
 - (a) notes the financial projections set out in the Report;
 - (b) makes further representations to the Scottish and UK Government on the impact of homelessness within the city, seeking both funding and long-term investment in housing;
 - (c) continues to engage with COSLA and the Scottish Government on the 2026-28 budgets, highlighting the impact of flat cash settlements;
 - (d) endorses the Terms of Reference for Public Service Reform and Financial Strategy as set out at Appendix A; and

PUBLIC SERVICE REFORM AND FINANCIAL STRATEGY

TERMS OF REFERENCE

1 AIMS AND OBJECTIVES

- 1.1 These Terms of Reference supersede the arrangements for the previous Service Redesign and Future Income Generation Project (agreed as part of the budget in February 2024) and to provide appropriate governance arrangements for the following workstreams.

(a) Public Service Reform

Reform of how public services are delivered in Glasgow is essential to address the scale of need and demand as well as ongoing poverty-related health and social inequalities in the context of ongoing financial constraints.

(b) Delivery of Budget Investment Proposals

The Council agreed investment proposals of £19.405m (of which £1.2m is one-off) as part of its 2025/26 budget on 20 February 2025.

(c) Delivery of Agreed Budget Savings

The Council agreed savings of £1.055m as part of its 2025/26 budget on 20 February 2025 these, together with previously agreed savings for 2025/26 and 2026/27, need to be closely monitored to ensure they are delivered and any corrective action taken where they cannot be achieved.

(d) Revenue Monitoring

Formal reporting of Financial Performance will continue through the relevant Committees but will be supported by detailed oversight of the revenue budget, including budget pressures and homelessness.

(e) Forward Budget Strategy

The development of financial strategy that sets the priorities of the Council in the context of the current fiscal environment and links to the work on Public Service Reform. This should consider:

- the Budget Strategy for 2027-29;
- the Medium-term financial plan for 2029-34; and
- The long-term financial outlook.

This work will include consideration of the economic outlook, fiscal environment, taxation and income generation.

It will also consider how public consultation will support future service priorities.

(f) Capital Planning

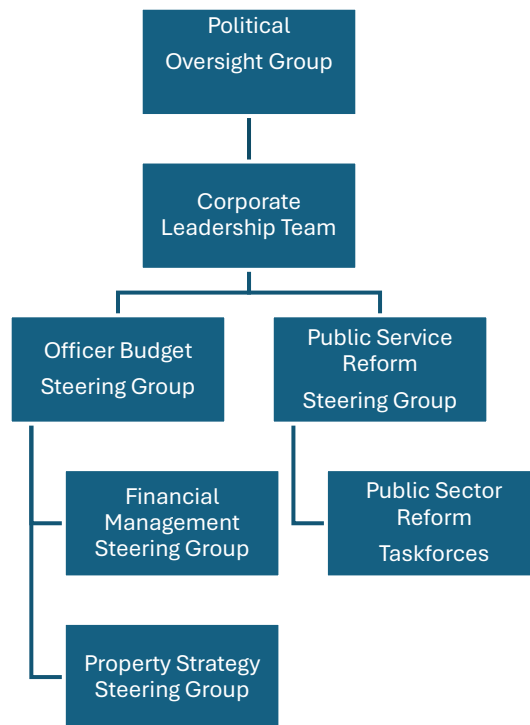
Investment planning over the long term should reflect the Council's priorities and how capital assets will be efficiently used to deliver them.

(g) Property Strategy

The property strategy will support both the revenue and capital plans.

2 GOVERNANCE STRUCTURES

- 2.1 It is recommended that the Governance Structure comprise the following groups. Additional working groups may be established as required.



POLITICAL OVERSIGHT GROUP

- 2.2 The Political Oversight Group will monitor the delivery of the workstreams. It is proposed that membership comprises the City Treasurer as Chair along with two Members from each political group.
- 2.3 Its remit will be to receive updates on progress and provide political oversight in relation to:
- (a) Public Service Reform;
 - (b) delivery of budget investment proposals;
 - (c) delivery of agreed budget savings;
 - (d) revenue monitoring (including budget pressures);
 - (e) forward budget strategy;
 - (f) capital planning; and
 - (g) property strategy.
- 2.4 Meetings will be scheduled to reflect the timetable for revenue monitoring with additional meetings as required to consider strategy.