Inverclyde council

AGENDA ITEM NO: 5

Report To:	**Inverclyde Council**	**Date:**	**29 November 2018**
Report By:	**Chief Financial Officer**	**Report No:**	**FIN/119/18/AP/LA**
Contact Officer:	**Alan Puckrin**	**Contact No:**	**01475 712223**
Subject:	**Financial Strategy 2018/2026 - Update**		

1.0 PURPOSE

1.1 The purpose of this report is to present the updated Financial Strategy to the Council for review and approval.

2.0 SUMMARY

2.1 The six monthly review of the Financial Strategy has been undertaken and takes into account the 2018/19 Budget, a review of all funding models included in the Appendix and the Autumn Budget Statement, the latest economic forecasts plus any developments in respect of the Scottish Government Budget.

2.2 The figures contained reflect economic forecasts announced by the Chancellor in October, 2018 which projected an increase in economic growth, a projected increase in interest rates and confirmed that the annual budget deficit will remain for some time yet.

2.3 It can be seen from table 3 in paragraph 7.8 that the 2019/21 estimated funding gap is £8.929 million prior to the application of any further savings/ adjustments or any decision on whether to increase Council Tax.

2.4 Table 4a shows that based on the latest information including forecasts from the Fraser of Allander Institute, Fiscal Affairs Scotland and the local assessment of certain figures by the Chief Financial Officer, the mid-range scenario shows that the Council faces a potential funding gap of £14.8 million over the 2019/22 period prior to any decision around Council Tax levels. In line with Best Practice, Tables 4b and 4c illustrate scenarios for the 2019/22 Revenue funding gap based on different assumptions around Government Grant, income, inflation and budget pressures. These Tables show potential funding shortfalls of £4.5 million to £29.5 million.

2.5 Table 5 in paragraph 7.13 shows that overall, the Council has a £2.20 million funding shortfall on the 2018/21 Capital Programme. The Capital Programme allows for 5% over programming and this funding shortfall is within that limit. The outlook for capital is more positive than for revenue and the Council will need to examine how it can best use capital to reduce pressure on the Revenue Budget.

2.6 All the other appendices and tables have been updated as follows:

Appendix 4 – Riverside Inverclyde – this reflects the latest Single Operating Plan plus recent allocations to Town & Village Centres. The Council has fully met its original commitment to Riverside Inverclyde by 31 March 2019 and it would be intended to no longer report this Appendix after that date.

Appendix 5 – School Estate Management Plan – this reflects the latest phasings and decisions. It remains financially balanced based on the assumptions made and recent savings applied. The final projects are scheduled for completion in 2020.

Appendix 6 – General Fund Reserves – this reflects the November, 2018 Policy & Resources information and shows £5.509 million of unallocated reserves at 31 March 2019.

Appendix 7 – Capital Fund – this reflects the latest review of receipts and £3.0 million allocated for Loans Charges (See Appendix 12).

Appendix 8 – Repairs and Renewals Fund – this reflects the latest projections for the refurbishment of 3G Pitches over 2017/25 and following a decision taken as part of the 2018/19 Budget to allocate an annual allowance from the Capital Programme, the maintenance model is now funded.
Approval was given in December 2017 to combine the maintenance funds for the Port Glasgow Retail Development, Reservoirs above the Cut and Inverkip Railway Bridge into a single fund to provide longer term sustainability and reduce pressure on the Revenue Budget.

Appendix 9 – AMP – this reflects the latest projected figures taking into account write backs to the General Fund Reserves. The programme is coming to an end and remains affordable.

Appendix 10 – Vehicle Replacement Programme – reflects latest information and budget savings and remains affordable.

Appendix 11 – RAMP – shows the approved investment for the period to 31 March 2021 plus proposals for the period to 31 March 2023 included in the Roads Asset Strategy.

Appendix 12 – This Appendix illustrates how the Council intends to smooth the significant fluctuations in loans charges over the period to 2025/26. In addition, the figures reflect the £2.0 million saving in Loans Charges agreed by the Policy & Resources Committee as part of the 2016/18 budget and the annual further £300,000 year-on-year reduction in budget agreed as part of the March 2018 Budget. Based on current projections the annual £300,000 reduction in loans charges is affordable but this will be kept under review in the medium term.

Appendix 13 – This Appendix provides a projection of the City Deal programme for the first 10 years of operation from both a revenue and capital perspective. It should be noted that this model will be refined as Business Case approvals are achieved and is currently affordable.

2.7 Section 11 of the Strategy reflects the identified risks to the Financial Strategy and mitigating actions whilst Appendices 1 to 3 highlights the major short / medium / long term issues the Council needs to be aware of which could materially impact on the figures presented.

2.8 Overall, the Financial Strategy confirms the significant challenges facing the Council in coming years but that all models remain affordable, based on the latest information.

2.9 The Corporate Management Team has contributed to and approved the content of the revised Financial Strategy.

3.0 RECOMMENDATIONS

3.1 It is recommended that the Council approves the latest revision of the Financial Strategy.

Alan Puckrin
Chief Financial Officer

4.0 BACKGROUND

4.1 The Financial Strategy requires to be reviewed twice per year and reported to the Full Council. This is done in June and December each year.

5.0 CURRENT POSITION

5.1 The Strategy has been updated to reflect latest information as detailed in Section 2 of this report and confirms that the Council has an estimated recurring funding gap of £8.929 million over 2019/21 and a mid-range funding gap of £14.8 million by 31 March 2022 based on latest assessments.

5.2 It should be noted that within the movement in Block Grant assumptions there is no allowance for any funding increases in grants ring-fenced or national policy priorities eg: Early Years increase in hours or implementation of the Carers Act. This gives a truer year on year comparison for Members to consider.

5.3 All models in the Appendices have been reviewed and all remain affordable in the short / medium term.

5.4 Appendices 1-3 outline the short, medium and long term challenges which the Council requires to consider when agreeing future budgets.

5.5 The key messages are that unless there are improvements in the Local Government settlement compared to recent years, then the Council faces some very difficult choices in order to balance the Budget. The new fiscal framework within which Scotland now operates and the ongoing Brexit negotiations bring a further layer of uncertainty and therefore it is important that the Council's Financial Strategy provides a range of scenarios and that Members plan accordingly.

6.0 IMPLICATIONS

Finance

6.1 The Financial Strategy is the key document for the Council's financial planning and links into other strategies and plans such as the Corporate Plan and Corporate Directorate Improvement Plans. Given the financial challenges which lie ahead, then the importance of regular reviews of the document increases.

Financial Implications:

One off Costs

Cost Centre	**Budget Heading**	**Budget Years**	**Proposed Spend this Report £000**	**Virement From**	**Other Comments**
N/A					

Annually Recurring Costs/ (Savings)

Cost Centre	**Budget Heading**	**With Effect from**	**Annual Net Impact £000**	**Virement From (If Applicable)**	**Other Comments**

Legal

6.2 There are no specific legal issues arising from the report.

Human Resources

6.3 There are no specific Human Resources issues arising from the report

Equalities

6.4 There are no specific equalities issues arising from the report

Repopulation

6.5 Having medium term financial plans which realistically reflect the pressures and opportunities faced by the Council and the communities it serves will help build confidence in the area and contribute to the Repopulation agenda.

7.0 CONSULTATIONS

7.1 The Financial Strategy has been produced after consultation with and input from the CMT and other relevant Officers.

8.0 LIST OF BACKGROUND PAPERS

8.1 None

APPENDIX

Inverclyde council

Financial Strategy

2018/19 – 2025/26

November 2018

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Appendix 8 - Repairs & Renewals Fund

Appendix 9 - Office & Depot AMP Funding Details

Appendix 10 - Vehicle Replacement Programme

Appendix 11 –-Roads AMP

Appendix 12 – Loan Charges

Appendix 13 – City Deal

1.1 Foreword

This latest revision of the Council's Financial Strategy has been undertaken at a time of continued pressure on the Public Finances plus political and constitutional uncertainty.

Given the challenging economic situation, and the significant financial issues we will face over future years, it is essential that the Council updates its Financial Strategy regularly to ensure it provides a practical framework within which policy choices can be identified, debated and approved.

The approval of this revised Financial Strategy demonstrates that we are clear both about the outcomes we want to achieve for our communities and the financial challenges that need to be addressed if we are to successfully deliver on these outcomes.

To provide a clear, consistent strategic direction for the Council the following outcomes were agreed for the Financial Strategy – it will ensure that:

- **the Council has a comprehensive, sustainable, balanced budget;**
- **the Council reviews the level of Council Tax annually in the context of the Financial Strategy, to determine an appropriate level in the best interests of the people of Inverclyde;**
- **resources are allocated and deployed to facilitate delivery of the outcomes in the Corporate Plan/Local Outcome Improvement Plan and Corporate Directorate Improvement Plans;**
- **all key strategic decisions on the allocation and deployment of resources are made within the appropriate financial context;**
- **Members can take full account of the impact of decisions on the overall financial resources of the Council in the short, medium and long term;**
- **there is a high level of confidence in the financial management of the Council;**
- **the Council has flexibility to address new policy requirements, or significant changes to existing policies, within overall available financial resources;**
- **resources are invested effectively, efficiently and on a sustainable basis;**
- **there is continued improvement in the delivery of major projects;**
- **there remains a focus on securing efficiencies across the organisation;**
- **a significant proportion of efficiencies secured are invested in improving service quality, delivering new infrastructure, enhancing service levels and upgrading existing assets;**
- **there is an increased level of understanding on behalf of the wider community with regard to the finances of the Council.**

The primary financial challenge facing the Council over the coming period, given the continued impact of the economic downturn on public sector budgets, will be to stay within the approved revenue budget and deliver a capital programme that continues to maintain a high level of investment in key infrastructure.

There is no doubt that setting the 2018/19 budget generated options which required difficult decisions. This position is expected to continue over the next period. One of the main challenges faced by the Council is therefore forward planning, preparatory investment and a sufficient lead in period prior to implementation of both savings and investment for the period beyond the current budget.

Given the difficult position the Council faces on capital expenditure, it is essential that future capital expenditure proposals are largely self-financing through the release of other capital assets, as well as delivering efficiencies which will secure ongoing revenue savings.

The Council has also approved corporate policies to charging and income generation – including maximising external funding from sources such as the various Lottery Funds to supplement existing resources and support service delivery. The Council increased the level of income generated by charging as part of the overall 2018/20 Budget.

The Financial Strategy also ensures that strategic initiatives which require long term revenue and capital commitments such as The City Deal, Asset Management Strategy and the School Estates Management Plan are locked down.

We also need to ensure that the Financial Strategy continues to support the Corporate Plan directly, the Local Outcome Improvement Plan and effectively link this Strategy to our Corporate Directorate Improvement Plans.

The Financial Strategy is a dynamic document and will be monitored on an ongoing basis by the Corporate Management Team and the Policy & Resources Committee. It will continue to be formally reviewed by the Council twice yearly, in June and in December.

This Financial Strategy is key to the future success of the Council – it is about making sure we have sufficient resources in place when required to deliver the outcomes we realistically can achieve for the communities of Inverclyde.

Councillor Stephen McCabe
Leader of the Council

Aubrey Fawcett
Chief Executive

2.0 Why have a Financial Strategy?

2.1 The purpose of our Financial Strategy is to provide clear direction, supported by a practical framework and explicitly defined parameters, on how the Council will structure and manage financial resources in the medium to long term to ensure they are deployed effectively to achieve corporate objectives.

2.2 This is not just another financial process – the Financial Strategy is integral to our Strategic Planning and Performance Management Framework which underpins the achievement of the outcomes identified in the Corporate Plan, and is an integral part of the Corporate Directorate Improvement Plans.

2.3 The requirement to develop a medium to long term financial strategy covering the next three to eight years (and in some areas longer) is a vital component of decision making.

2.4 The Council has taken into account guidance from CIPFA when developing the Financial Strategy as well as best practice from other local authorities.

2.5 Our ambition is to maintain a single, coherent Financial Strategy that brings together the corporate objectives of the Council along with all the relevant financial information in a clear, accessible document.

2.6 The value of such a Strategy is that it enables the Council to develop a better understanding of the wider policy and financial environment within which it operates, identify and respond flexibly to opportunities and threats, manage and mitigate risks and ensure that financial resources are contributing to achieving corporate objectives.

2.7 The Strategy will also provide information to a range of stakeholders:

Table 1 – Stakeholder Information

For the Council and Elected Members	to decide how available financial resources will be used
For Chief Officers, managers and employees	To help optimise the available resources and reinforce their roles in financial management arrangements
For residents	to show how the Council's Financial Strategy impacts upon service provision
For Council Tax payers	to demonstrate how the Council looks after public resources
For partners	to share the Council's vision and help identify opportunities for joint working and resource deployment.

2.8 Inevitably some of the information of the Financial Strategy will be based on forecasts and these will change over time - the Strategy is reviewed regularly so that the Council can respond proactively to any such changes.

2.9 The inclusion of information in the Financial Strategy does not infer approval and all financial projections and issues will have to be subject to approval through the budget process.

2.10 The Strategic Planning and Performance Management Framework continues to develop links between the strategic planning and budgeting processes. This allows services to plan ahead, taking into account the resources available and proactively identify opportunities to achieve efficiencies or secure alternative funding sources. This process also encourages the development of joint resourcing opportunities within the Inverclyde Alliance.

3.0 Financial Summary

3.1 On 15 March 2018 the Council agreed the 2018/19 Revenue Budget which did not include any use of Reserves to balance the Budget. As part of the Budget Strategy the Council also agreed to progress a medium term Budget Strategy covering 2018/23, the life of the current Council.

3.2 The same meeting also agreed the 2018/21 Capital Programme which took into account the latest Government Grant settlement information.

Table 2 – Short Term Summary – Approved Revenue and Capital Budgets (March 2018)

	2018/19 £million
General Fund Revenue	190.379
Budget Financed by	
Government Grant (Including NDR)	(160.553)
Council Tax	(29.826)
Approved Contribution from General Reserve	0
Capital Programme (2018/19)	
Approved Spend	27.71
Financed by	
Government Grants	8.28
Capital Receipts	0.14
Other Grants/CFCR etc	6.20
Prudential Borrowing	12.44
Resources Carried Forward from prior year	15.49
Surplus in Resources in 2018/19	14.84

4.0 Overall Economic Position

UK Context

4.1 The October 2018 Autumn Statement by the UK Government and OBR forecasts revised a number of the key projections. These showed an increase in growth since the previous statement and marginally higher projected interest rates. Some of the October 2018 figures are shown below.

	2018/19	**2019/20**	**2020/21**	**2021/22**	**2022/23**
GDP (real % change)	1.4	1.6	1.4	1.5	1.5
CPI (% change)	2.5	1.9	2.1	2.1	2.1
Interest Rate	0.8	1.2	1.4	1.6	1.6
Borrowing (£Billion)	26	32	27	24	21

4.2 Overall net borrowing is projected to fall due to projected increased tax receipts however the Chancellor of the Exchequer announced a number of significant expenditure decisions which means that, apart from 2018/19, borrowing remains in line with the March 2018 figures. All the above forecasts are highly uncertain given the significant pressures on the Public Finances and the on-going Brexit negotiations.

4.3 Despite the fluid situation it appears clear that there will be no material rises in tax rates or increased use of borrowing and as such considerable pressure will remain on the Public Finances.

The Scottish Context

4.4 The current Scottish Government plans contain a number of commitments which are expected to impact on Local Government finances in the next few years. The main areas are as follows:

- NHS Budget to increase by £500m more than inflation by the end of the Parliament
- Additional £1.3 billion in Health & Social Care Partnerships
- To almost double the free early years provision by 2020
- Increase Scottish Attainment Fund by £750 million with more allocated to Head Teachers
- Extend payment of the Living Wage to all Social Care and Early Years workers.
- Abolish the “Bedroom Tax”
- Council Tax increases to be capped at +3%
- Reform of Council Tax

Progress has been made on a number of these commitments but the longer term funding for some areas remains uncertain and this issue has been highlighted in various reports by the Accounts Commission/Auditor General.

4.5 The Scottish Government published their first Medium Term Financial Strategy (MTFS) in May 2018 which gave broad financial plans for the next 5 years. Within the document the underlying message for Local Government as a whole was that it is not in the “protected” element of the Scottish Budget and as such budgets will remain under pressure unless there is a combination of improved settlements from the UK Government, increased Scottish GDP or increases in Scottish Taxation relative to the rest of the UK.

4.6 The Autumn Statement resulted in £950m of Barnett consequentials for Scotland of which £550m resulted from increased funding for the NHS. Whilst there are also Barnett consequential sums arising from increased funding for Councils in England for Roads, Social Care, Schools etc, whether these sums are allocated to Councils in Scotland will become clearer on the 12th December, when the Scottish Government will announce the Scottish Budget.

4.7 The Scottish Parliament agreed to vary income tax rates compared to the rest of the UK as part of the March 2018 Budget. Some of the extra funding funded an improved settlement for Local Government albeit at this time there is no guarantee that the funding increase will be baselined for 2019/20. The Scottish Government also needs to decide whether it wishes to mirror the increases in Personal Allowances announced in the UK Budget in October.

4.8 Based on the above it is clear that Local Government faces a continued squeeze on resources for the foreseeable future which will require clear prioritisation and inevitably a review of some of the universal service provision policies at both a national and local level.

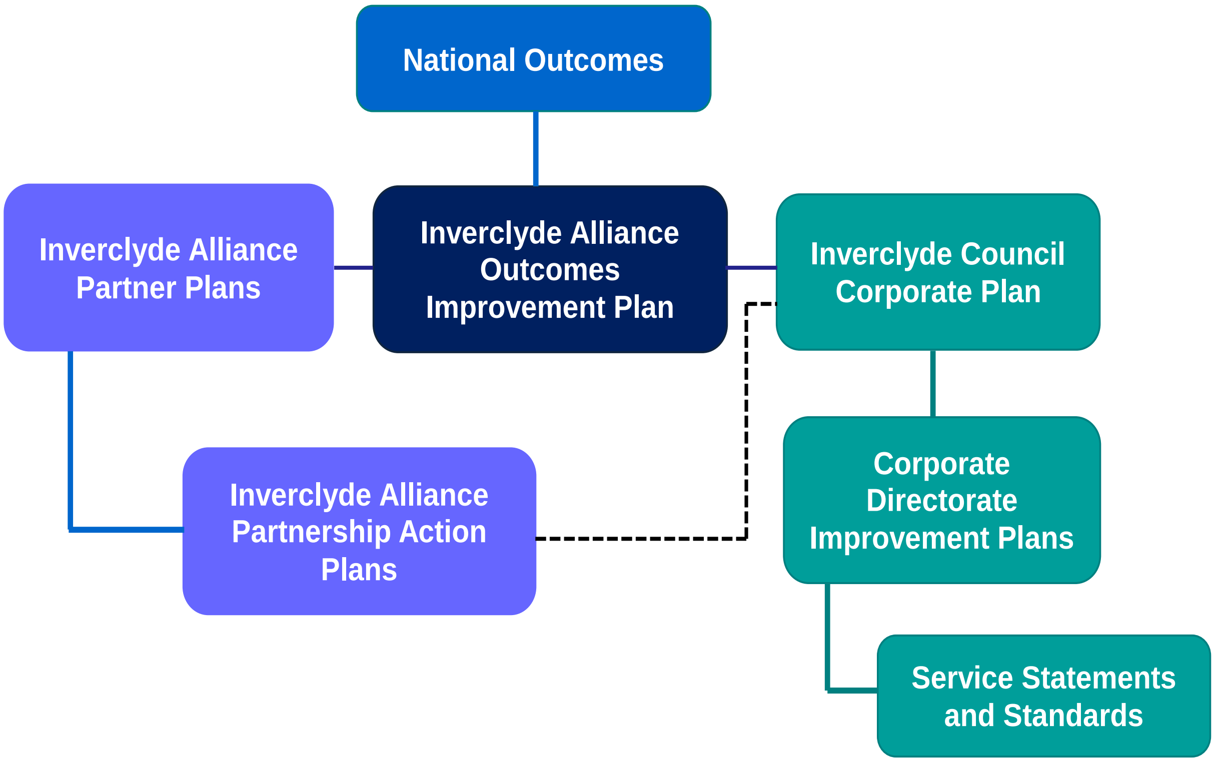
4.9 Brexit continues to be an area of considerable uncertainty with the UK leaving date now a matter of months away. There is almost daily speculation and reports outlining potential impacts but the Financial Strategy is based on the latest approved Budgetary information from both UK and Scottish Governments. Future Financial Strategy reports will highlight any issues arising from Brexit as and when they become clearer.

5.0 Local Context

5.1 The local environment within which the Council operates has changed significantly in recent years and will alter further in future years due to the impact of national legislation and policy, further economic turbulence, societal changes and developing customer expectations.

5.2 The overall strategic framework within which the Council operates is outlined in the Strategic Planning and Performance Management Framework. The Framework includes the Local Outcome Improvement Plan, the Corporate Plan, Corporate Directorate Improvement Plans and the Financial Strategy.

5.3 The Strategic Planning and Performance Management Framework is shown in the Diagram below.



- **National Outcomes** are set by the Scottish Government and sit within a National Performance Framework. These 11 outcomes are an overarching guide for the local community planning partnership document, the Inverclyde Outcomes Improvement Plan.

- The Inverclyde Alliance Outcomes Improvement Plan (OIP) is a high level strategic partnership document setting out the vision and direction for the Inverclyde area, as agreed by all the Inverclyde Alliance partner organisations and communities. The outcomes are based on evidence of the key issues and challenges for the Inverclyde area and through community engagement. They set out what we want to achieve for all the communities of Inverclyde.

- The **Partnership Action Plans** set out the Partnership actions and projects which will contribute to the achievement of the OIP priorities and are expressed through the wellbeing indicators (see below in 5.4) to help better understand their impact on a crosscutting basis.

- The Council approved a new Corporate Plan 2018/22 on 7 June 2018.

The Corporate Plan is a public facing document and sets out the ways in which Inverclyde Council hopes to deliver better outcomes for the people of Inverclyde through the delivery of 10 organisational priorities. The Plan reflects the wellbeing outcomes from the Outcomes Improvement Plan and sets out, at a high level, what the Council will do to help deliver the partnership priorities. The Plan also contains high level budget information for key services.

- **Corporate Directorate Improvement Plans** set out the vision for each Directorate. The Plan covers two broad areas, the first being corporate cross cutting improvement actions and the second Directorate Improvement actions. These improvement actions are based on robust self-evaluation and are mapped to the Corporate Plan organisational priorities . In addition the HSCP has a 3 year Strategic Plan which supports the IJB.

- **Service Statement and Standards** set out what services do on a day to day basis and will not change significantly year on year, but will be refreshed to reflect any structural or legislative changes. It is a public facing document which also sets out a summary of the financial and employee resources allocated to run the service. Service standards are also reflected in the Service Statements, setting out what quality standards the service follows and what customers can expect.

Outcomes for Inverclyde

The focus of the Strategic Planning and Performance Management Framework is on addressing the main challenges facing the area. The Inverclyde Outcomes Improvement Plan builds on the achievements of the SOA and contains three strategic priorities to be delivered in partnership:

- **Population:** Inverclyde's population will be stable and sustainable with an appropriate balance of socio-economic groups that is conducive to local economic prosperity and longer term population growth

- **Inequalities:** There will be low levels of poverty and deprivation and the gap between the richest and poorest members of our communities will be reduced

- **Environment Culture and Heritage:** Inverclyde's environment, culture and heritage will be protected and enhanced to create a better place for all Inverclyde residents and an attractive place in which to live, work and visit

5.4 The OIP continues to focus on the delivery of the **wellbeing outcomes**, which the Inverclyde Alliance, including the Council, has adopted. These wellbeing outcomes have been adapted and expanded from 'Getting it Right for Every Child', to help us work towards a Nurturing Inverclyde, 'Getting it Right for Every Child, Citizen and Community'. The wellbeing outcomes cover the core areas of Safe, Healthy, Achieving, Nurtured, Active, Respected, Responsible and Included.

5.5 A key challenge for the Inverclyde Alliance, and the public agencies, operating in Inverclyde, over the next five years will be to ensure better alignment between available resources, across all agencies, and the outcomes and priorities identified in the Inverclyde Outcomes Improvement Plan.

5.6 The Council is working to establish a picture of resource deployment in the context of the OIP and will work with partners to try to capture the picture across all involved agencies.

Demographics and Population

The most significant challenge facing Inverclyde is depopulation and associated demographic change – this has been recognised by the Council and our Partners as a priority in the Inverclyde Outcomes Improvement Plan and the Council's Corporate Plan 2018/22.

5.7 The fundamental issue for the Council is that at some point if the decline in population continues at the current pace then the area could become no longer sustainable as a unit of administration which would have an associated impact on other services such as health, police and fire. Encouragingly, in recent years there have been signs that population decline is stabilising, with out-migration levels falling year on year since 2013/14. In 2017, the number of people moving into the area was higher than the number of people moving out for the first time in many years.

5.8 In the 2011 Census the population for Inverclyde was 81,485, a decrease of 3.2% from 84,200 in the 2001 census. The most recent population estimates set out Inverclyde's population for 2017 at 78,760, a decrease of -0.51% from 79,160 in 2016. The population of Inverclyde accounts for 1.5% of the total population of Scotland.

5.9 The latest mid-year population estimates (2017) show that 16% of Inverclyde's population is aged between 0 – 15 years, which is slightly less than the percentage for Scotland, 17%. 63% of the population is aged 16 – 64 years, compared to 64% in Scotland. 21% of Inverclyde's population is aged 65 years and older compared to 19% in Scotland.

5.10 Since 1985, Inverclyde's total population has fallen overall whilst Scotland's population has risen over this period.

5.11 Despite recent indications that out-migration is slowing and in-migration is increasing, official population projections continue to forecast a long term decline in Inverclyde's population. By 2041 the population of Inverclyde is projected to be 70,550, a decrease of 10.9% compared to the population in 2016. The population of Scotland is projected to increase by 5.3% per cent between 2016 and 2041.

5.12 Over the 25 year period the age group that is projected to increase the most in size in Inverclyde is the pensionable and over age group with a 14.1% increase. In Scotland, it is estimated that there will be a projected 25.1% increase in the pensionable age population by 2041.

5.13 The population aged under 16 in Inverclyde is projected to decline by 14.9% over the 25 year period, compared to a 1.5% decrease nationally.

5.14 In the SIMD 2004, Inverclyde, locally, had 32.7% of data zones in the most deprived 15% of all data zones. In 2012, the percentage of data zones in the most deprived 15% increased to 40.0% but reduced to 36% in SIMD16. Between SIMD12 and SIMD16, the number of Inverclyde data zones in the 5% most deprived in Scotland fell by 3 from 14 to 11. This equates to 9.6% of all 114 Inverclyde data zones in the 5% most deprived category.

Inverclyde has the second highest concentration of multiple deprivation in Scotland, sitting behind Glasgow.

5.15 Demographic change will have significant impact on services as funding allocated from the Scottish Government is partly based on the population of an area. Even with additional allocations to take account of deprivation the budget is expected to reduce in real terms over the next five years.

5.16 In terms of indicators of deprivation the profile for Inverclyde differs from the national picture, these include:

- 5.4% of working age benefit claimants are claiming unemployment benefits. Of this, a higher proportion of 18 – 24 year olds (8.8%) are claiming than 25 – 49 year olds (6.4 %) or 50+year olds (3.3%). (As at September 2018).

- Economic inactivity rates are higher in Inverclyde, 23.8% compared to Scotland, 22.2% (July 2017 – June 2018)

- The percentage of workless households in Inverclyde is 22% compared to 18% in Scotland

- Approximately 83.7% of working age adults in Inverclyde have NVQ1 and above, or other formal qualifications. 84.9% of the Scottish population have NVQ1 and above or other formal qualifications (Jan 2017 – Dec 2017).

- Median earnings for full time workers living in the area (Gross Weekly Pay) in 2017 were £548.90 which has increased significantly from the 2007 rate of £382.10 per week, which was a gap of 13%. This is approximately 0.2% higher than those for Scotland as a whole (£547.70). This is the first time that gross median earnings for workers living in Inverclyde has been higher than the Scottish average.

- Working age people account for 63% of all people in Inverclyde (2017 mid year population estimates). This is 1% lower than for Scotland as a whole.

5.17 The projected population changes will have an impact on all service areas, particularly Education and Social Care, where there will be a need to actively manage the transition from current service delivery arrangements to new models that are built around the needs of the future population.

5.18 The deprivation profile will have major implications for services as research indicates that those most vulnerable to poverty are more likely to require greater interventions and experience greater levels of health inequalities and a targeted focus to move individuals out of poverty will come at a significant cost to public agencies.

5.19 The predicted demographic changes also have other implications. A decline in younger economically active people and a growth in the older, more vulnerable age group can mean there will be fewer informal carers which could result in a higher dependency on the services provided by the Health & Social Care Partnership.

The public sector landscape in Inverclyde

5.20 The public sector landscape has changed significantly over the last 10-15 years in Inverclyde with the creation of Riverside Inverclyde, River Clyde Homes and the Integrated Joint Board – these organisations join Inverclyde Leisure and the wider voluntary sector as part of a mixed economy of public service provision.

5.21 The development of this mixed economy of public service provision presents new challenges for the Council as it seeks to ensure that outcomes are achieved and that resources are being deployed effectively and efficiently. This is particularly relevant in the context of the LOIP where there will need to be a robust appraisal of whether existing service delivery arrangements across all partner agencies can effectively deliver on the agreed outcomes.

5.22 Whilst the Council has to tackle the problems associated with poverty, health inequalities and deprivation now, it also has to look to the future, and ensure that effective intervention is put into place now, to prevent further problems from developing, which will ultimately require expensive interventions. Investment in the lives of our children and young people early on in their lives will result in a better outcomes and quality of life for them as they grow up in the Inverclyde area.

5.23 The Community Empowerment (Scotland) Bill received royal assent on 24 July 2015. The Act places new duties on the Council and its partners to provide new rights for community bodies. The Act came into effect in July 2016 and is expected to have a significant impact on the way the Council interacts with the Community.

5.24 *Riverside Inverclyde*

Riverside Inverclyde is a joint initiative between the Council and Scottish Enterprise to regenerate 330 acres of the Clyde Waterfront scheduled to run from 2006/7 until 2017/18.

The Council's contribution towards Riverside Inverclyde was originally to be £24 million over the ten year period. In addition the Council has made contributions in kind by transferring specific assets to the Urban Regeneration Company which will count towards the £24 million contribution and a further £6.1 million financial support to specific major Regeneration projects led by Riverside Inverclyde.

Following the mid-term review in 2013 a new Single Operating Plan covering the period 2014/17 was approved. The Single Operating Plan reviewed objectives, outcomes and financing. A further review in 2015/16 resulted in a decision to extend Riverside Inverclyde to March 2019. Officers are currently progressing a further review which is due to be reported later in 2018.

5.25 *River Clyde Homes*

River Clyde Homes is a not-for-profit housing organisation, which is run by a Board of Tenants, Council nominees and community members. It is regulated by the Government to ensure that it manages housing in the best interests of the tenants of Inverclyde, and the community as a whole.

The transfer to River Clyde Homes of all the Council housing stock was based on significantly more money being available to invest in homes and neighbourhoods and give tenants a real say in the decisions that are made about their housing, with tenants on the Board influencing policies and investment decisions.

5.26 *Inverclyde Leisure*

Inverclyde Leisure is a ‘company limited by guarantee’, not having share capital and recognised by HMRC and OSCR as having charitable status. In October 2001, the Trust was asked to take responsibility for the management and delivery of Inverclyde Council’s sport and recreational services.

The Leisure Trust works in close partnership with Inverclyde Council and other internal and external agencies in order to develop the optimum service for residents and visitors to Inverclyde and so to ensure the Trust’s Mission Statement is implemented.

The Council’s Community Facilities transferred to Inverclyde Leisure in April 2010 and the transfer of the management of Outdoor Leisure Facilities to Inverclyde Leisure took place in April 2015. Inverclyde Leisure has revised its Business Planning process and a new Business Plan is reviewed annually by the Council.

The Councils percentage contribution to the Leisure Trust has reduced considerably and is currently under 30% of the Leisure Trust turnover.

5.27 *Inverclyde Health and Social Care Partnership (HSCP)*

The Council and Greater Glasgow and Clyde Health Board established an integrated Community Health and Care Partnership (CHCP) in October 2010. This resulted in greater partnership working and efficiencies in line with the Government’s stated objective of integrating aspects of Health & Social Care.

The Public Bodies (Joint Working) Act 2014 resulted in the creation of a HSCP Integrated Joint Board (IJB) during 2015/16 and required a revised Governance and Financial framework. The IJB is a separate legal entity and will receive resources from and delegate resources to the Council and Health Board. The Council was well placed to meet this challenge given the 4 successful years of CHCP operation.

The financial integration became live in April 2016 at a time of continued increasing demands on Council Budgets as the Partnership focuses on building community resources to support the delivery of health and social care services, including the acute sector.

6.0 Financial Management

Corporate Governance

6.1 The Council positively promotes the principles of sound corporate governance within all aspects of its activities.

6.2 Corporate governance is about the structures and processes for decision-making, accountability, controls and behaviour throughout the Council. It is based around key principles of openness, equality, integrity and accountability.

6.3 The fundamental principles of corporate governance should be reflected in the various dimensions of Council business, including;

- Ensuring a community focus underpins the Council's vision and priorities;
- Ensuring the effective delivery of local services on a sustainable basis;
- Establishing effective management structures and processes which include clearly defined roles and responsibilities for officers;
- Developing and maintaining effective risk management systems that form part of the Council's strategic decision making process;
- Ensuring high standards of propriety and probity in the stewardship of the Council's funds and the management of the Council's affairs;
- A commitment to openness in the Council's affairs and the provision of full, accurate and clear information to all stakeholders.

6.4 The Chief Financial Officer has been designated as "the proper officer" and is responsible for advising the Council on all financial matters.

6.5 The Financial Regulations were refreshed and approved in September 2016 and are an essential component of the corporate governance of the Council.

6.6 The Financial Regulations are designed to facilitate the smooth running of the Council, protect its interests and the interests of members and officers, and ensure the proper administration of all the Council's financial affairs, including, Partnerships, The Common Good and Sundry Accounts.

6.7 Head Teachers must also comply with the Financial Regulations, with the exception of virement which is defined in the Devolved Management of Resources Scheme.

Roles and Responsibilities

6.8 It is important to set out clearly the roles and responsibilities of the key parties involved in the Financial Strategy and the management of overall financial resources of the Council.

Elected Members

6.9 Elected Members, through Full Council and Committees are responsible for considering and approving budgets and the Financial Strategy for the Council. Approved budgets must be financially balanced and demonstrate value for money and sustainability.

6.10 Throughout the year Committees receive reports which allow progress against approved budgets to be scrutinised. All members receive appropriate training in the areas of Financial Strategy, Local Government Finance and key specialist areas such as Treasury and Risk Management.

Corporate Management Team

6.11 The Chief Executive, Corporate Directors, Chief Financial Officer, Head of Legal & Property and Head of Organisational Development, Communications & Policy form the CMT, chaired by the Chief Executive, who are responsible, individually and collectively, for ensuring effective financial management across the organisation.

6.12 As Budget Holders the Corporate Directors are responsible for the budgets delegated to deliver the services within their Directorate in line with the priorities of the Council. Whilst they may delegate this responsibility within their Directorate they remain accountable in exercising overall financial control.

6.13 The CMT have a specific meeting each reporting cycle to consider corporate financial matters including employee costs, key budget lines, earmarked reserves and savings delivery progress.

Chief Financial Officer

6.14 The Chief Financial Officer has a statutory role to ensure appropriate arrangements are in place for the proper administration of the financial affairs of the Council. He has the authority to comment and advise CMT, Chief Executive and Elected Members on all financial matters.

Heads of Service

6.15 Heads of Service are individually responsible for ensuring that the services within their remit are delivered in line with the agreed policy, and support the strategic direction of the Council. As Budget Holders they are responsible for the budgets delegated to them to deliver their service in a manner which demonstrates value for money in line with the priorities in the Corporate Directorate Improvement Plans.

Budget Managers

6.16 Responsibility for budgetary control lies with the Corporate Directors and as delegated budget holders, their Heads of Service and Service Managers. In recognition of the need to ensure budget holders are appropriately supported and trained, Finance Services delivers training to all Heads of Service and Managers on Financial Governance and budgetary control issues.

Financial Support to Services

6.17 Each Directorate has a dedicated Finance Manager and Principal Accountant who prepare and monitor the Directorate budget as well as providing a full range of financial advice to the Directorate.

Internal Audit

6.18 Internal Audit provide assurance to Elected Members, the Chief Executive and management that the internal processes of the Council are being managed appropriately in line with the overarching policies and outcomes are being delivered in an efficient and effective manner.

External Audit

6.19 The role of External Audit is to provide assurance to the Auditor General and the Accounts Commission that the Council has spent public money properly to deliver outcomes in an efficient and effective manner. They also provide assurance to the Elected Members, the CMT and general public that the Council's performance is reported in accordance with the financial standards and presents a fair account of the Council's activities.

Managing the Budget

6.20 Committees receive five budget monitoring reports throughout the year. These are jointly prepared by the Chief Financial Officer and the relevant Corporate Director.

6.21 The Corporate Management Team receive and discuss a budget overview every budget monitoring cycle covering key budget lines, employee costs, earmarked reserves, progress on the approved savings and key projects with financial implications.

6.22 All Services receive detailed budget information five times per year and in addition are sent FMS budget reports in intervening months plus having access to real time information held on the Council's Finance Management System.

6.23 The Council operates a risk based approach to budget monitoring ensuring that focus is given to larger and more volatile budgets. The identification of key budgets is agreed annually between Directorates and Finance.

7.0 Financial Outlook

7.1 Key financial issues are known or anticipated events and activities that have to be addressed within overall financial resources in the short-term (within 3 years), medium-term (within 5 years) or long-term (over 5 years).

7.2 Events and activities include efficiencies, planned savings, changes to service priorities and delivery, and known potential pressures. The financial impact of an event or activity may be one-off, recurring or time-limited.

7.3 The Council is due to receive Revenue Grant/Non-Domestic Rates Income of 160.553m in 2018/19.

7.4 When the Council's own projection of Council Tax Income based on 96.8% collection rate is added (£29.826m) then the income for the Council in 2018/19 is projected to be £190.379.

7.5 The Financial Strategy runs up to 2025/26 and beyond in terms of identifying potential issues, but the revenue forecasts are limited to the period which can be reasonably forecast.

7.6 The level of resources available to the authority to fund its revenue expenditure is also dependent on Council Tax and the approved budget included a 3% increase in Band D Council Tax in 2018/19.

7.7 The Council has agreed a Reserve Strategy which requires a minimum unallocated General Fund Reserve of 2% of turnover. Based on the 2018/19 Budget this equates to £3.8 million. The overall position of the Reserves shown in Appendix 6 and has been updated to reflect the latest projections. The Reserve Strategy was reviewed and approved by the Policy & Resources Committee in September 2016. Following the 2017 Best Value Audit a review of Earmarked Reserves was undertaken as part of the 2018/19 Budget Process.

7.8 The projected budget position in the short to medium term, is set out in the following tables and notes for both revenue and capital. Details of the short, medium and long-term issues identified in consultation with Services are contained at Appendices 1, 2 and 3.

Table 3

Finance Strategy - December 2018

	2018/19 £m	2019/20 £m	2020/21 £m
Base Budget for Prior Year	187.713	190.379	187.579
UPLIFTS FROM PRIOR YEAR			
Inflation (Note1)			
Pay Inflation	3.100	2.910	2.400
Other Inflation	1.000	1.000	1.500
	4.100	3.910	3.900
Budget Increases (Note 2)			
Auto Enrolment	0.600	0.000	0.000
General Pressures	1.100	0.400	1.000
	1.700	0.400	1.000
Adjustments (Note 3)			
Other Adjustments Applied	0.175	-0.030	-0.030
Carers Act Funding	1.140	0.000	0.000
Teachers Pay Additional Funding	0.347	0.000	0.000
No Use of Rolling Reserve	1.141	0.000	0.000
Net Revenue Budget Before Savings	196.316	194.659	192.449
Funded by: (Note 4)			
Revenue Grant/NDR Income	160.553	157.753	156.753
Council Tax Income (Net of CTR)	29.826	29.826	29.826
	190.379	187.579	186.579
Annual Budget Before Savings (Surplus)/Deficit	5.937	7.080	5.870
Cumulative Budget Gap before Savings	5.937	13.017	18.887
Savings Applied (Cumulative)			
Adjustments Approved February 2017	-0.184	-0.184	-0.184
Adjustments Approved September 2017	-0.903	-1.203	-1.503
Efficiencies Approved November 2017	-0.951	-1.148	-1.148
Adjustments Approved December 2017	-0.724	-0.965	-0.965
Policy Decisions Approved March 2018	-0.114	-0.114	-0.114
Service Committee Reports Approved March 2018	-1.903	-3.359	-3.359
Public Consultation Savings Approved March 2018	-1.158	-1.571	-1.571
Adjustments Approved September 2018	0.000	-0.331	-0.331
Adjustments Approved November 2018	0.000	-0.772	-0.783
Approved Budget (Surplus)/Deficit	0.000	3.370	8.929

Finance Strategy Notes – December 2018

Note 1 Inflation

a) Pay – The allowance for pay inflation is an allowance available over the 3 year period to fund all pay related pressures including the annual pay award, Pay and Grading Model review, impacts of living wage, increases in employers national insurance/pension costs, and movement in service bottom up employee budgets.

b) Other Inflation – Inflation had been at a low rate in recent times and as such the allowances have been greatly reduced. However, over the last 12 months inflation has gradually increased and the allowance will come under pressure in future. Figures for 2018/19 reflect budget decisions taken on 15 March 2018. Figures for 2019/21 reflect proposals identified in Finance Strategy approved May 2018. Policy & Resources Committee November 2018 approved to use £300,000 of 2019/20 non-pay inflation to fund increased costs of Waste Disposal.

Note 2 Budget Increases

a) Unavoidable Pressures – Reflects approvals for Auto Enrolment for 2018/19.

b) General Pressures – Reflects pressures approved for 2018/20 in March 2018 plus a general allowance for 2020/21.

Note 3 Adjustments

a) Other Adjustments – Adjustments relate to additional funding received in the Scottish Government settlement 2018/19. Additional GRG received for Carers Act, Temporary Accommodation, Teachers Pay Increase and other minor funding streams.

Note 4 Funded By

a) Reflects 2018/19 Finance Settlement included in Scottish Government Circular 4/2018. The 2019/21 figures are estimated based on continuing grant loss due to Depopulation and estimated Grant settlements per estimates by Fiscal Affairs Scotland.

b) Council Tax Income is shown net of Council Tax Reduction (CTR) Scheme. Grant is included within Council General Revenue Grant for CTR. Figures reflect decision to increase Council Tax by 3% on 21 February 2018. No increase is reflected for 2019/21.

7.9 Other Short Term Revenue Issues

The main remaining risks associated with the 2018/21 budget position will be around Pay Awards, non-pay inflation allowances and the 2019/21 Grant settlement. Regular reporting to Committee will ensure officers report any significant variances at the earliest opportunity.

7.10 Medium to Long Term Revenue Issues

Looking beyond 2018/21 becomes increasingly difficult with uncertainty around the level of funding likely to be available, the impact of the Scotland Act, Brexit and the use the Scottish Government will make of its new powers.

The incremental impact of current major initiatives including Schools Estate Strategy, City Deal, and Asset Management Plans have been fully incorporated the overall Budget.

Post 2018/19 the main issues impacting on the revenue budget will be:

- **Funding will be impacted by future population change/demographic shifts and any changes to the way local government in Scotland is funded.**

- **Decisions of the new Scottish Government regarding any protection afforded to Local Government or other parts of the Budget plus the use that is made available tax raising powers.**

- **Welfare Reform changes and associated budget cuts will continue to impact on Council Services from both a demand and funding perspective.**

- **Health/Social Care integration will become embedded but the fundamental fact is that there is not enough money in current budgets to meet increasing demand.**

- **Pension costs influenced by the impact of auto-enrolment, the changes to LGPS and Teachers Pensions, plus costs associated with the Council resizing its workforce in order to balance its budgets and potential changes to Pension Tax Relief.**

- **Costs associated with sustainability including waste disposal and recycling, energy and fuel costs and general procurement inflation due to increased global demand for raw materials.**

- **As Loans Charges become a larger proportion of the Revenue Budget due to funding reductions and the Council's ambitious Capital Investment Programme then the impact of increases in interest rates will become greater.**

- **Overall global economic situation and in particular the Brexit vote resulting in uncertainty around investment returns, inflation levels and further reductions in public sector funding.**

The fundamental issue for the Council is that at some point if the squeeze on public sector finances and the decline in population continues then the area could become unviable as a unit of administration and this will have an associated impact on other local services such as health, police and fire.

7.11 Table 4 shows the high level estimate of the 2019/22 budget gap based on the above.

In line with good practice tables 4b and 4c provide two further scenarios based on different assumptions. Table 4b represents an “optimistic” scenario with a 2018/21 funding gap of £14.8 million before any Council Tax increase and Table 4c representing a “pessimistic” scenario with a pre-Council Tax increase funding gap of £29.5 million.

Table 4a

2019/22 Budget Gap - Mid Range Estimate

		2019/20 £m	2020/21 £m	2021/22 £m	2019/22 £m
1/	Estimated Block Grant Reduction	0.0	0.0	0.0	0.0
2/	Continuing cash cut due to Depopulation	1.0	1.0	1.0	3.0
3/	Inflation - Pay	2.4	2.4	2.4	7.2
	- Non-Pay	1.0	1.5	1.5	4.0
4/	Pressures				
	-Pay & Grading	0.8	0.0	0.0	0.8
	- General Pressures	1.0	1.0	1.0	3.0
5/	Savings Approved during 2018/19 Budget	(2.3)	-		(2.3)
	Approved Loans Charges Adjustment	(0.3)	(0.3)	(0.3)	(0.9)
		3.6	5.6	5.6	14.8

a/ Assumes no new Prudential Borrowing above that already approved unless linked to "Spend to Save".

b/ Assumes no Council Tax increase. (3% annual increase would raise £0.86 million per year)

c/ The GRG/NDRI assumption excludes any hypothecated grant increases eg: Early Years and Social Care as this is ring fenced to deliver new policies rather than fund existing service provision.

		2019/20 %	2020/21 %	2021/22 %
d/	Key Assumptions			
	GRG/NDRI	0	0	0
	Pay Inflation	2.0	2.0	2.0

Table 4b

2019/22 Budget Gap - Optimistic Scenario

	2019/20 £m	2020/21 £m	2021/22 £m	2019/22 £m
Block Grant Reduction	(1.6)	(2.4)	(2.4)	(6.4)
Continuing Impact of Depopulation	1.0	1.0	1.0	3.0
Inflation - Pay	2.4	1.8	1.8	6.0
- Non-Pay	0.5	1.0	1.0	2.5
Pressures				
- Pay & Grading	0.8	-	-	0.8
- General Pressures	0.6	0.6	0.6	1.8
Savings Approved duruing 2018/19 Budget	(2.3)	-	-	(2.3)
Approved Loans Charges Adjustment	(0.3)	(0.3)	(0.3)	(0.9)
Funding Gap	1.1	1.7	1.7	4.5

a/ Assumes increased pension contributions change does not occur or is funded by UK/Scottish Governments.

b/ Assumes no new Prudential Borrowing above that already approved unless linked to "spend to save".

c/ Assumes no Council Tax increase (3% annual increase would raise £0.86million per year)

d/ The increase in Block Grant does excludes hypothecated funding increases (Early Years, Social Care Fund etc).

e/ Key Assumptions	2019/20 %	2020/21 %	2021/22 %
GRG/NDRI	1.0	1.5	1.5
Pay Inflation	2.0	1.5	1.5

Table 4c

2019/22 Budget Gap - Pessimistic Scenario

	2019/20 £m	2020/21 £m	2021/22 £m	2019/22 £m
Block Grant Reduction	3.2	3.2	2.4	8.8
Continuing Impact of Depopulation	1.0	1.0	1.0	3.0
Inflation - Pay	3.6	3.0	3.0	9.6
- Non-Pay	2.0	2.0	2.0	6.0
Pressures				
-Pay & Grading Model	0.8	0	0	0.8
- General Pressures	1.5	1.5	1.5	4.5
Savings Approved during 2018/19 Budget	(2.3)	-		(2.3)
Approved Loans Charges Adjustment	(0.3)	(0.3)	(0.3)	(0.9)
Funding Gap	9.5	10.4	9.6	29.5

a/ Assumes no new Prudential Borrowing above that already approved unless linked to "Spend to Save"

b/ Assumes no Council Tax increase. (3% increase would raise £0.86 million per year)

c/ The GRG/NDRI assumption excludes any hypothecated grant increases eg: Early Years and Social Care as this is ring fenced to deliver new policies rather than fund existing service provision.

d/ Key Assumptions	2019/20 %	2020/21 %	2021/22 %
GRG/NDRI	-2.0	-2.0	-1.5
Pay Inflation	3.0	2.5	2.5

7.12 Short to Medium Term Capital Projections

The Council agreed a 3 year Capital Programme covering 2018/21 in March 2018. A 5% overprovision was built in to allow for increased resources/project cost reductions.

7.13 Long-Term Capital Projections

There is greater certainty around capital spend for the post 2020/21 period due to the fact that the School Estate Strategy will use around 40% of projected capital grant in the medium term with the balance being fully utilised to maintain the Council's existing infrastructure asset base i.e. Operational Properties, Roads, Lighting, Open Spaces and ICT.

Given the difficult position the Council faces on revenue expenditure, it is essential that future capital expenditure proposals are largely self–financing through the release of other capital assets, as well as delivering efficiencies which will secure ongoing revenue savings.

Indications are that Local Government Capital Grants may increase in the medium term. Given the major revenue financial pressures the Council needs to seriously consider using any increase in grant to reduce prudential borrowing/use of reserves rather than identifying new projects.

Table 5 - Capital Programme 2018/2021 (Medium Term Capital Projections)

Table 5

Expenditure/Projects by Committee	2018/19 £m	2019/20 £m	2020/21 £m	Totals £m
Policy & Resources	0.49	0.47	0.42	1.38
Environment & Regeneration	14.75	18.13	11.27	44.15
Education & Communities (Exc School Estate	1.63	2.39	0.42	4.44
School Estate	9.13	12.38	5.48	26.99
CHCP	0.84	0.97	0.29	2.10
	26.84	34.34	17.88	79.06
Financed By				
Government Grant	10.18	11.70	10.00	31.88
Sales/Contributions	0.39	0.26	0.53	1.18
Other Income	1.86	0.26	0.00	2.12
Revenue	5.31	0.45	0.41	6.17
Prudential Borrowing	5.59	5.35	2.62	13.56
Resources Carried Forward	21.36			21.36
	44.69	18.02	13.56	76.27
Shortfall in Resources				2.79
Planned Cashflow funding - SEMP				-0.59
Actual Funding Gap				2.20

Notes

1 As per Nov 2018 P&R Committee

8.0 Treasury Management

8.1 Inverclyde Council has adopted the CIPFA "Treasury Management in the Public Services – Code of Practice" which sets out good practice for treasury management governance. The Council complies with legal and regulatory requirements in relation to its Treasury Management activities and has appointed consultants to provide advice on Treasury Management issues, including technical issues and the formulation of views on interest rates.

8.2 In complying with the Code of Practice, the Council produces a Treasury Management Practices document which sets out how the Council will manage and control its Treasury Management activities. This document is submitted to Committee for approval every three years with approval also being sought for any amendments in the intervening period.

8.3 The requirements for Treasury Management reporting following the implementation of the revised CIPFA Treasury Management Code of Practice in April 2010 has resulted in the following:

(a) An annual Treasury Management Strategy submitted at the start of the financial year and which includes the Council's Prudential Indicators and covers issues such as the economic situation, the prospects for interest rates, and the Council's borrowing and investment strategy for the coming year.

(b) A mid-year review of the Strategy which include details of the Council's debt and investment position, activity undertaken during the quarter, and performance to date against the Council's Prudential Indicators and agreed policy limits.

(c) An Annual Report for Treasury Management which is submitted to Members before the end of September each year and which advises Members of the Treasury Management activities during the previous financial year.

It should be noted that whilst all the above reports will go to the Policy & Resources Committee for initial scrutiny, all now require to go before the Full Council for approval.

8.4 Table 6 below shows the Council's debt and investments position as at 30/9/18.

Table 6 – Council's Debt and Investment Position – 30/9/18

The Council's treasury portfolio position at 30/9/18 comprised:

		Principal		Average Rate
		£000	£000	
Fixed rate funding	PWLB	94,287		
	Market	56,000	150,287	3.97%
Variable rate funding	PWLB	0		
	Market	46,658	46,658	4.96%
TOTAL DEBT			**196,945**	**4.20%**
TOTAL INVESTMENTS			**23,389**	**0.84%**

9.0 Reserves

9.1 A key aspect of the consideration of the Financial Strategy is the position of the General Fund Reserves. The Reserves Strategy was last reviewed and approved by Council in September 2016.

9.2 Reserves can be held for three main purposes:-

- A working balance to help cushion the impact of uneven cash flows - this forms part of General Reserves.
- A contingency to cushion the impact of unexpected events or emergencies which also forms part of General Reserves.
- A means of building up funds, often referred to as earmarked reserves, to meet known or predicted liabilities.

9.3 The Reserves Strategy is based on the core General Fund Reserve being maintained at a level of 2% of turnover. A turnover of approximately £190 million results in a core General Fund Reserve of £3.8 million. In the event that the Reserves are projected to fall below this level then Members must have a clear route for bringing Reserves back up to the level over the subsequent three financial years.

9.4 The Reserves Strategy also assumes the continued use of earmarked reserves. In this way, earmarked reserves can be separated from the core General Fund Reserve which should allow Members to more transparently track the underlying reserves position. A full review of existing Earmarked Reserves was undertaken following the 2017 Best Value Audit.

9.5 Within Inverclyde Council the main Reserves/Funds comprise; General Fund Reserve, Insurance Fund, Capital Fund and Repairs & Renewals Fund. The latest projected position is shown below.

9.6 (a) <u>General Fund "Free" Reserves</u> – This Reserve represents the Council's contingency for unforeseen/unquantifiable events. The level of the Reserve is determined by the Reserve Strategy whilst the projected balance is reported to each Policy and Resources Committee. See Appendix 6.

<u>Projected Balance 31/3/19 = £5.509 million</u>

(b) <u>Insurance Fund</u> – The Insurance Fund balance is required to meet Insurance Liabilities not covered by external Insurance Policies. The balance on the Fund is reviewed every 3 years by an independent actuary who comments upon not only the balance of the Fund but also the on-going internal contributions to the Fund.

<u>Balance 30/9/18 = £4.653 million</u>

(c) <u>Capital Fund</u> – The Capital Fund is a Fund into which Capital Receipt income can be paid and used to fund either capital investment or repay the Principal element of debt repayments. The balance and planned usage of the Capital Fund is incorporated into the Financial Strategy. See Appendix 7.

<u>Projected Balance 31/3/19 = £1.590 million</u>

(d) <u>Repairs & Renewals Fund</u> – The Repairs & Renewals Fund consists of sums received from external parties or allocated directly from Council resources which are thereafter released on a phased basis to maintain specific assets. Use of specific allocations to the Fund are agreed by Policy & Resources Committee and the overall position will be reported as part of the Financial Strategy. See Appendix 8.

<u>Projected Balance 31/3/19 = £3.204 million</u>

10.0 Monitoring, Reporting and Review Processes

10.1 The Financial Strategy should be a dynamic, relevant document and will be monitored on an ongoing basis by Finance - it will also be formally reviewed twice yearly, in May and then in November.

10.2 The formal review of the Financial Strategy will be reported to CMT and Full Council on a six monthly basis – there will also be capacity to review the Strategy as and when required, particularly when a new issue arises or the impact of major policy or initiative becomes clearer.

10.3 The Financial Strategy will only be revised if there are material changes to estimates, projections or policy which will have a financial impact however issues which may impact will be flagged up in the regular General Fund Budget reports to Policy & Resources Committee.

10.4 The deminimus level for a major impact requiring immediate review is 50% of the core General Fund reserves, £1.9 million, subject to the opinion of the Chief Financial Officer.

10.5 The financial management principles and expectations have been communicated and are understood by all Chief Officers and budget holders.

10.6 The Financial Strategy has been drawn up with the full involvement of the CMT and, will be communicated throughout the organisation.

11.0 Risk Management

11.1 The Council has developed a Corporate Risk Register, Directorate Risk Registers and individual service risk registers where appropriate.

11.2 Further work has also been undertaken to develop a Risk Register for the Financial Strategy and the required actions to mitigate risks – these are set out in the table below.

11.3 The risk assessment below considers the risks to our financial position arising out of matters considered in this Financial Strategy and utilises the same methodology used for the Corporate, Directorate and Service Risk Registers.

Risk	Management of Risk
The Financial Strategy does not reflect in financial terms the objectives set out in other strategic plans of the Council.	The Financial Strategy provides a high level overview of the various strategic plans the Council has signed up to – it acknowledges that there will inevitably be financial implications arising from the Corporate Plan but it is not possible to quantify all of these at present. The Financial Strategy is updated as further information becomes available regarding these strategic plans.
The directorate planning process will identify a range of additional budget pressures over and above those currently considered in this Financial Strategy.	The Directorate Planning Guidance identifies that Corporate Directorate Improvement Plans (CDIP) should reflect the resources allocated – the need for additional resources to achieve a particular priority should be specifically identified via the Financial Strategy prior to the preparation of the CDIP.
Forecasts within the Financial Strategy are not accurately determined or reviewed on a regular basis.	The Budget and Financial Strategy set out the expected levels of expenditure and income for the future. The forecasts are arrived at through careful consideration of historic trends and actual expenditure levels and any factors which may have an impact in the future. Three scenarios are included in the Strategy based on Pessimistic, Mid-Range and Optimistic. This provided a broad range of potential outcomes. Throughout the financial year, the Council regularly monitors its financial performance against its budgets and will revise them where necessary, subject to remaining within the agreed overall budget for the Council.
There is a continuing need to deliver significant cuts and efficiencies over the medium to long term. Robust and detailed plans will be required on an operational level to ensure that this risk is mitigated and savings are duly delivered.	The risks relating to the delivery of savings will be mitigated by robust monitoring and financial control through the budget monitoring process, with action plans being required to find compensating savings for any overspends identified. Individual savings are reviewed by lead officers on a regular basis and material issues reported to the CMT and if required, Committee.

Income budgets not achieved or become unsustainable.	Chief Officers are consulted on proposed increases in income budgets/fees and charges and have the opportunity determine the levels of individual charges to achieve the budgeted income target. Equally, income budgets are monitored throughout the financial year and where a shortfall in income is anticipated, this is highlighted in reports to Committee. Proposals to increase fees and charges are reviewed in line with the Council's Charging Policy prior to reporting to Committee.
The Council has insufficient capital resources to sustain capital commitments.	The Council has already identified through the Financial Strategy a reduced reliance on capital receipts and Government Grants in the medium term. The combination of reduced funding and the economic position mean that the Council has to focus on maintaining key infrastructure whilst utilising prudential borrowing for specific capital projects. The Council has Asset Management Plans for all it's assets with the Open Space AMP the latest area completed.
Bankruptcy of a major supplier or customer which could result in the Council having to pay twice for the same service or see artificially inflated prices if a replacement service needs to be obtained at very short notice.	The Council has reviewed its procurement process and a procurement manual has been developed which includes supplier financial appraisal at PQQ stage. This will ensure that the financial position of new contractors is vetted prior to ITT stage and entering into any large contracts. Regular reviews of financial position are undertaken for key suppliers on an ongoing basis.
Legislative changes are not anticipated and the financial impact is not addressed through the budget process of Financial Strategy.	Chief Officers are required to highlight the impact of legislative changes through the strategic planning and budgeting process and the likely resource requirement. In addition COSLA has a key role in assessing the financial impact of changes in legislation and lobbying for Councils to be funded appropriately.

Interest rates on borrowing may be higher than forecast.	Regular review of treasury management decisions. Prudent assumptions on likely interest rates have been incorporated into Financial Strategy. Borrowing is spread to reduce impact of short-term changes.
Reserves are required to cashflow unanticipated budget shortfalls and fall below minimum recommended level.	Reserve Strategy is in place which clearly states that there must be a clear route to bring reserves back up to the minimum level over the subsequent 3 financial years.
Revenue implications of capital programme/projects are not fully anticipated.	All capital projects identify revenue implications and link into Council priorities. All capital projects are subject to a robust approval process which includes a review of revenue implications.
The recent decision to leave the European Union will provide impacts which are not fully reflected in the Financial Strategy.	There is currently little hard information regarding impacts and their timing however, regular monitoring of the situation and the use of scenario planning when more information is available will help manage the uncertainty.

Appendix 1

Short-Term Issues (2019/21)

The tables in Appendices 1, 2 and 3 have been developed through ongoing consultation with the CMT by the Chief Financial Officer to develop detailed knowledge of the issues to inform the Financial Strategy and future budget setting.

Service	Issues Identified	Issues & Potential Impacts	Action Taken	Responsible Officer	Timescale to report back
Corporate	Equal Pay	Provision for outstanding claims may not be sufficient.	Offers issued and payments made to address the vast majority of outstanding claims. Provision will continue to be monitored and reviewed taking account of relevant legal judgements and advice from the Council's legal advisors.	Steven McNab	Ongoing
	Inflation	Uncertainty over pay awards and other inflation pressures are not fully clear over the 2018/20 period.	Inflation allowances are regularly reviewed. Regular monitoring and reporting to CMT/Members.	Alan Puckrin	Ongoing
	Welfare Reform	Impact of Welfare Reform and increase in demand for Services can only be estimated.	Update reports going to Committee each cycle.	Alan Puckrin	Ongoing
	Auto-enrolment	Amount set aside for auto-enrolment is an estimate and full cost may be greater than estimated.	Will largely be known by December 2018 and currently being contained.	Steven McNab	February 2019
	Impact of Living Wage on the Pay & Grading Model.	The implementation of the Living Wage requires a significant review of the Pay & Grading Model with resultant cost implications.	A revised local Pay & Grading Model was agreed by Policy & Resources in November 2018.	Steven McNab	November 2018
	Brexit	There could be an immediate impact of the UK leaving the EU and this may result in funding pressures from 2020/21.	The CMT will monitor the situation and will present reports to Committee as required.	Scott Allan	Ongoing

Social Care	Health/Social Care Integration	Impacts on Governance/Funding could be significant.	Monitor developments and report to relevant Committees. Increased Government Funding will help offset some pressures.	Louise Long	Ongoing
	Self Directed Support	Implement robust Resource Allocation System, possible pressure from new clients, who may otherwise not engage with Service.	As above	Louise Long	On Going
	Relationship with Service Providers.	Managing provider expectations whilst in a period of uncertainty over the future of the National Care Home Contract along with expectations from those providers out with this contract to fund inflation/impact of pensions/living wage.	As above	Louise Long	Ongoing
Education & Communities	Teacher Numbers	The Government threat of sanctions if teacher numbers are reduced limits options to balance the budget.	Continue to lobby for flexibility and monitor developments.	Ruth Binks	December 2018
	Teachers Pensions Discount Rate	Review by HMT has resulted in increased costs from 2019/20.	Indications are that UK Government will meet costs initially. Monitor and report on medium term solution.	Alan Puckrin	November 2019
Environment & Regeneration	Waste Disposal	Recent case of a contractor entering Administration will result in increased costs.	Committee agreed to allocate £300k extra funding in lieu of a full options appraisal in January 2019.	Scott Allan	January 2019

Appendix 2

Medium-Term Issues (2021/23)

Service	Issues Identified	Issues & Potential Impacts	Action to be Taken	Responsible Officer	Timescale to report back
Corporate	Reductions in other public sector partner's funding streams	As Public Sector funding reductions continue, partners are reducing their contributions to key Council priorities such as Riverside Inverclyde, IJB, River Clyde Homes etc.	Continue dialogue with partners.	Corporate Directors	Ongoing
	Reduction in Council Funding	Funding over 2021/23 likely to be further reduced in real terms in line with UK Fiscal Policy and Scottish Government priorities.	Await next Scottish Government Spending Review figures and factor into revised Financial Strategy.	Alan Puckrin	December 2019
	Government needs to reduce Public Sector Borrowing	Prudential Borrowing Capping would require revision of capital plans.	Rolling 3 Year Capital Programme developed annually and longer term loan charges projections undertaken.	Alan Puckrin	On Going
	Removal of key services from Council control.	Scottish Government could review Public Sector landscape which could result in loss of large parts of the Council remit and resultant impact on corporate viability.	Keep track of developments and report to Committee as required.	Aubrey Fawcett	Ongoing
	Increased cost for externally provided contracts and services due to the Living Wage.	There is a clear desire to ensure suppliers of Council Services pay the Living Wage. This could add significant costs to the Council if passed on by suppliers.	Monitor developments and report to Committee when required.	Corporate Management Team	Ongoing
	Potential changes to funding of Local Government	Scottish Government continues to cap Council Tax but may introduce local taxation flexibility..	Monitor National developments and report as required.	Alan Puckrin	Ongoing
	Further increase in Pension Costs	Potential changes to Pension Tax Relief would add costs to both to Council and employees.	Monitor development and report to Committee when required.	Steven McNab	Ongoing
	Brexit	There could be an immediate impact of the UK leaving the EU and this may result in funding pressures from 2020/21.	The CMT will monitor the situation and will present reports to Committee as required.	Scott Allan	Ongoing

Service	Issues Identified	Issues & Potential Impacts	Action to be Taken	Responsible Officer	Timescale to report
Social Care	Ongoing Demographic demand pressures across many Social Care areas and ongoing drive towards Self-Directed Support and Independent Living	Continuing increased demand will put considerable pressure on “flat cash” budgets.	IJB containing perssures in 2018/19. Await detail of future settlements and model potential scenarios.	Louise Long	January 2019
	Impact of inclusion of elements of the Acute Health Services within the IJB Budget.	Potential for the Council to have to meet a proportion of any overspend caused by increasing pressure on Health Budgets.	Regular monitoring of the IJB Strategic Plan and financial projections added to supporting robust financial scrutiny by the IJB.	Louise Long	On Going
Environment & Regeneration	Biodegradable Waste diversion from Landfill.	From January 2021 all biodegradable waste is to be diverted from landfill. The financial implications could be significant.	Monitor and develop options and report to Committee via CMT during 2019.	Scott Allan	2019
Education & Communities	School Estate Management Plan	Reduced Capital resources and corporate cost pressures may make current planned investment in SEMP post 2020 unsustainable.	Six monthly review off all aspects of SEMP to continue. Recent review reflects approved acceleration programme which is still affordable in line with plan for completion but resources getting tighter.	Ruth Binks/ Alan Puckrin	On Going
	Early Years – Increase to 1140 hours.	Current funding is not sufficient to meet all the requirements in the legislation.	Funding now known to 2022. Council Costs to be contained within this sum.	Ruth Binks	On Going

Long-Term Issues (Post 2023)

Appendix 3

Service	Issues Identified	Issues & Potential Impacts	Action to be Taken	Responsible Officer	Timescale to report
Corporate	Depopulation and Change of Demographics	Continued loss of grant income, over provision of infrastructure. Viability of area under threat.	Population/Demographic trends to be monitored and reported to the Alliance on a regular basis.	Steven McNab	Ongoing
Social Care	Increase in number of Elderly and Adults with Learning Difficulties and resource implications of policy direction of Independent Living and Self Directed Support.	Significant costs associated with reshaping, expanding delivery models.	Develop as part of HSCP Strategic Plan.	Louise Long	Ongoing
Environment & Regeneration	Regeneration of Greenock and Port Glasgow Town Centres.	Reports to Committee have identified significant investment needs within the Greenock and Port Glasgow Town Centre areas. Whilst contributions will be sought from Partners and the Private Sector the Council will require to provide a large amount of the funding.	Develop a funding model with clear outputs and funding sources.	Scott Allan	Ongoing
	Global Warming/Climate Change leading to rising sea levels	Significant impact on Council area with increased flooding and expenditure on sea defences.	6 year SEPA Flood Plan includes funding for a number of Council projects approved in Summer 2016.	Scott Allan	Ongoing
	Closure of major local employer	Could further increase rate of depopulation and would significantly impact of areas regeneration efforts.	Regular review of the approved rI/Council Single Operating Plan.	Scott Allan/Stuart Jamieson	As required

Inverclyde council

Current Profile

Appendix 4

Riverside Inverclyde
Funding Profile
2006/7 → 2018/19

Year	Revenue £000	Capital £000	Other £000	Total £000
To 31/03/08	1,772	700	1,878	4,350
2008/9	1,840	85	1,112	3,037
2009/10	1,513	-	-	1,513
2010/11	2,100	-	-	2,100
2011/12	2,100	-	-	2,100
2012/13	1,900	-	-	1,900
2013/14	1,600	-	-	1,600
2014/15	1,500	-	-	1,500
2015/16	1,300	-	-	1,300
2016/17	1,175	-	-	1,175
2017/18	298	-	-	298
2018/19	77	-	-	77
Gourock Redevelopment	-	-	1,100	1,100
PG Town Centre	-	-	500	500
Gourock - 1 way system	-	-	1,000	1,000
Area Renewal Fund	-	-	200	200
Reserves Substitute Funding	-	-	250	250
	17,175	**785**	**6,040**	**24,000**

a In addition to the £24 million the Council has provided an additional £4.05 million towards the two major projects at Gourock (£3.55 million) and Port Glasgow Town Centre (£0.5 million) over 2012/16.

b In January 2016 Environment & Regeneration Committee allocated the residual Regeneration funding for 2018/19 (£0.298m) to Riverside Inverclyde as part of the Single Operating Plan covering the period to March 2019, £0.077m of which is included in the table above. In March 2018 Inverclyde Council reduced the ongoing Riverside Inverclyde funding to £0.148m (2018/19) and to £0.098m from 2019/20 onwards.

c Further investments being delivered through Riverside Inverclyde include:

Gourock Municipal Buildings	£0.3m
Broomhill Regeneration	£0.86m
Lower Port Glasgow	£0.5m
Bakers Brae Re-alignement	£1m
Kilmacolm Self Build	£0.25m
Tourism	£0.15m
Regeneration of Town & Village Centres	£3.0m

d Reduction between 2016/17 & 2017/18 is £400,000 for Depot AMP and £400,000 for City Deal and £77,000 rephased to 2018/19.

November 2018 Finance Strategy

Jan 18 RPI

Inverclyde council

Appendix 5

School Estate - Earmarked Reserves

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000	2028/29 £000	2029/30 £000
Earmarked Reserve b/fwd	3,138	1,855	1,171	762	977	1,129	1,143	1,256	1,348	1,418	1,465	1,485
Available Savings added (a)	4,682	4,682	4,682	4,682	4,682	4,682	4,682	4,682	4,682	4,682	4,682	4,682
Extra Financing (b)	2,745	2,745	2,745	3,395	3,395	3,395	3,395	3,395	3,395	3,395	3,395	3,395
Prudential Schools Loan Charges (c)	-4,628	-4,732	-4,878	-4,977	-5,030	-5,039	-5,050	-5,060	-5,072	-5,084	-5,097	-5,111
Unitary Charge Payment (d)	-8,742	-8,742	-8,742	-8,742	-8,742	-8,742	-8,742	-8,742	-8,742	-8,742	-8,742	-8,742
Unitary Charge Inflation Element (e)	-1,106	-1,371	-1,643	-1,923	-2,210	-2,505	-2,807	-3,118	-3,537	-3,864	-4,200	-4,545
Unitary Charge Funding from Inflation Contingency	1,106	1,371	1,643	1,923	2,210	2,505	2,807	3,118	3,537	3,864	4,200	4,545
One Off Costs (f)	-1,209	-512	-82	0	0	-120	0	0	0	0	0	0
Extra Revenue Repairs (g)	-227	-221	-230	-239	-249	-258	-268	-279	-289	-300	-314	-326
Unitary Charge RSG	6,096	6,096	6,096	6,096	6,096	6,096	6,096	6,096	6,096	6,096	6,096	6,096
Written Back to / from General Reserves (h)	0	0	0	0	0	0	0	0	0	0	0	0
Earmarked Reserve c/fwd	1,855	1,171	762	977	1,129	1,143	1,256	1,348	1,418	1,465	1,485	1,479

(a) Savings now completed.
(b) £300k saving taken from 18/19 (£200k approved Sept 17 - £100k Loans Charges and £100k UC , £100k UC approved Mar 18), £650k increase from 2021/22 to fund acceleration of programme.
(c) Uses a pool fund rate of 3.55% for 2018/19, 3.65% for 2019/20, 3.80% for 2020/21, 3.90% for 2021/22 & 4.20% from 2022/23 onwards. No contingency.
Reflects costs of acceleration of programme.
(d) Based on Actual Unitary Charge at Jan 2011 RPI of £8.842 million. £100k saving from 2018/19
(e) Base at Jan 2018 RPI. Assumes 2.7% annual inflation (4% RPI discounted by factor of 1.5).
(f) Includes cost of QIO up to end of July 2018, full NDR for St Stephen's decant building to June 18, £45k per year rent 2017/18 and £12k 2018/19 for St Stephen's land,
£246k added for additional school buses up to Aug 20. £111k added 2018/19 for PPP Contract Review. School Wi-Fi contribution included in 2018/19 b/f figure. After 2023/24 all one-off costs cease.
(g) Extra revenue repairs budget set aside for School buildings life cycle works as per Property Services schedule.
(h) Last write back to general reserves was 16/17. None planned at present for future years.

Inverclyde council

Appendix 6

Finance Strategy
General Fund "Free" Reserves
December 2018

		£000
Reserves Balance at 31st March 2018		4,589
Budgeted Contribution to Reserves: **Note 1**		
2017/18 Outturn Earmarked for 2018/21	15,900	
2018/19	0	15,900
Planned Use of Reserves 2018/21 **Note 2**		(15,900)
Projected Surplus (Deficit) **Note 3**		920
Free Reserves Balance 31st March 2019		5,509

GRG/NDR/Council Tax is approximately £190 million. Recommended minimum level of reserves is 2% / £3.8 million.

Notes:

1/ 2018/19 figures reflect a balanced budget set at 2018/19 budget setting process.

2/ Represents decisions taken between February 2015 and March 2018 and based on latest phasings.

Approved Use of Reserves	2018/19 £000	2019/20 £000	2020/21 £000	Total £000
February 2015 - £5.305m	(1,000)	(250)	0	(1,250)
February 2015 - £0.670m (MBWG Proposals)	(290)	(100)	0	(390)
September 2015 - £3.503m	(3)	0	0	(3)
March 2016 - £4.966m	(1,579)	0	0	(1,579)
September 2016 - I-Zones to 31/03/18	(44)	0	0	(44)
February 2017 - £5.500m	(456)	(200)	(2,000)	(2,656)
November 2017 - LED Lighting	(620)	0	0	(620)
December 2017 - Continuing Care	(300)	(200)	0	(500)
March 2018 - £8.858m	(4,177)	(2,651)	(2,030)	(8,858)
	(8,469)	(3,401)	(4,030)	(15,900)

3/ Figure reflects projected surplus reported to Policy & Resources Committee November 2018:

	2018/19 £000	2019/20 £000	2020/21 £000	Total £000
Projected Surplus (November 2018 P&R)	920	0	0	920
	920	0	0	920

AP/AE
24/10/18

Inverclyde council

Appendix 7

Finance Strategy
Capital Fund

		2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Balance B/fwd		(2,260)	(3,169)	(1,590)	(3,390)	(2,791)	(2,593)	(2,392)	(2,188)
Additions (Estimate)	a	(1,141)	362	(3,026)	(595)				
Interest (Estimate)		(8)	(23)	(14)	(46)	(42)	(39)	(36)	(33)
Principal Repayments	b	240	240	240	240	240	240	240	240
Other Payments	c		1,000	1,000	1,000				
Balance at Year End		**(3,169)**	**(1,590)**	**(3,390)**	**(2,791)**	**(2,593)**	**(2,392)**	**(2,188) 0**	**(1,981)**

Notes

a Estimated Receipts:

2017/18 SEMP Receipts, £0.615m, part of Greenock Academy Site & Sacred Heart Sites
SEMP Receipts, return of £0.2m, St Gabriels, due to site abnormals.
Other Receipts, £0.726m, Upper Bow, Coronation Park &
Former Tied House, Kilmacolm Primary

2018/19 SEMP Receipts, return of £0.700m, St Stephens & Kings Glen, due to site abnormals.
SEMP Receipts return of 17/18 Greenock Academy receipt, no longer required.
SEMP Receipts, £0.015m, Kings Glen house plots
Other Receipts, £0.375m, Bow Road, Business Store, Shore Street
Other Receipts, net £0.01m cost associated with Cumberland Walk

2019/20 SEMP Receipts, £1.295m, remainder of Greenock Academy Site, Kings Glen house plot.
AMP Receipts, £0.650m, West Stewart Street, Glenbrae
Other Receipts, £0.350m, Upper Kirn Drive, Gourock
Recovery of Scottish Enterprise Clawback, £0.731m

2020/21 SEMP Receipts, £.0.525m, remainder of Sacred Heart Site
Other Receipts, £0.070m, Wateryetts Drive, Kilmacolm

b £240k SEMP from 2015/16.

c Other Payments:

2018/21 £3.0m payment to fund Loan Charges smoothing exercise.

Inverclyde council

Appendix 8

Finance Strategy
Repairs & Renewals Fund

		2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
ance B/fwd		(3,161)	(3,249)	(3,204)	(3,206)	(3,222)	(3,194)	(2,430)	(2,435)
litions:									
Environmental Maintenance									
Leisure Strategy	a	(221)	(124)						
Central Energy Efficiency Fund		(1)	(1)	(9)	(9)	(9)	(9)	(9)	(9)
ntenance Payments:									
Environmental Maintenance		50	52	36	36	71	36	41	36
Leisure Strategy	b	66	121			15	783		115
Contribution to Energy Efficiency Administration	c	30	21						
rest									
Environmental Maintenance		(3)	(5)	(5)	(8)	(10)	(7)	(8)	(7)
Leisure Strategy		(5)	(9)	(10)	(17)	(18)	(18)	(7)	(7)
Former Housing Repairs & Renewals Fund		(4)	(8)	(11)	(16)	(19)	(18)	(19)	(19)
Affordable Housing Fund		0	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Central Energy Efficiency Fund		0	(1)	(2)	(1)	(1)	(2)	(2)	(3)
ance:									
Environmental Maintenance	d	(685)	(638)	(607)	(579)	(518)	(489)	(456)	(427)
Leisure Strategy		(1,210)	(1,222)	(1,232)	(1,249)	(1,252)	(487)	(494)	(386)
Former Housing Repairs & Renewals Fund		(1,183)	(1,191)	(1,202)	(1,218)	(1,237)	(1,255)	(1,274)	(1,293)
Affordable Housing Fund		(66)	(67)	(68)	(69)	(70)	(71)	(72)	(73)
Central Energy Efficiency Fund		(105)	(86)	(97)	(107)	(117)	(128)	(139)	(151)
ance at Year End		**(3,249)**	**(3,204)**	**(3,206)**	**(3,222)**	**(3,194)**	**(2,430)**	**(2,435)**	**(2,330)**

Inverclyde council

Appendix 8

Finance Strategy
Repairs & Renewals Fund

Notes

a Future contribution to Leisure Strategy subject to confirmation of available funds.

b Leisure Strategy commitments:

2017-23	Pitches/MUGA's Lifecycle costs in excess of recurring £120k Leisure Strategy AMP budget.

c Central Energy Efficiency Fund commitments:

2018/19	£17k LED Lighting, Inglseton MRF
2017/18	£30k contribution to Spend to Save Earmarked Reserve
2018/19	£4k LED Lighting, GMB Carraigeway

d Environmental Maintenance is a combined fund used for ongoing maintenance of Greenock Cut, Gallaghers (Port Glasgow) Development and Inverkip Footbridge.

Inverclyde council

Appendix 9a

Finance Strategy
Asset Management Plan - Offices

Earmarked Reserve Offices	**2017/18 £000's**	**2018/19 £000's**	**2019/20 £000's**
Earmarked Reserve b/fwd	776	402	156
Additional Funding (Note d)	409	375	305
Available Savings/(Cost) Added (Note a)	329	302	302
Loan Charges (Note b)	(567)	(600)	(604)
Further One Off Costs (Note c)	(545)	(323)	0
Net Saving/(cost) for year	(374)	(246)	3
Earmarked Reserve c/fwd	402	156	159

Notes

a Net Revenue Savings & Costs Excluding Loan Charges
b Assumes an interest rate of 4%
c Further One Off costs relate to the temporary appointment of an Asset Manager to 2017, costs for various decants, demolitions and rental of storage area as well as an allowance for dilapidations of leased properties, a £300k contribution towards William St refurb and a £203k contribution to the refurbishment of the District Court.
d Additional funding consists of original funding allocation of £1m adjusted for:
£200k Workstream Saving from 2011/12
£30k Topslice saving from 2012/13
£60k Workstream Saving from 2013/14
£100k Workstream Saving from 2014/15
£45k BPRA scheme saving from 2015/16
£65k Revenue saving from 2015/16
£125k further Revenue saving from 2016/17
£34k balance of BPRA scheme added to Reserve 2017/18
£70k Revenue saving agreed Nov 2018 from 2019/20
e All Office refurbishments are now complete, ongoing net saving of £3k and remaining reserve of £159k available for consideration as part of 19/20 budget process.

Inverclyde council

Appendix 9b

Finance Strategy
Asset Management Plan - Depots

Earmarked Reserve Depots	**2017/18 £000's**	**2018/19 £000's**	**2019/20 £000's**
Earmarked Reserve b/fwd	311	306	456
Additional Funding (Note d)	550	800	800
Available Savings/(Cost) Added (Note a)	111	97	97
Loan Charges (Note b)	(636)	(717)	(820)
Further One Off Costs (Note c)	(30)	(30)	(250)
Net Saving/(cost) for year	(5)	150	(173)
Earmarked Reserve c/fwd	306	456	283

Notes

a Net Revenue Savings & Costs Excluding Loan Charges

b Assumes an interest rate of 4%

c Further One Off costs relate to the temporary appointment of an Asset Manager to 2017 and cost of decants etc as well as a £250k allowance for demolitions of obsolete Depots.

d Additional funding made up of:

Contribution from Zero Waste Fund	£200k	From 2010/11
Contribution from Revenue Budget	£300k	From 2012/13, original £500k allocation reduced by £200k Workstream Saving
Reduction in funding	£(100)k	from 2016/17 & as a result of reduction in capital spend of £1.5m
Additional Contribution from Revenue	£400k	From 2017/18, diversion of Riverside Inverclyde budget.
Write back to Free Reserves	£(250)k	2017/18

Inverclyde council

Appendix 10

Finance Strategy
Vehicle Replacement Programme

Earmarked Reserve	**2017/18 £000's**	**2018/19 £000's**	**2019/20 £000's**	**2020/21 £000's**	**2021/22 £000's**	**2022/23 £000's**	**2023/24 £000's**	**2024/25 £000's**
Capital Requirements:								
Vehicle Purchases	860	1,422	1,568	2,176	570	367	833	1,636
Residual Value	(281)	(389)	(285)	(543)	(148)	(138)	(292)	(586)
Net Capital Requirement	579	1,033	1,283	1,633	422	229	541	1,050
Earmarked Reserve b/fwd	229	230	281	284	282	317	333	414
Loan Charges	(1,100)	(980)	(1,028)	(1,033)	(996)	(1,015)	(950)	(1,034)
Additional Revenue Costs, Tracking System	(28)	(28)	(28)	(28)	(28)	(28)	(28)	(28)
	(1,128)	(1,008)	(1,056)	(1,061)	(1,024)	(1,043)	(978)	(1,062)
Funding Available								
Loan Charges	1,129	1,059	1,059	1,059	1,059	1,059	1,059	1,059
Other Adjustments	0	0	0	0	0	0	0	0
Total Funding Available	1,129	1,059	1,059	1,059	1,059	1,059	1,059	1,059
Annual Funding Surplus/(Shortfall)	1	51	3	(2)	35	16	81	(3)
Earmarked Reserve c/fwd	230	281	284	282	317	333	414	411

It should be noted that the model:

a Assumes continuation of Food Waste collection and includes replacement of Food Waste Vehicles, 2018/19.

b Includes Low Carbon Vehicles, 2016/17 funded from a combination of Government grant and reductions in Service Revenue budgets.
In 2018/19 & 2019/20 a further 28 vehicles will be replaced with Low Carbon Vehicles, funded from Government grant and existin replacement budget.

c Includes Glass Recycling Vehicles purchased in 2014/15 using a combination of grants and prudential borrowing,
Funding Available has been increased by £35k from 2015/16 to reflect the initial purchase.
Kerbside Glass discontinued as budget saving from 2018/19, vehicle costs and funding removed.

d Further £35k funding removed from 2018/19 to reflect lower than anticipated interest rates.

Inverclyde council

Appendix 11

Finance Strategy
Roads Asset Management Plan

	Note	2012/18 Actual £000's	2018/19 Approved £000's	2019/20 Approved £000's	2020/21 Approved £000's	2021/22 Proposed £000's	2022/23 Proposed £000's	2013/18 5 Year £000's	2018/23 5 Year £000's	2013/23 10 Year £000's
Funding Available										
Core/Supported Borrowing	a	6,700	2,683	2,819	2,959	3,107	3,262	6,700	14,830	21,530
Prudential Borrowing		13,400						13,400		13,400
CFCR:										
Early Allocation (Feb 2012)	b	3,000						3,000		3,000
Further Allocation (Feb 2013)	c	5,900						5,900		5,900
Further Allocation (March 2018)	d			620					620	620
Total Funding Available		29,000	2,683	3,439	2,959	3,107	3,262	29,000	15,450	44,450
Allocation of Expenditure										
Carraigeways		17,095	1,702	1,713	1,717	1,807	1,901	17,095	8,840	25,935
Footways		3,189	235	423	326	343	361	3,189	1,688	4,877
Lighting		3,483	1,225	648	411	433	456	3,483	3,173	6,656
Drainage		325	171	180	200	211	222	325	984	1,309
Structures		1,020	303	709	175	183	192	1,020	1,562	2,582
Fees & Staffing Costs	e	1,977	314	410	130	130	130	1,977	1,114	3,091
Total Allocation of Expenditure		27,089	3,950	4,083	2,959	3,107	3,262	27,089	17,361	44,450
Over/(Under) Allocation		(1,911)	1,267	644	0	0	0	(1,911)	1,911	0

Notes

a 2016/18 funding approved February 2015.

b Funds were set aside during February 2012 budget process prior to the formal approval of the RAMP model.

c CFCR part funded from underspends due to reduced requirement for Loan Charges in early years.

d Additional CFCR allocation to fund final phase of lighting programme.

e Staffing requirements from 2018 onwards still to be determined, any staffing requirements over & above the £130k Fees element will be funded from within the annual RAMP allocation

Inverclyde council

Appendix 12

Finance Strategy
Loan Charges

		2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000
Balance B/fwd		6,496	6,236	5,012	2,369	1,842	1,398	1,113	809	392
Projected Loan Charges	a	13,695	14,329	15,518	11,452	11,069	10,610	10,329	10,142	9,891
Available Budget	b	12,435	12,105	11,875	10,925	10,625	10,325	10,025	9,725	9,425
Loan Charge Surplus/(Deficit)		(1,260)	(2,224)	(3,643)	(527)	(444)	(285)	(304)	(417)	(466)
Additional Funding: Contribution from Capital Fund	c	1,000	1,000	1,000						
Balance at Year End		**6,236**	**5,012**	**2,369**	**1,842**	**1,398**	**1,113**	**809**	**392**	**(74)**
Interest Rate (Assumed):		3.55%	3.65%	3.80%	3.90%	3.95%	3.95%	4.10%	4.10%	4.10%

Notes

a Revised projections as at November 2018 and excludes Loan Charges relating to funded models (SEMP, AMP, VRP, City Deal, Birkmyre Trust). Includes the effect of decisions on SEMP acceleration taken in March 2016 including the £650k annual budget transferred to SEMP from 2021/22. From 2018/19 onwards, general capital grant is applied to core allocations only and not to individually funded models (e.g. VRP).

b Adjustments to Available Budget:
For 2018/19
£30k removed for ICT saving agreed February 2015 (additional sum removed each year until last year 2020/21)
£12k removed for ICT saving agreed February 2013 (additional sum removed each year until last year 2018/19)
Budget from 2018/19 onwards reduced by £300k annually to reflect reduction in Scottish Government grant support resulting from repayment of historic debt
£54k removed from ongoing budget due to Cremator Replacement being funded from reserves (agreed March 2018)
£35k transferred from Vehicle Replacement Programme budget from 2018/19 due to lower funding requirement
£100k removed in 2018/19 and 2019/20 due to increased CFCR and then replaced by increased Prudential Borrowing 2020/21 onwards funded from income
For 2021/22
£650k removed from ongoing budget and transferred to SEMP relating to SEMP acceleration, as agreed in March 2016

c Allocation from Capital Fund. It should be noted that this contribution is dependent on receipts from property disposals and as such cannot be guaranteed.

Inverclyde council

Appendix 13

City Deal - First 10 Years

Capital	£m 15/18	£m 18/19	£m 19/20	£m 20/21	£m 21/22	£m 22/23	£m 23/24	£m 24/25	£m Total
Overall Grant	90	30	30	30	30	70	60	60	400
Regional Projects	1.944	0.672	3.8	15	30	34	45	33	163.416
Grant Available	88.056	29.328	26.2	15	0	36	15	27	236.584
Inverclyde's Grant Share	**2.554**	**0.851**	**0.760**	**0.435**	**0.000**	**1.044**	**0.435**	**0.783**	**6.861**
Project Spend									
Ocean Terminal	0.254	0.130	7.900	1.445	0	0	0	0	9.729
Inverkip	0.008	0.200	1.700	1.342	0	0	0	0	3.250
Inchgreen	0	0	0	0	4.714	4.713	0	0	9.427
Total Cost	**0.262**	**0.330**	**9.600**	**2.787**	**4.714**	**4.713**	**0**	**0**	**22.406**
Annual Grant (Shortfall)/Surplus	2.292	0.521	-8.840	-2.352	-4.714	-3.669	0.435	0.783	-15.545
Cumulative (Shortfall)/Surplus	2.292	2.812	-6.028	-8.380	-13.094	-16.763	-16.328	-15.545	

Revenue	£m 15/18	£m 18/19	£m 19/20	£m 20/21	£m 21/22	£m 22/23	£m 23/24	£m 24/25
Revenue Budget	0	340	340	340	340	340	340	340
Interest Charge	0	0	(26)	(108)	(161)	(299)	(335)	(311)
Balance at Year End	**0**	**340**	**654**	**886**	**1,065**	**1,106**	**1,111**	**1,140**

Notes

1/ The project spend profiles reflect the OBC figures for Inverkip and Greenock Ocean Terminal and initial high level estimates for Inchgreen. These will be firmed up as part of the detailed Business Case preparation. Figures exclude partner contributions. Phasings per October 2018 PMO update.

2/ The Council will require to finance the interest costs associated with the grant shortfall and has set aside up to £400,000 per year for this purpose of which £60,000 is currently set aside for the Programme Management Office.

3/ Assumes that the City Deal will pass the first 2 milestones (2019 & 2024) and as such the UK and Scottish Government will honour their grant commitments.

4/ Regional projects have first call on the grant and total £174.3million. Phasing 2019/20 and beyond is indicative at this stage.Spend beyond 2024/25 is not shown above.

5/ The Interest Charge is based on the investment return foregone by the Council on the assumption the capital investment will be funded from cash balances and fully repaid by 2035. Interst rates used , 19/20(0.85%), 20/22(1.5%) and 22/23 onwards (2.0%)