
Report To:	Inverclyde Council	Date:	7 December 2023
Report By:	Chief Financial Officer	Report No:	FIN/78/23/AP
Contact Officer:	Alan Puckrin	Contact No:	01475 712090
Subject:	Finance Strategy 2023/33 – 6 Monthly Update		

1.0 PURPOSE AND SUMMARY

- 1.1 For Decision For Information/Noting
- 1.2 The purpose of this report is to present the updated Financial Strategy to the Council for review and approval. The Strategy reflects the OBR economic assumptions included in the Chancellor's Autumn Statement and the assumptions included in the Medium Term Financial Strategy from the Scottish Government issued 25 May 2023.
- 1.3 All funding models and appendices have been updated and reviewed with a short commentary on each included in the body of the report. All remain sustainable in the medium/longer term. A number of recommendations are included based on the review of the funding models.
- 1.4 The Strategy clearly sets out the continued considerable financial challenges facing the Council in the short, medium and longer term and ties in with the on-going development of the Revenue and Capital Budgets due to be approved in March 2024.
- 1.5 A saving proposal to use £3.0 million from the projected surplus internal resources income to achieve an annual £500,000 loans charges saving from 2025/26 is included in the body of the report.

2.0 RECOMMENDATIONS

- 2.1 It is recommended that the Council approve the latest update to the Council's Financial Strategy, including the updated funding models in the appendices and note the continued significant challenges arising from the UK economic position and reflected in the Scottish Government's Medium Term Financial Strategy.
- 2.2 It is recommended that the Council note the remaining mid-range estimated 2024/27 funding gap of £15.4 million set out in table 4a in the Financial Strategy.
- 2.3 It is recommended that the Council note the estimated further £3.5 million increase in Internal Resources Interest over 2023/27 and approve the use of £3.0 million of this sum to generate a recurring loans charges saving of £500,000 per year from 2025/26.
- 2.4 It is recommended that the Council agree to transfer the Energy Efficiency element of the Repairs & Renewal Fund to the Net Zero earmarked reserve.

Alan Puckrin
Chief Financial Officer

3.0 BACKGROUND AND CONTEXT

- 3.1 The six monthly review of the Financial Strategy takes into account the latest forecasts from the OBR which formed part of the Chancellor's Autumn Statement, latest inflation and interest rate projections, and the decisions taken by the Council to date in relation to the 2024/26 Budget. The report also reflects the of main messages from the Scottish Government's Medium Term Financial Strategy issued on 25 May.
- 3.2 It can be seen from table 3 in paragraph 7.7 that the 2023/26 estimated net funding gap is £8.6 million following the approval of over £3.9million savings/adjustments since August. The detail of the delivery of the Savings Workstream element of these savings however, still requires to be reported and approved.
- 3.3 Table 4a confirms that based on this latest information and the local assessment of certain figures by the Chief Financial Officer, the mid-range scenario shows that the Council faces a net potential funding gap of £15.4 million over the 2024/27 period. This represents a reduction of £2.7million since the June update due to the approval of the above-mentioned savings/adjustments partly offset by an increased allowance for pay based on the recent pay award. In line with Best Practice, Tables 4b and 4c illustrate scenarios for the 2024/27 funding gap using different assumptions around Government Grant income, inflation, and budget pressures. These tables show potential funding shortfalls of £9.5 million to £20.5 million. All scenarios are prior to any increase in Council Tax.
- 3.4 Table 5 in paragraph 7.12 shows that overall, the 2023/26 Capital Programme has a £3.6 million funding shortfall which is marginally within the 5% over commitment limit set by the Council. As the Scottish Government has also confirmed a "flat cash "settlement for capital until 2026 at least, the Council will need to consider any investment in new projects very carefully and also review existing assets to ensure those remaining can be adequately maintained. This is a key matter for consideration as part of the March 2024 Budget.

3.5 Funding Models

All funding models and appendices have been updated and are within appropriate affordability parameters in the medium/longer term. A commentary on each is given below.

- 3.6 **Appendix 4- General Fund Reserves** - The estimated level of unallocated reserves at 31 March 2024 is £16.6million which is £12.6 million above the minimum recommended level. This includes an estimated £9.4million relating to the time limited employers pension contribution savings for both the Council and Inverclyde Leisure as reported to November's Policy & Resources Committee.
- 3.7 **Appendix 5 – Capital Fund** – The Capital Fund has returned to a surplus and projects a healthy balance going forward based on anticipated receipts. However, as the timing and quantum of receipts remains uncertain, it is not currently proposed to write back any sums.
- 3.8 **Appendix 6 – Repairs & Renewals Fund** – The 5 separate sub-funds within the Repairs & Renewals Fund are all projecting to remain in surplus for the rest of the strategy period. Officers propose that the Energy Efficiency Fund balance be transferred to the Net Zero earmarked reserve. The Leisure Strategy balance is expected to reduce further from 2025/26 onwards as more 3G pitches are refreshed/replaced.
- 3.9 **Appendix 7 – Insurance Fund** – The Insurance Fund balance shows a significant reduction over the next decade due to both the Council contribution to the Scottish Child Abuse Redress Scheme and two £100,000 internal insurance premium "holidays" ending in 2027/28 and 2029/30 respectively, approved as part of previous budgets. Additionally, the Fund will require to contribute to the settlement of ex-SRC child abuse claims. It is not possible to accurately estimate the likely cost at this time, but officers expect costs to be in excess of £1 million and may require an allocation from Reserves to the Insurance Fund.

3.10 **Appendix 8 – City Deal** – With one of the main projects complete and the second on site and progressing well, there is greater certainty on the costs the Council will incur. Less certainty exists on the timing of the grant due from the UK and Scottish Governments as this is dependent upon both the overall programme passing the 5 yearly milestone assessments plus the progress of projects in other Councils. Based on the assumptions made, whilst the model is projected to remain in a deficit position in the longer term, the deficit will reduce, and no action is proposed at this time.

3.11 **Appendix 9 – Loans Charges** – Loans charge projections continue to be more fluid than was the case for the last 15 years due to the increases in interest rates, the repayment of £30 million of market loans in the last 6 months and the Council's plans to borrow £45million over the next 3 years as the Council's cash backed reserves reduce.

In preparing the updated model officers estimate a further £3.5 million in internal resources interest (IRI) income will be charged to loans charges over 2023/27 due to interest rates being higher for longer than previously estimated. A proposal to use this the bulk of this extra income to generate a significant recurring reduction in loans charges is shown below.

4.0 PROPOSALS

4.1 It is positive that, despite the many external financial pressures, all funding models and funds are showing a sustainable medium/longer term outlook. Once again, the Council has received a significant one-off boost to reserves, this time largely arising from the actuarial pension review and higher than previously projected IRI income. The use of these reserves will form a crucial part of the forthcoming Budget deliberations.

4.2 Over the period of the Loans Charge funding model shown in Appendix 9, loans charges reduce despite the previously approved £1.5 million annual extra prudential borrowing to 2030/31 approved as part of the June 2023 Strategy. This occurs due to Council prudential borrowing from the early part of the century beginning to drop out of the loans fund. This affords the opportunity to take a saving as part of the planned 2024/26 Budget in the knowledge that, based on current projections, this is a sustainable proposal in the longer term.

4.3 It is therefore proposed that £3.0 million of the projected increase in IRI income is allocated to the Loans Charges funding model over 2024/27 thus allowing an annual saving of £500,000 to be taken from 2025/26. Appendix 10 in the Strategy demonstrates the affordability of this proposal.

4.4 It is proposed that the Energy Efficiency balance within the Repairs & Renewals Fund is transferred to the Net Zero earmarked reserve to create a single budget focussed on energy efficiency and reductions in the carbon footprint.

5.0 IMPLICATIONS

5.1 The table below shows whether risks and implications apply if the recommendations are agreed:

SUBJECT	YES	NO
Financial	x	
Legal/Risk	x	
Human Resources		x
Strategic (Partnership Plan/Council Plan)	x	
Equalities, Fairer Scotland Duty & Children/Young People's Rights & Wellbeing		x
Environmental & Sustainability		x
Data Protection		x

5.2 Finance

The financial messages remain the same as they have for several years in terms of the challenges facing both revenue and capital budgets, the need for clear prioritisation of budgets and the need to robustly review the Council's asset base.

The worth of longer term funding models is demonstrated in the loans charges saving proposal.

One off Costs

Cost Centre	Budget Heading	Budget Years	Proposed Spend this Report	Virement From	Other Comments
Earmarked Reserves	Net Zero	2023/24	(£0.121million)		Transfer of the energy efficiency fund
General Fund Reserves		2023/27	(£3.5 million)		Increased IRI due to higher interest rates
Funding Models	Loans Charges	2024/27	£3.0million		Spend to save loan charges proposal

Annually Recurring Costs/ (Savings)

Cost Centre	Budget Heading	With Effect from	Annual Net Impact	Virement From (If Applicable)	Other Comments
Loan Charges		2025/26	(£0.500 million)		Subject to the allocation of £3.0 million from reserves above.

5.3 Legal/Risk

Section 11 of the Financial Strategy contains a list of risks identified by the Chief Internal Auditor and associated mitigations in relation to the overall financial position of the Council and the assumptions used in arriving at the figures presented.

5.4 Human Resources

There are no HR implications arising from the report and Strategy.

5.5 Strategic

The Financial Strategy is a key strategic document and forms part of the Council's Performance Management Framework feeding into the development of Council Plan and Committee Delivery & Improvement Plans

6.0 CONSULTATION

6.1 The Corporate Management have been consulted and support the proposals in this report.

7.0 BACKGROUND PAPERS

7.1 None.



Financial Strategy

2023/24 – 2032/33

December, 2023

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1.1 Foreword

This latest revision of the Council's Financial Strategy has been prepared at time when the impact of the pandemic, global economics, supply issues and most recently the impact of the war in Ukraine are resulting in financial and economic pressures without precedent in recent decades and the impact on the community and the country's finances will be felt for many years.

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 Council Plan/Partnership Plan and Committee Delivery 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;**
- **the Council continues to invest 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 pressure on public sector budgets, will be to stay within the approved revenue budget and deliver a capital programme that continues to maintain the required level of investment in key infrastructure whilst contributing to the Net Carbon Zero targets and support the needs of the local community.

The 2023 Scottish Government Medium Term Financial Strategy (MTFS) has confirmed a very challenging core settlement for Local Government over the 2023/28 period. Whilst discussions

are on going regarding the Fiscal Framework and the associated “New Deal for Local Government” it is unlikely that this will offset the potential pressures flagged up in the MTF5. This will become clearer when the draft Scottish Budget for 2024/25 is announced later this month.

Given the difficult position the Council faces on capital expenditure, it is essential that future capital expenditure proposals are largely self-financing through the use of Government grants, 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 to supplement existing resources and support service delivery. The Council increased the level of income generated by charging as part of previous Budgets and the need to further increase charges will need to be reviewed in coming months/years.

We also need to ensure that the Financial Strategy continues to support the Council Plan directly, the Partnership Plan and effectively link this Strategy to our Committee Delivery Improvement Plans.

The Financial Strategy is a dynamic document and will be monitored on an ongoing basis by the Corporate Management Team and 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

Louise Long
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 Council Plan, and is an integral part of the Committee Delivery and Improvement Plans.
- 2.3 The requirement to develop a medium to long term financial strategy covering the next three to ten 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 2 March 2023 the Council agreed the 2023/24 Revenue Budget. The Council also took strategic decisions on the use of Reserves and agreed the 2023/26 Capital Programme which took into account the latest Government Grant settlement information.

Table 2 – Short Term Summary – Approved Revenue and Capital Budgets

	2023/24 £million
<u>General Fund Revenue Budget</u>	229.046
<u>Financed by</u>	
Government Grant (Including NDR)	(190.719)
Council Tax	(35.327)
Approved Contribution from General Reserve	(3.000)
	0
<u>Capital Programme (2023/24)</u>	
Approved Spend	22.10
<u>Financed by</u>	
Government Grants	8.23
Capital Receipts	0.89
Other Grants/CFCR	5.13
Prudential Borrowing	6.21
Resources Carried Forward from prior year	11.82
Surplus in Resources in 2023/24	10.18

4.0 Overall Economic Position

UK Context

- 4.1 The Covid pandemic elicited a fiscal response from the UK Government which was without precedent in peace time. The UK Government borrowed large sums of funding to support the economy, households and frontline services battling against the virus and to help protect as many jobs as possible as part of the recovery. The Autumn Budget in October 2021 set out the plans to bring the UK Budget back into some form of balance as part of the 2022/25 Spending Review.
- 4.2 The Spring Statement in March 2022 reported a much-changed position due to the emergence of higher and more persistent inflation, some linked to the anticipated impact of the war in Ukraine. This necessitated a change of thinking on tax and spend with higher inflation, lower growth and higher interest levels forecast for the 2022-2025 period.
- 4.3 The Autumn Statement in November 2023 provided updates on the main indicators and showed reductions in GDP forecasts in the short/medium term, higher inflation, and interest rates but higher receipts largely arising from tax receipts resulting from “Fiscal Drag”.
- 4.4 The increased receipts are swallowed up in increased inflationary pressures and reductions in taxes especially, National Insurance. This means that the funding for public services looks challenging for the medium term especially for those areas not protected which includes Local Government.
- 4.5 Inflation is not expected to fall as low as previously forecast and interest rates, now at 5.25% will decrease more slowly than previously anticipated.
- 4.6 The Office of Budget Responsibility (OBR) November 2023 forecasts are shown in the table below.

	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>
GDP (real) annual % change	0.6	0.7	1.4	2.0	2.0
Inflation (CPI) annual % change	7.5	3.6	1.8	1.4	1.7
Unemployment Rate (%)	4.2	4.6	4.6	4.4	4.2
Public Sector Borrowing (Bn)	124	85	77	68	49
Debt as a % of GDP	89	92	93	93	93
Interest Rates %	5.1	5.0	4.4	4.2	4.0

Scottish Context

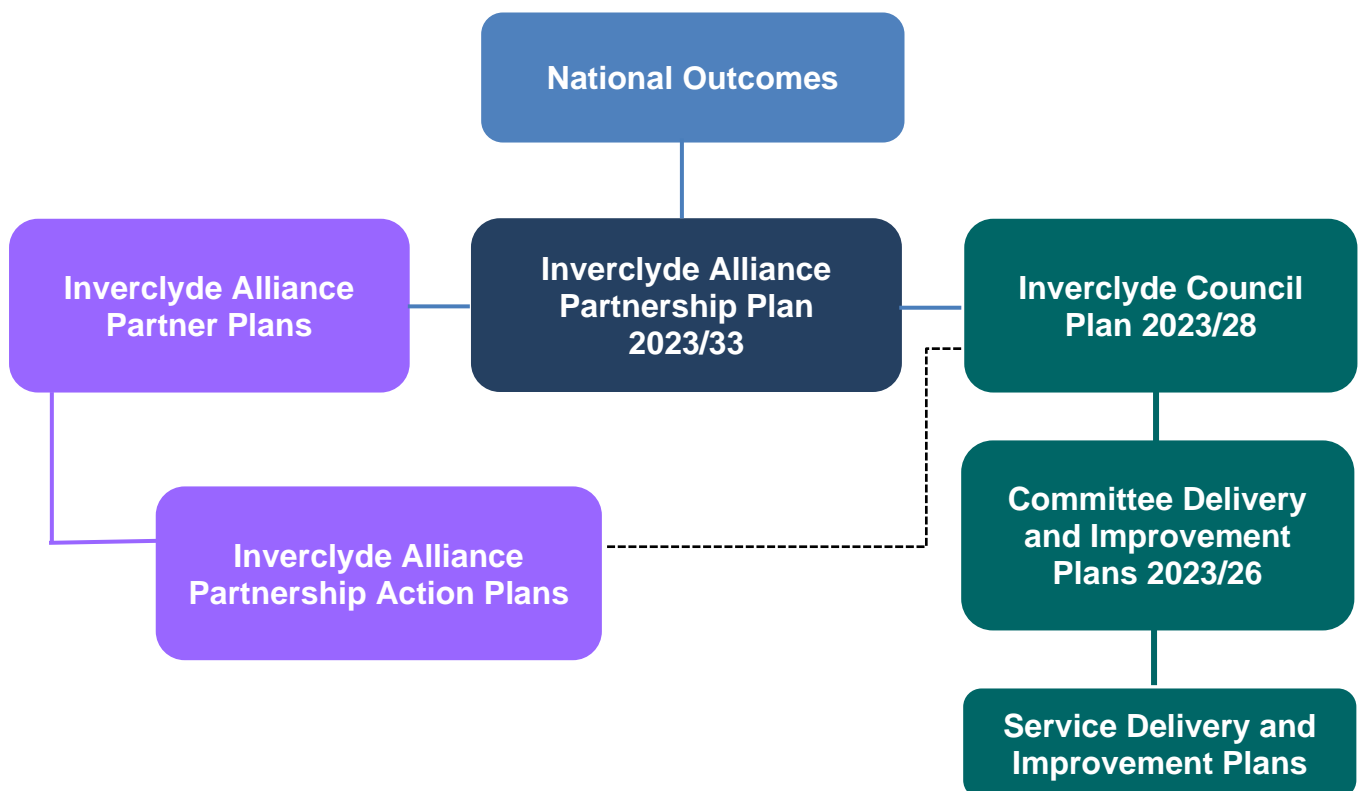
- 4.7 After a challenging Local Government grant settlement in 2023/24, indications are that there is limited prospect for real term improvements in the overall level of funding to the Councils. In the absence of real term funding increases then a reduction in the ring fenced/mandated funding would give Councils greater flexibility to target funding where it is needed at a local level. The Council awaits to see whether the Verity House agreement will deliver improvements in this area.
- 4.8 On 25 May the Scottish Government published its Medium Term Financial Strategy covering 2023/28. The headlines from the Strategy were:
- Cash and Real Terms increases in funding over 2024/28 however this being outstripped by increases in spending resulting in an estimated funding gap of just over £1 billion in 2024/25.
 - In 2024/25 there is a one off £0.7 billion negative tax reconciliation relating to 2021/22.
 - Capital resources are expected to decline in cash and real terms with the gap between capital spending plans and resources of almost £1 billion by 2025/26.

- Assumption for pay is 2.0% from 2024/25 but the plan from May 2022 that the pay bill is held at the same level i.e: increased wages paid by reduced employee numbers, has been relaxed.
- Health spend assumed to grow by 4% per year putting more pressure on remaining portfolios including Local Government.

- 4.9 Over the intervening 6 months several significant commitments have been made by the Scottish Government including funding for the 2023/24 pay award and the Council Tax Freeze grant. These commitments will place greater pressure on the Scottish Government finances making the level of “Barnett Consequentials” arising from the November 2023 Autumn Statement and the use of these by the Scottish Government, a key matter to be clarified in the coming months.
- 4.10 The Autumn Statement results in an estimated £545million in Barnett Consequentials between 2023/24 and 2024/25. A significant proportion of this relates to Health pay awards in England and is expected to be allocated to Health in Scotland. Whilst there is £264million relating to NDR reliefs, much of this is not recurring and how the Scottish Government decide to use this sum is less certain.
- 4.11 The UK and Scottish Governments have agreed a new Fiscal Framework which included a mechanism by which the Block Grant is adjusted, increasing the resource borrowing powers for managing forecast errors associated with tax and social security powers from £300 million to £600 million and uprating all limits in line with inflation albeit the exact inflation measure has yet to be agreed.

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 (SPPMF). The Framework was refreshed towards the end of 2022 as part of the Council's development work for the new Inverclyde Alliance and Inverclyde Council strategic plans. The SPPMF consists of a new ten year Partnership Plan 2023/33 and a five year Council Plan 2023/38, underpinned by Committee Delivery and Improvement Plans, Service Delivery and Improvement Plans and the Financial Strategy.
- 5.3 The new Strategic Planning and Performance Management Framework, approved in early 2023, 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 Partnership Plan 2023/33** is a high level strategic partnership document setting out the vision and direction for the Inverclyde area over a ten year period, 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** are currently being developed and will set out the Partnership actions and projects which will contribute to the achievement of the Partnership Plan outcomes.
- The **Council Plan 2023/28** is a public facing document and sets out the ways in which Inverclyde Council hopes to improve the lives of the people of Inverclyde through the delivery of a range of high level outcomes. The outcomes within the Plan are structured across the themes of People; Place and Performance.
- The **Committee Delivery and Improvement Plans 2023/26** contain strategic service delivery

actions for the Council's Policy and Resources, Education and Communities and Environment and Regeneration Committees, aligned to the delivery of the overarching Council Plan. The Committee Plans will be reviewed on an annual basis. In addition, the HSCP has developed a Strategic Plan 2019/24 which supports the Inverclyde Integration Joint Board.

- **Service Delivery and Improvement Plans** sit beneath the Committee Delivery and Improvement Plans in the planning structure and will be developed for each Head of Service. These Plans, will set out the operational tasks and activities for each Council Service and will be refreshed annually.

Outcomes for Inverclyde

The focus of the Strategic Planning and Performance Management Framework is on addressing the main challenges facing the area. The Inverclyde Alliance Partnership Plan 2023/33 builds on the achievements of the Inverclyde Outcomes Improvement Plan 2017/23 to deliver the Vision: **Success For All – Getting It Right for Every Child, Citizen and Community**. The Plan focuses on the themes of Empowered People, Working People, Healthy People and Places, A Supportive Place, and a Thriving Place.

THEME 1: EMPOWERED PEOPLE

- Communities can have their voices heard, and influence the places and services that affect them
- Gaps in outcomes linked to poverty are reduced

THEME 2: WORKING PEOPLE

- More people will be in sustained employment, with fair pay and conditions
- Poverty related gaps are addressed, so young people can have the skills for learning, life and work
- Businesses are supported and encouraged to reduce their carbon footprint and develop green jobs

THEME 3: HEALTHY PEOPLE AND PLACES

- People live longer and healthier lives
- Supportive systems are in place to prevent alcohol and drug misuse
- Our natural capital is looked after, and we are effectively adapting and mitigating the effects of climate change

THEME 4: A SUPPORTIVE PLACE

- Vulnerable adults and children are protected and supported, ensuring they can live safely and independently
- We recognise where people are affected by trauma, and respond in ways that prevent further harm and support recovery
- Public protection and community safety are improved through targeting our resources to reduce the risk of offending and harm

THEME 5: A THRIVING PLACE

- Growth in our working age population by encouraging people to stay here, and attracting new people to settle here
- Development of strong community-based services that respond to local need
- Homes are energy efficient and fuel poverty is reduced
- Increased use of active travel and sustainable transport options
- Easy access to attractive and safe public spaces, and high-quality arts and cultural opportunities

- 5.4 A key challenge for the Inverclyde Alliance, and the public agencies, operating in Inverclyde, over the next ten years will be to ensure better alignment between available resources, across all agencies, and the outcomes and priorities identified in the Partnership Plan 2023/33.

5.5 Demographics and Population

The most significant challenge facing Inverclyde is depopulation and associated demographic

change. The fundamental issue for the Council is that at some point, if the decline in population continues, 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. In recent years, the population decline in Inverclyde has been largely driven by fewer births than deaths in the area. The Inverclyde Alliance will continue to have a focus on Repopulation through the delivery of action plans developed in support of the thematic priority: A Thriving Place.

- 5.6 In the 2011 Census the population for Inverclyde was 81,485, a decrease of 3.2% from 84,200 in the 2001 census. Census 2022 data, published in September 2023, estimated the Inverclyde population to be 78,400, which is a decrease of 3,100 (3.8%) from the Census 2011 and the second largest population decrease in Scotland. Inverclyde's population in 2022 was however 1,700 (2.2%) higher than the NRS mid-2021 population estimate for Inverclyde, 76,700.
- 5.7 -According to the Census 2022 data, 14.3% of Inverclyde's population is aged 0-14 years, which is slightly less than the percentage for Scotland, 15.3%. 63.3% of Inverclyde's population is aged 15-64 years compared to 64.6% in Scotland, whilst 22.4% of the local population is aged 65 years and older, compared to 20.1% in Scotland.
- 5.8 Since 1985, Inverclyde's total population has fallen overall whilst Scotland's population has risen over this period, although the rate of population growth in Scotland has slowed.
- 5.9 It is anticipated that re-based population projections for Scottish areas will be published in early 2025. The latest available data therefore remains the 2018-based projections, published in March 2020 which forecast a long term decline in Inverclyde's population. By 2043 the population of Inverclyde is projected to be 65,517, a decrease of -16.2% compared to the population in 2018. The population of Scotland is projected to increase by 2.5% per cent between 2018 and 2043. It should be noted that the 2018 based population projections were produced prior to the pandemic and Census 2022
- 5.10 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 9.9% increase. In Scotland, it is estimated that there will be a projected 23.2% increase in the pensionable age population by 2043.
- 5.11 The population aged under 16 in Inverclyde is projected to decline by 25.6% over the 25 year period, compared to a 10.5% decrease nationally.
- 5.12 Between SIMD 2016 and SIMD 2020, the number of Inverclyde data zones in the 5% most deprived in Scotland increased from 11 to 21. This equates to 18.4% of all 114 Inverclyde data zones in the 5% most deprived category and is the second highest local share in Scotland. Inverclyde also has the second highest local share of data zones in the 20% most deprived in Scotland, with Glasgow having the highest.
- 5.13 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.
- 5.14 In terms of indicators of deprivation the profile for Inverclyde differs from the national picture, these include:
- 3.6% of working age (16-64) benefit claimants are claiming unemployment benefits. Of this, a higher proportion of 18 – 24 year olds (6.0%) are claiming than 25 – 49 year olds (4.6%) or 50+year olds (2.0%). (As at September 2023).
 - Economic inactivity rates in Inverclyde are once again higher than the national rate, 26.3% compared to 22.6% (July 2022 – June 2023).
 - The percentage of workless households in Inverclyde is 18.4% compared to 17.8% in Scotland (January – December 2022)
 - Median earnings for full time workers living in the area (Gross Weekly Pay) increased between 2021 and 2022 from £568.00 to £633.90. The Scottish average was £640.30.
 - The population aged 15-64 years accounts for 63.3% of all people in Inverclyde (Census

2022). This is 1.3% lower than for Scotland as a whole.

- 5.15 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.
- 5.16 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.
- 5.17 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

- 5.18 The public sector landscape in Inverclyde has changed significantly over the last 10-15 years. 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 Partnership Plan 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.
- 5.19 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.
- 5.20 The Community Empowerment (Scotland) Bill placed duties on the Council and its partners to provide new rights for community bodies. The Council and its partners are responding to this in a number of ways including the development of locality planning; introduction of participatory budgeting and asset transfer.

5.21 *Riverside Inverclyde*

Riverside Inverclyde remains a joint initiative between the Council and Scottish Enterprise to regenerate the Clyde Waterfront. It was originally scheduled to run from 2006/7 until 2017/18.

Following a governance review in 2018 it was agreed by the Council and Scottish Enterprise to change the operational governance model due to the reduction in major regeneration projects being progressed by Riverside Inverclyde. The revised arrangements became operational in the summer of 2019. RiPH continued a positive trading performance through-out Covid-19 but the longer term impact on RiPH continues to be assessed.

5.22 *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. The Council and RCH plus other agencies continue to work together to address the challenges brought on by low demand stock, increased investment needs and a declining population.

5.23 *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. Whinhill Golf Course transferred to Inverclyde Leisure from 2020/21 Season. Inverclyde Leisure's Business Plan is reviewed annually by the Council. The Council's percentage contribution to the Leisure Trust had reduced considerably but the recent increases in utility costs and reductions in income due to Covid required a significant increase in funding from 2023/24.

5.24 *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 receives resources from and delegate resources to the Council and Health Board.

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. To date this arrangement has proven successful with the finances of the IJB being well managed with reserves increased in order to meet the demographic demands.

The impact of the Feeley review into the provision of Adult Social Care and proposals to create a National Care Service has the potential to have a major impact on the delivery model of the Inverclyde IJB and in particular its governance and financing. This is likely to also impact upon the Council and is being closely monitored by officers.

6.0 Financial Management

Corporate Governance

- 6.1 The Council positively promotes the principles of sound corporate governance within all aspects of its activities. From a financial management perspective the Council adheres to the CIPFA Financial Management Code. Formal adoption of the code by the Council was approved early 2023.
- 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 February 2022 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, Directors, Section 95 Officer, Monitoring Officer and Head of Organisational Development, Policy and Communications 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 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 set aside time each reporting cycle to consider corporate financial matters including employee costs, key budget lines, earmarked reserves and savings delivery progress.

Section 95 Officer

- 6.14 The Section 95 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 Committee Delivery and Improvement Plans.

Budget Managers

- 6.16 Responsibility for budgetary control lies with the 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. The current External Auditors, until 2028, are KPMG.

Managing the Budget

- 6.20 Committees receive five budget monitoring reports throughout the year. These are jointly prepared by the Section 95 Officer and the relevant 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 receive system generated 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 2 years), medium-term (within 4 years) or longer (over 4 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 2023/24 Budget was based on the Council receiving Revenue Grant/Non-Domestic Rates Income of £190.719m.
- 7.4 When the Council's own projection of Council Tax Income based on 96.8% collection rate (£35.327m) and the use of reserves is added then the income for the Council in 2023/24 is projected to be £229.046m.
- 7.5 The Financial Strategy covers the period 2023/33 in terms of identifying potential issues, but the revenue forecasts are limited to the period which can be reasonably forecast. A new requirement from 2019/20 was the production and approval of a Capital Strategy which covers a period of 10 years plus. This examines a number of long term issues including the sustainability and affordability of borrowing and investment decisions.
- 7.6 The Council has agreed a Reserve Strategy which requires a minimum unallocated General Fund Reserve of approximately 2% of turnover. Based on the 2023/24 Budget this equates to £4.0 million. The overall position of the Reserves shown in Appendix 5 and has been updated to reflect the latest projections. The Reserve Strategy was reviewed and approved by the Policy & Resources Committee in March 2023. Earmarked Reserves and the level of unallocated reserves are reviewed annual as part of the budget process.
- 7.7 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 2023

	<u>2023/24</u>	<u>2024/25</u>	<u>2025/26</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Base Budget for Prior Year	218.230	226.046	227.413
<u>UPLIFTS FROM PRIOR YEAR</u>			
<u>Inflation (Note 1)</u>			
Pay Inflation	7.836	3.400	3.500
Other Inflation	5.400	1.500	1.000
	<u>13.236</u>	<u>4.900</u>	<u>4.500</u>
<u>Budget Increases (Note 2)</u>			
General Pressures	1.860	0.500	0.500
Increased Prudential Borrowing	0.100	0.100	0.100
	<u>1.960</u>	<u>0.600</u>	<u>0.600</u>
<u>Adjustments (Note 3)</u>			
Other Adjustments Applied	0.313	0.000	0.000
New Funding Per SG Settlement	2.304	0.000	0.000
Reduced Use of Reserves	1.000	1.000	1.000
One off Share of £120m Grant	-1.858	0.000	0.000
Share of Capital £120.6m for Pay Award	-1.867	1.867	0.000
Net Revenue Budget Before Savings	<u>233.318</u>	<u>234.413</u>	<u>233.513</u>
<u>Funded by: (Note 4)</u>			
Revenue Grant/NDR Income	190.719	192.086	191.586
Council Tax Income (Net of CTR)	35.327	35.327	35.327
	<u>226.046</u>	<u>227.413</u>	<u>226.913</u>
Annual Budget Before Savings (Surplus)/Deficit	<u>7.272</u>	<u>7.000</u>	<u>6.600</u>
Cumulative Budget Gap before Savings	<u>7.272</u>	<u>14.272</u>	<u>20.872</u>
<u>Savings Applied (Cumulative)</u>			
Savings Approved December 2020 Full Council	-0.027	-0.027	-0.027
Savings Approved December 2021	-0.030	-0.030	-0.030
Savings Approved February 2022 Full Council	-0.084	-0.084	-0.084
Adjustments Approved August 2022 P&R	-0.135	-0.135	-0.135
Savings Approved September 2022 P&R	-0.608	-0.608	-0.608
Savings Approved November 2022 P&R	-0.610	-0.635	-0.635
Savings Approved December 2023 Full Council	-2.748	-3.399	-3.399
Savings Approved January 2023 P&R	-1.940	-1.940	-1.940
Savings Approved March 2023 Full Council	-1.090	-1.431	-1.438
Savings Workstreams September 2023 P&R	0.000	-1.320	-2.500
Savings Approved September 2023 P&R	0.000	-0.421	-0.421
Savings Approved November 2023 P&R	0.000	-0.870	-1.020
Approved Budget (Surplus)/Deficit	<u>0.000</u>	<u>3.372</u>	<u>8.635</u>

Finance Strategy Notes – Dec 2023

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, impacts of living wage, increases in employers national insurance/pension costs, and movement in service bottom up employee budgets. Figures for 2023/25 reflect proposals identified in the 2023/24 budget set March 2023, excluding the Social Work estimated pay award for 2023/24 onwards, and reflects recent information resulting from the negotiated pay award. As a result, an allowance of 6% is included for 2024/26. 2023/24 budget figures includes funding allocated for 2022/23 after the approved budget was set.
- b) Other Inflation – Inflation had been at a low rate until recent times and as such the allowances have been greatly reduced. However, there has been a significant increase in inflation over the last 18 months leading to significant increases in sums added to 2023/24.

Note 2 Budget Increases

- a) General Pressures – Reflects allowance identified in the 2023/24 budget set March 2023.
- b) Increased Prudential Borrowing – Reflects decisions taken at the 2023/24 budget set March 2023.

Note 3 Adjustments

- a) Other Adjustments – Reflects budget decisions taken December 2022.
- b) New Funding – Reflects new funding received as part of the Settlement March 2023. The majority of the funding relates to new funding for Health & Social Care Partnership and empty property relief.
- c) Reduced Use of Reserves – As part of the 2021/22 budget process, the Council approved use of reserves to fund the 2021/23 budget. The 2023/24 budget process approved to reduce the use of reserves by £1 million until 2026/27. The 2023/24 budget uses £3 million of reserves to balance the budget.
- d) One Off Share of Grant – In 2022/23, the Council received a one-off share of £120 million grant from the Scottish Government. This is now included within the General Revenue Grant from 2023/24 onwards.
- e) Share of Capital Grant £120.6m – The Scottish Government agreed to part fund the 2022/23 pay award from a capital grant for 2 years. It is expected that the Council will receive its share of the £120.6 million in the General Revenue Grant from 2024/25 onwards.

Note 4 Funded By

- a) Reflects 2023/24 Finance Settlement included in Scottish Government Circular 3/2023. The Scottish Government held back £0.655m of funding in relation to teachers pay. The 2024/25 figures are estimated based on continuing grant loss due to Depopulation.
- 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 5.3% on 2 March 2023. No uplift has been assumed for year 2024/25 or 2025/26.

Other Short to Medium Term Revenue Issues

The significant risk associated with the short to medium term budget position will be around inflation allowances, including utilities, contracts and any unresolved pay award plus increasing demand for certain services. Close monitoring and regular reporting to Committee will ensure officers report any significant variances at the earliest opportunity. The Medium Term Financial Strategy by the Scottish Government has provided greater clarity regarding the challenges faced by the Council over the medium term. In light of this the Council Strategy is to provide clarity on service levels, investment and job security at the earliest possible time.

7.8 Long Term Revenue Issues

Looking beyond 2026 becomes increasingly difficult with uncertainty around the level of funding likely to be available.

The incremental impact of current major initiatives have been fully incorporated the overall Budget.

Post 206/27 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 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 including the future of non-domestic rates.**
- **The current global UK and Scottish economic situation and the resultant speed with which inflation will return to pre-covid/Brexit levels.**
- **The extent to which the current “cost of living crisis” will continue to impact on Council Services from both a demand and funding perspective.**
- **Health and Social Care integration is due to undergo further changes 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.**
- **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.**

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

7.10 Table 4 shows the high level estimate of the 2024/27 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 and Table 4c representing a “pessimistic” scenario. These figures are heavily caveated due to the major uncertainty caused by the changing position in the short/medium term impact of inflation, the economy and funding for the Public Sector.

Table 4a**2024/27 Budget Gap - Mid-Range Scenario**

	2024/25	2025/26	2026/27	2024/27
	£m	£m	£m	£m
Block Grant Increase	0.0	0.0	0.0	0.0
Continuing Impact of Depopulation	0.5	0.5	0.5	1.5
Inflation - Pay	3.4	3.5	3.6	10.5
- Non-Pay	1.5	1.0	1.0	3.5
Pressures				
- General Pressures	0.5	0.5	0.5	1.5
- Prudential Borrowing	0.1	0.1	0.1	0.3
Savings Approved to Nov 2023	(3.6)	(1.3)	0.0	(4.9)
Reduced Use of Reserves	1.0	1.0	1.0	3.0
Funding Gap	3.4	5.3	6.7	15.4

a/ £3.0m from Reserves used in 2023/24 is reduced by £1.0m/year over 2024/27.

b/ Reduced impact of depopulation assumes 0.3% Floor for 2024/27

c/ Pay & Non-Pay inflation and Pressures excludes HSCP

d/ Assumes no new Prudential Borrowing above that already contained in the Loans Charges Model.

e/ Includes no Council Tax increase (3% annual increase would raise £1.0 million per year)

f/ The movement in Block Grant excludes hypothecated funding increases as these are ring fenced for specific purposes

	2024/25	2025/26	2026/27
Key Assumptions	%	%	%
GRG/NDRI Cash Movement	0.0	0.0	0.0
Pay Inflation	3.0	3.0	3.0

Table 4b**2024/27 Budget Gap - Optimistic Scenario**

	2024/25	2025/26	2026/27	2024/27
	£m	£m	£m	£m
Block Grant Increase	(0.5)	(1.0)	(1.0)	(2.5)
Continuing Impact of Depopulation	0.5	0.5	0.5	1.5
Inflation - Pay	3.4	2.4	2.4	8.2
- Non-Pay	1.0	0.8	0.6	2.4
Pressures				
- General Pressures	0.5	0.5	0.5	1.5
- Prudential Borrowing	0.1	0.1	0.1	0.3
Savings Approved to March,2023	(3.6)	(1.3)	0.0	(4.9)
Reduced Use of Reserves	1.0	1.0	1.0	3.0
Funding Gap	2.4	3.0	4.1	9.5

a/ £3.0m from Reserves used in 2023/24 is reduced by £1.0m/year over 2024/27.

b/ Reduced impact of depopulation assumes 0.3% Floor for 2024/27

c/ Pay & Non-Pay inflation and Pressures excludes HSCP

d/ Assumes no new Prudential Borrowing above that already contained in the Loans Charges Model.

e/ Includes no Council Tax increase (3% annual increase would raise £1.0 million per year)

f/ The increase in Block Grant excludes hypothecated funding increases as these are ring fenced for specific purposes

	2024/25	2025/26	2026/27
Key Assumptions	%	%	%
GRG/NDRI Cash Movement	0.25	0.50	0.50
Pay Inflation	3.0	2.0	2.0

Table 4c**2024/27 Budget Gap - Pessimistic Scenario**

	2024/25	2025/26	2026/27	2024/27
	£m	£m	£m	£m
Block Grant Decrease	0.0	0.5	0.5	1.0
Continuing Impact of Depopulation	1.0	1.0	1.0	3.0
Inflation - Pay	4.5	4.1	3.6	12.2
- Non-Pay	1.5	1.0	1.0	3.5
Pressures				
- General Pressures	0.8	0.8	0.8	2.4
- Prudential Borrowing	0.1	0.1	0.1	0.3
Savings Approved to March,2023	(3.6)	(1.3)	0.0	(4.9)
Reduced Use of Reserves	1.0	1.0	1.0	3.0
Funding Gap	5.3	7.2	8.0	20.5

a/ £3.0m from Reserves used in 2023/24 is reduced by £1.0m/year over 2024/27.

b/ Reduced impact of depopulation assumes 0.6% Floor for 2024/27

c/ Pay & Non-Pay inflation and Pressures excludes HSCP but assumes some demand pressures from HSCP

d/ Assumes no new Prudential Borrowing above that already contained in the Loans Charges Model.

e/ Includes no Council Tax increase (3% annual increase would raise £1.0 million per year)

f/ The movement in Block Grant excludes hypothecated funding increases as these are ring fenced for specific purposes

	2024/25	2025/26	2026/27
Key Assumptions	%	%	%
GRG/NDRI Cash Movement	0.0	(0.25)	(0.25)
Pay Inflation	4.0	3.5	3.0

2024/25 pay assumption allows for 2023/24 pay shortfall

7.11 Short to Medium Term Capital Projections

The Council agreed a 3 year Capital Programme covering 2023/26 in March 2023. A 5% overprovision was built in to allow for increased resources/project cost reductions.

7.12 Long-Term Capital Projections

There is greater certainty around capital spend for the post 2023/24 period due to the fact that asset management plans will continue to utilise nearly all available funding i.e. Schools, Operational Properties, Roads, Lighting, Vehicles, Open Spaces and ICT, whilst the 5 year Scottish Government Capital Funding Plan indicates that in the period to 2026, core Local Government Capital Grant will be frozen at 2021/22 levels. This will leave the Council over £3 million/year short against the core investment requirements.

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, use of Reserves as well as delivering efficiencies which will secure ongoing revenue savings.

Even were Local Government Capital Grants to increase in the longer 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 2023/2026 (Medium Term Capital Projections)

Table 5

<u>Expenditure/Projects by Committee</u>	<u>2023/24</u> <u>£m</u>	<u>2024/25</u> <u>£m</u>	<u>2025/26</u> <u>£m</u>	<u>Totals</u> <u>£m</u>
Policy & Resources	0.74	0.64	2.59	3.97
Environment & Regeneration	13.16	21.78	9.46	44.40
School Estate	1.34	4.08	5.00	10.42
Education & Communities (Exc School Estate)	1.38	0.57	0.05	2.00
CHCP	0.96	8.24	0.17	9.37
	17.58	35.31	17.27	70.16
<u>Financed By</u>				
Government Grant	10.23	6.00	6.00	22.23
Sales/Contributions	0.51	0.32	0.32	1.15
Other Income	4.56	0.00	0.00	4.56
Revenue	0.06	6.07	3.09	9.22
Prudential Borrowing	4.06	10.59	2.64	17.29
Resources Carried Forward	12.45	0.00	0.00	12.45
	31.87	22.98	12.05	66.90
				3.26
Shortfall in Resources				

Notes

1 As per Nov 2023 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 has resulted in the following:
- 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.
 - 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.
 - 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.
 - Since 2018/19 there is the requirement to produce a Capital Strategy which is also reviewed annually.

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 31/10/23.

Table 6 – Council’s Debt and Investment Position – 31/10/23

The Council’s treasury portfolio position at 31/10/23 comprised:

		Principal		Average Rate
		<u>£000</u>	<u>£000</u>	
Fixed rate funding	PWLB	99,414		4.03%
	Market	56,000	154,414	
Variable rate funding	PWLB	0		4.92%
	Market	13,820	13,820	
TOTAL DEBT			169,234	4.10%
TOTAL INVESTMENTS			20,761	5.26%

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 the Policy & Resources Committee in March 2023.
- 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 just over £200 million results in a core General Fund Reserve of £4.0 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. Earmarked Reserves are reviewed annually as part of the budget process.
- 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) General Fund “Free” Reserves – 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 4.

Balance 31/03/23 = £7.700 million

- (b) Insurance Fund – 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. See Appendix 7.

Balance 31/03/23 = £4.816million

- (c) Capital Fund – 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 5.

Projected Balance 31/03/24 = £(1.395) million

- (d) Repairs & Renewals Fund – 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 6.

Projected Balance 31/03/24 = £3.124million

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, £2.0 million, subject to the opinion of the Section 95 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
<p>The Financial Strategy does not reflect in financial terms the objectives set out in other strategic plans of the Council.</p>	<p>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 Council Plan but it is not possible to quantify all of these at present.</p> <p>The Financial Strategy is updated as further information becomes available regarding these strategic plans.</p>
<p>The strategic planning process will identify a range of additional budget pressures over and above those currently considered in this Financial Strategy.</p>	<p>The Strategic Planning Guidance identifies that Committee Delivery and 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.</p>
<p>Forecasts within the Financial Strategy are not accurately determined or reviewed on a regular basis.</p>	<p>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.</p> <p>Three scenarios are included in the Strategy based on Pessimistic, Mid-Range and Optimistic. This provided a broad range of potential outcomes.</p> <p>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.</p>
<p>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.</p>	<p>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.</p> <p>Individual savings are reviewed by Change Boards and lead officers on a regular basis with material issues reported to the CMT and if required, Committee.</p>

<p>Income budgets not achieved or become unsustainable.</p>	<p>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.</p> <p>Equally, income budgets are monitored throughout the financial year and where a shortfall in income is anticipated, this is highlighted in reports to Committee.</p> <p>Proposals to increase fees and charges are reviewed in line with the Council's Charging Policy prior to reporting to Committee.</p>
<p>The Council has insufficient capital resources to sustain capital commitments.</p>	<p>The Council has already identified through the Financial Strategy a reduced reliance on capital receipts and Government Grants in the medium term.</p> <p>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.</p> <p>The Council has Asset Management Plans for all its assets with all the above issues captured within the Financial Strategy.</p> <p>The Council produces a Capital Strategy which looks at the longer term need, funding & sustainability of the capital programme.</p>
<p>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.</p>	<p>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.</p> <p>The Council only pays in advance for Services by exception.</p> <p>Regular reviews of financial position are undertaken for key suppliers on an ongoing basis.</p>
<p>Legislative changes are not anticipated and the financial impact is not addressed through the budget process of Financial Strategy.</p>	<p>Chief Officers are required to highlight the impact of legislative changes through the strategic planning and budgeting process and the likely resource requirement.</p> <p>In addition COSLA has a key role in assessing the financial impact of changes in legislation and lobbying for Councils to be funded appropriately.</p>

<p>Interest rates on borrowing may be higher than forecast.</p>	<p>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.</p>
<p>Reserves are required to fund unanticipated budget shortfalls and fall below minimum recommended level.</p>	<p>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.</p>
<p>Revenue implications of capital programme/projects are not fully anticipated.</p>	<p>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.</p>
<p>The current significant deterioration in the economic outlook and the impact this has on the local community has an unsustainable impact on Council budgets.</p>	<p>There is regular reporting to Members on the budget position and forecasts. Cosla continues to lobby Scottish and UK Governments for funding. Directors of Finance share common information and assumptions.</p>

Short-Term Issues (2023/25)

The tables in Appendices 1, 2 and 3 have been developed through ongoing consultation with the CMT to highlight the issues to inform the Financial Strategy and future budget setting.

<u>Service</u>	<u>Issues Identified</u>	<u>Issues & Potential Impacts</u>	<u>Action Taken</u>	<u>Responsible Officer</u>	<u>Timescale to report back</u>
Corporate	Inflation	Uncertainty over the length of inflation pressures are not fully clear over the period.	Inflation allowances are regularly reviewed. Regular monitoring and reporting to CMT/Members.	Alan Puckrin	Ongoing
Social Care	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.	Monitor development and report as required.	Kate Rocks	Ongoing
	Children's Services	Significant demand in the system will lead to increased costs.	Strategy put in place as part of the 2022/23 Budget. Monitor and report as required.	Kate Rocks	Ongoing
Education & Communities	Inverclyde Leisure – Reduction in Income and increased Utility costs.	A major source of income for IL comes from its fitness gyms. Competitors have moved into the area added to which customer behaviours changed following Covid.	Regular joint monitoring of income levels and utility costs is on-going with the aim of reducing the level of Council funding.	Ruth Binks	January 2024.

Medium-Term Issues (2025/27)

Appendix 2

<u>Service</u>	<u>Issues Identified</u>	<u>Issues & Potential Impacts</u>	<u>Action to be Taken</u>	<u>Responsible Officer</u>	<u>Timescale to report back</u>
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.	Continue dialogue with partners.	Chief Executive/Directors	Ongoing
	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.	Louise Long	Ongoing
	Increased cost for externally provided contracts and services due to inflationary pressure including the Living Wage.	In line with Fair Work First, 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 to review Council Tax and will potentially review NDR.	Monitor developments and report as required.	Alan Puckrin	Ongoing
	Pay & Grading. Impact of £15/hour implementation	If the "bottom loading" of pay settlements continues then it is likely the Council will require to revisit the Pay & Grading model.	Monitor developments including aspiration to achieve £15/hour.	Morna Rae	Ongoing issue.
	Equal Pay	No provision for outstanding claims.	Provision will continue to be monitored and reviewed taking account of relevant legal judgements and advice from the Council's legal advisors.	Morna Rae	On Going

<u>Service</u>	<u>Issues Identified</u>	<u>Issues & Potential Impacts</u>	<u>Action to be Taken</u>	<u>Responsible Officer</u>	<u>Timescale to report back</u>
	Capital Accounting – Potential changes.	If the Scottish Government agreed to move to depreciation accounting rather than loans charge accounting this could significantly increase the costs to the recurring budget.	Monitor developments, respond to consultations and actively engage in lobbying by professional bodies.	Alan Puckrin	Ongoing.
Social Care	Review of future of Adult Social Care Impact of inclusion of elements of the Acute Health Services within the IJB Budget. Childrens Services Funding Pressures.	Potential major impacts on IJB and Council Budgets if not appropriately funded. Potential for the Council to have to meet a proportion of any overspend caused by increasing pressure on Health Budgets. Covid has had a considerable impact on demand for support within Children & Families. Identified one off funding will only address the short term pressure. A fundamental review of service delivery is needed.	Monitor developments, contribute to relevant forums and report as required. Regular monitoring of the IJB Strategic Plan and financial projections added to supporting robust financial scrutiny by the IJB. Develop proposals to change service delivery and report back via CMT to Council and IJB.	Kate Rocks Kate Rocks Kate Rocks	Late 2023 Ongoing Initial reports 2024.
	Homelessness – Revised Delivery Model.	Utilisation of the Inverclyde Centre under review. New delivery model will require significant capital investment with revenue implications	Review is part of Delivering Differently with reports back to CMT/Council and IJB.	Kate Rocks	Initial Reports 2024.
Environment & Regeneration	Ability to maintain Council assets.	Capital allocations insufficient to maintain assets (property and roads) in the medium term.	Refresh Asset Management Strategy aligned to prioritising investment.	Stuart Jamieson	Asset Management Strategy – October 2024

Long-Term Issues (Post 2027 Onwards)

<u>Service</u>	<u>Issues Identified</u>	<u>Issues & Potential Impacts</u>	<u>Action to be Taken</u>	<u>Responsible Officer</u>	<u>Timescale to report back</u>
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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 Council and Alliance on a regular basis.	Morna Rae	Ongoing
Social Care	Impact of National Care Service	Cost, disruption and impact on rest of the Council.	Monitor and report to Council/IJB.	Louise Long/Kate Rocks	Ongoing
Education & Community	School Estate.	Plans will be required for recommencement of a new School Estate Plan from the late 2020's. This will have significant financial and policy challenges.	Commence consideration at the appropriate time and factor into any investment plans.	Ruth Binks/Stuart Jamieson	Ongoing.
Environment & Regeneration	Flood and coastal protection arising from global warming.	The frequency and severity of extreme weather will require significant investment Council assets.	Funding for surveys and thereafter funding for priorities	Stuart Jamieson	Asset Plan by 2025.

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.	Utilisation of £20million Town Centre Fund. Develop a funding model with clear outputs and funding sources.	Stuart Jamieson	Ongoing
	Net Zero Carbon Strategy	To achieve the required targets will require significant capital investment not currently included in financial plans beyond 2025/26.	Prepare detailed delivery plan and obtain funding approval for delivery.	Stuart Jamieson	Next report 2024
		Closure of major local employer could further increase rate of depopulation and would significantly impact of areas regeneration efforts.	Work with all partners to identify areas of risk and mitigating actions.		As required.

Finance Strategy
General Fund Reserves
Dec 2023

	£000	
Reserves Balance at 31st March 2023	7,700	
Budgeted Contribution to Reserves: Note 1		
2022/23 Outturn Earmarked for 2023/24	5,608	
	0	5,608
Planned Use of Reserves 2023/27 Note 2		(24,308)
Projected Surplus (Deficit) 2023/27 Note 3		27,600
Projected Free Reserves Balance 31st March 2024	16,600	

GRG/NDR/Council Tax is approximately £200 million. Recommended minimum level of reserves is 2% / £4 million.

Notes:

- 1/ 2023/24 figures reflect £3m use of reserves to fund the revenue budget as approved at 2023/24 budget setting process. 2024/26 figures reflect a further use of reserves of £3m to fund the revenue budget.
- 2/ Represents decisions taken between March 2018 and March 2023 and based on latest phasings.

<u>Approved Use of Reserves</u>	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'001	Total £000
March 2018 - £8.858m	(128)	0	0	0	(128)
March 2020 - £8.207m	(325)	0	0	0	(325)
February 2022 - £9.175m	(2,876)	0	0	0	(2,876)
December 2022 - Finance Strategy	(477)	(1,200)	0	0	(1,677)
January 2023 -£0.602m	(254)	(348)	0	0	(602)
March 2023 - £18.7m	(5,069)	(7,901)	(5,730)	0	(18,700)
	(9,129)	(9,449)	(5,730)	0	(24,308)

- 3/ Figure reflects projected surplus reported to Policy & Resources Committee November 2023 (Period 6) and Budget set full Council March 2023 :

	2023/24 £000	2024/25 £000	2025/26 £'000	2026/27 £'000	Total £000
Projected Surplus / (Deficit) (Period 6)	(500)	0	0	0	(500)
Service Concession (Jan 23)	14748	0	0	0	14,748
IRI Interest 2023/26 (Jan 23)	1100	1200	1200	0	3,500
Use of Reserves 2022/23	452	0	0	0	452
Actuarial Review (Nov 23)	0	4500	4500	0	9,000
IL Smoothing Reserve (Nov 23)	400	0	0	0	400
	16,200	5,700	5,700	0	27,600

AP/AE
10/11/23

Finance Strategy
Capital Fund

		2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	2029/30 £'000	2030/31 £'000	2031/32 £'000	2032/33 £'000
Balance B/fwd		315	(1,395)	(2,113)	(2,283)	(2,564)	(2,639)	(2,716)	(2,796)	(2,878)	(2,962)
Additions (Estimate)	a	(2,726)	(649)	(99)	(214)	0	0	0	0	0	0
Interest (Estimate)		16	(69)	(71)	(67)	(75)	(77)	(80)	(82)	(84)	(87)
Other Payments	b	1,000	0	0	0	0	0	0	0	0	0
Balance at Year End	c	(1,395)	(2,113)	(2,283)	(2,564)	(2,639)	(2,716)	(2,796)	(2,878)	(2,962)	(3,049)

- Notes
- a 2023/24 SEMP Receipts, £1.666, Greenock Academy, Holy Cross
 Other Receipts, £1.060m, Unit 45 PG Industrial Estate, Kempock Place, Leperstone Avenue & other receipts
- 2024/25 SEMP Receipts, £0.385, Sacred Heart
 Other Receipts, £0.264m, former Garvel Centre, Crescent St, Leperstone Avenue
- 2025/26 Other Receipts, £0.099m, Leperstone Avenue
- 2026/27 Other Receipts, £0.214m, Leperstone Avenue
- b Other Payments:
 2023/24 £1m payment to fund Capital Programme (approved March 2021)

Finance Strategy
Repairs & Renewals Fund

	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	2029/30 £'000	2030/31 £'000	2031/32 £'000	2032/33 £'000
Balance B/fwd	(3,062)	(3,124)	(3,195)	(3,218)	(3,137)	(3,194)	(3,252)	(3,273)	(3,334)	(3,345)
Additions:										
Energy Efficiency Fund	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Maintenance Payments:										
Environmental Maintenance	41	36	36	36	36	37	75	37	88	37
Leisure Strategy	b 0	0	0	141	0	0	0	0	0	0
Affordable Housing Fund	c 50	50	50	0	0	0	0	0	0	0
Interest										
Environmental Maintenance	(26)	(25)	(17)	(14)	(13)	(13)	(12)	(10)	(9)	(7)
Leisure Strategy	(54)	(58)	(41)	(37)	(34)	(35)	(36)	(37)	(38)	(39)
Former Housing Repairs & Renewals Fund	(56)	(59)	(42)	(38)	(39)	(40)	(41)	(43)	(44)	(45)
Affordable Housing Fund	(10)	(8)	(4)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Energy Efficiency Fund	(6)	(6)	(4)	(4)	(4)	(4)	(4)	(5)	(5)	(5)
Balance:										
Environmental Maintenance	d (505)	(494)	(475)	(453)	(430)	(406)	(343)	(316)	(237)	(207)
Leisure Strategy	(1,151)	(1,209)	(1,250)	(1,146)	(1,180)	(1,215)	(1,251)	(1,288)	(1,326)	(1,365)
Former Housing Repairs & Renewals Fund	(1,195)	(1,254)	(1,296)	(1,334)	(1,373)	(1,413)	(1,454)	(1,497)	(1,541)	(1,586)
Affordable Housing Fund	(152)	(110)	(64)	(66)	(68)	(70)	(72)	(74)	(76)	(78)
Energy Efficiency Fund	(121)	(128)	(133)	(138)	(143)	(148)	(153)	(159)	(165)	(171)
Balance at Year End	(3,124)	(3,195)	(3,218)	(3,137)	(3,194)	(3,252)	(3,273)	(3,334)	(3,345)	(3,407)

Finance Strategy
Repairs & Renewals Fund

Notes

- a Future contribution to Leisure Strategy subject to confirmation of available funds.
- b Leisure Strategy commitments:
Pitches/MUGA's Lifecycle costs
- c Contribution towards Acquisitions of Affordable Housing, £150k total allocation (agreed E&R Committee October 2021)
- d Environmental Maintenance is a combined fund used for ongoing maintenance of Greenock Cut, Gallaghers (Port Glasgow) Development and Inverkip Footbridge.
- f It is intended that any unused Repairs budget for the Greenock Ocean Terminal will be transferred to the Repairs and Renewals Fund each year to provide for future major repairs to the facility. This will be included in future Repairs and Renewals models.

Insurance Fund

	<u>2023/24</u>	<u>2024/25</u>	<u>2025/26</u>	<u>2026/27</u>	<u>2027/28</u>	<u>2028/29</u>	<u>2029/30</u>	<u>2030/31</u>	<u>2031/32</u>	<u>2032/33</u>	<u>2033/34</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Opening Balance	4.816	3.435	3.355	3.135	2.880	2.575	2.335	2.050	1.820	1.547	1.362
Contribution to Fund (a)	0.350	0.350	0.350	0.350	0.350	0.450	0.450	0.550	0.550	0.550	0.550
Payments Made From Fund (b)	(0.410)	(0.430)	(0.450)	(0.470)	(0.490)	(0.510)	(0.540)	(0.570)	(0.600)	(0.630)	(0.660)
MMI Clawback/Ex-SRC Abuse Claims (c)	-	-	-	-	-	-	-	-	-	-	-
Other (d)	(0.090)	-	(0.120)	(0.135)	(0.165)	(0.180)	(0.195)	(0.210)	(0.223)	(0.105)	-
	4.666	3.355	3.135	2.880	2.575	2.335	2.050	1.820	1.547	1.362	1.252
Estimated Outstanding Charges at 31 October 2023 (e)	(1.231)										
Balance for Future Claims	3.435	3.355	3.135	2.880	2.575	2.335	2.050	1.820	1.547	1.362	1.252

Notes

(a) Amount paid by Services and not paid to external insurers. Currently a £100,000 annual reduction is being applied which ends in 2029/30.

A further £100,000 annual reduction will be applied from 2023/24 for 5 years and ending in 2027/28.

(b) Estimate for charges paid from Fund net of interest income.

(c) Movement on allowance for Council contribution to legacy MMI and ex-SRC abuse claims (to be reviewed at the year-end). The total allowance at 31 March 2023 was £0.374 million.

(d) Estimated Council contribution of £1.5 million to Scottish Child Abuse Redress Scheme (contributions started in 2022/23 and will be made over a 10 year period with 2024/25 deferred to 2032/33).

(e) Estimated cost to Fund of outstanding claims as at 31 October 2023. Includes estimated £350,000 to make safe the former Clune Park Primary School.

City Deal - As at 30.09.23

<u>Capital</u>	<u>£m</u> <u>15/23</u>	<u>£m</u> <u>23/24</u>	<u>£m</u> <u>24/25</u>	<u>£m</u> <u>25/26</u>	<u>£m</u> <u>26/27</u>	<u>£m</u> <u>27/28</u>	<u>£m</u> <u>28/29</u>	<u>£m</u> <u>29/30</u>	<u>£m</u> <u>30/31</u>	<u>£m</u> <u>31/32</u>	<u>£m</u> <u>Total</u>
Overall Grant	355	15	30	60	60	60	60	60	60	60	820
Inverclyde's Grant Received/ Estimated	10.866	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	19.866
<u>Project Spend</u>											
Ocean Terminal	10.261	0.177	0	0	0	0	0	0	0	0	10.438
Inverkip	0.023	0.100	3.677	0	0	0	0	0	0	0	3.800
Inchgreen	4.709	5.018	0	0	0	0	0	0	0	0	9.727
Council Contribution	0	(1.400)	(0.550)	0	0	0	0	0	0	0	(1.950)
Grant Eligible Costs	14.993	3.895	3.127	0	0	0	0	0	0	0	22.015
Annual Grant (Shortfall)/Surplus	-4.127	-2.895	-2.127	1.000	1.000	1.000	1.000	1.000	1.000	1.000	-2.149
Cumulative (Shortfall)/Surplus	-4.127	-7.022	-9.149	-8.149	-7.149	-6.149	-5.149	-4.149	-3.149	-2.149	Est Debt 31.3.32
<u>Revenue</u>	<u>£000</u> <u>15/23</u>	<u>£000</u> <u>23/24</u>	<u>£000</u> <u>24/25</u>	<u>£000</u> <u>25/26</u>	<u>£000</u> <u>26/27</u>	<u>£000</u> <u>27/28</u>	<u>£000</u> <u>28/29</u>	<u>£000</u> <u>29/30</u>	<u>£000</u> <u>30/31</u>	<u>£000</u> <u>31/32</u>	
Revenue Budget	1,536	220	220	220	220	220	220	220	220	220	
PMO Central Team Costs	(56)	(59)	(62)	(65)	(68)	(71)	(75)	(79)	(83)	(87)	
Interest Charge	(40)	(326)	(414)	(262)	(205)	(181)	(157)	(133)	(108)	(84)	
Contribution to Inchgreen	0	(1,400)	0	0	0	0	0	0	0	0	
Dividend (Inchgreen JV)	310	0	0	0	0	0	0	0	0	0	
Planned Write Back to Reserves	0	0	0	0	0	0	0	0	0	0	
Balance at Year End	1,750	185	(71)	(178)	(231)	(263)	(275)	(267)	(238)	(189)	

Notes

- 1/ Project spend profiles reflect the latest reported figures to the Cabinet. Costs to be firmed up as part of detailed Business preparation for Inverkip. Figures exclude partner contributions. Ocean Terminal cost approval increased by £400k in 2022 and £345k in 2023. Inchgreen cost approval increased by £300k in 2023. Council Contribution represents a £1.4m contribution to Inchgreen in 2023/24 funded via the existing City Deal Revenue Reserve and £0.550m contribution to Inverkip in 2024/25 funded £0.3m from the Medium Term Capital Programme Support budget and £0.25m from Roads capital budgets, either through grant award from partner organisations or from the
- 2/ The Council initially set aside up to £400,000 per year but approved saving an £80k saving in Sept 2019. From 2023/24 it reflects a further £100,000 savings. A £1.4million contribution to the Inchgreen Project is to come from the cumulative balance in 2023/24.
- 3/ Assumes that the City Deal will pass the 2nd milestone in 2024 and as such the UK and Scottish Government will honour their grant commitments.
- 4/ Regional projects have first call on the grant hence why from 2025/26 the Council's level of grant falls. Estimates only at this time as Regional projects are under review. Grant phasing for 2023/24 and beyond is therefore indicative at this stage.

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.
Interest rates used , 2023/24 (5.03%), 2024/25 (5.00%), 2025/26 (3.44%) 2026/27 & onwards (3.00%)

Finance Strategy
Loan Charges

		2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	2029/30 £'000	2030/31 £'000	2031/32 £'000	2032/33 £'000	2033/34 £'000
Balance B/fwd		1,645	1,797	1,198	405	(171)	(168)	(145)	27	255	641	1,412
Projected Loan Charges	a	17,950	17,601	17,895	17,778	17,299	17,379	17,330	17,374	17,216	16,831	16,769
Available Budget	b	16,902	17,002	17,102	17,202	17,302	17,402	17,502	17,602	17,602	17,602	17,602
Loan Charge Surplus/(Deficit)		(1,048)	(599)	(793)	(576)	3	23	172	228	386	771	833
Other Adjustments:												
Transfer from Reserves Agreed Dec 2022		1,200	0	0	0	0	0	0	0	0	0	0
		1,200	0	0	0	0	0	0	0	0	0	0
Balance at Year End		1,797	1,198	405	(171)	(168)	(145)	27	255	641	1,412	2,245
Interest Rate (Assumed):		4.39%	4.18%	3.90%	3.83%	3.71%	3.76%	3.90%	4.05%	4.11%	4.17%	4.30%

Notes

Revised projections as at November 2023 and excludes Loan Charges relating to City Deal and Birkmyre Trust. General capital grant is applied to core allocations only and not to individually funded models.

- a Includes loan charges for new LD Centre based on spend between 2021/22 to 2025/26. £100k annual cost increase from 2023/24 to reflect prudential borrowing of £1.5m to 2030/31 (June 2023 Finance Strategy). Projected principal repayments on new projects are calculated on annuity basis.
- b Adjustments to Available Budget:
For 2023/24
Budget increased by £4,715k due to budget and projected SEMP loan charges now included above and not separately budgeted for. Budget from 2023/24 onwards increased by £100k annually for annual Prudential Borrowing to 2030/31 (June 2023 Finance Strategy). Budget adjusted for £5k reduction in loan charges for Food Waste Collection saving.

Finance Strategy
Loan Charges

		2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	2029/30 £'000	2030/31 £'000	2031/32 £'000	2032/33 £'000	2033/34 £'000
Balance B/fwd		1,645	1,797	2,198	1,905	1,829	1,332	855	527	255	141	412
Projected Loan Charges	a	17,950	17,601	17,895	17,778	17,299	17,379	17,330	17,374	17,216	16,831	16,769
Available Budget	b	16,902	17,002	16,602	16,702	16,802	16,902	17,002	17,102	17,102	17,102	17,102
Loan Charge Surplus/(Deficit)		(1,048)	(599)	(1,293)	(1,076)	(497)	(477)	(328)	(272)	(114)	271	333
Other Adjustments:												
Transfer from Reserves	c	1,200	1,000	1,000	1,000	0	0	0	0	0	0	0
		1,200	1,000	1,000	1,000	0	0	0	0	0	0	0
Balance at Year End		1,797	2,198	1,905	1,829	1,332	855	527	255	141	412	745
Interest Rate (Assumed):		4.39%	4.18%	3.90%	3.83%	3.71%	3.76%	3.90%	4.05%	4.11%	4.17%	4.30%

Notes

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Budget from 2023/24 onwards increased by £100k annually for annual Prudential Borrowing to 2030/31 (June 2023 Finance Strategy).
Budget adjusted for £5k reduction in loan charges for Food Waste Collection saving.
For 2025/26
Budget reduced by £500k from 2025/26 onwards
- c £1.2m agreed December 2022
£3m agreed December 2023, allocated £1m each year 2024/25 to 2026/27