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<b>Report To:</b>	<b>Policy &amp; Resources Committee</b>	<b>Date:</b>	<b>15<sup>th</sup> December 2009</b>
<b>Report By:</b>	<b>Chief Financial Officer</b>	<b>Report No:</b>	<b>FIN/75/09/AP/LM</b>
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<b>Subject:</b>	<b>Financial Strategy 2009/10 – 2016/17</b>		

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## **1.0 PURPOSE**

- 1.1 The purpose of the report is to seek approval for the latest version of the Council's Financial Strategy.

## **2.0 SUMMARY**

- 2.1 The Council approved its first Financial Strategy in April 2008 to provide clear direction supported by a practical framework with explicitly defined parameters, on how the organisation will structure and manage its financial resources in the medium to long term to ensure that they are deployed efficiently to reach corporate objectives.
- 2.2 It was also agreed that the Financial Strategy would be reviewed regularly with a report to Committee every six months identifying any amendments required as a result of significant policy or financial developments at a national or local level.
- 2.3 The Financial Strategy was last reviewed and reported in June 2009 and has been updated to reflect latest information in respect of the overall economic position and the 2010/11 settlement.
- 2.4 In summary the Financial Strategy highlights that there is a projected shortfall of £28m in the Councils Revenue Budget in the period 2011/12 to 2013/14. This is based on the national assessment of likely reductions in Government Funding and increases in expenditure pressures. To achieve savings of this order it will require a 13.6% reduction in Council spend between 2010/11 and 2013/14.
- 2.5 In respect of capital expenditure the Financial Strategy highlights a projected shortfall in resources of £6m in the period to 2012/13. It has previously been agreed by the Policy & Resources Committee that the 2010/14 Capital Programme will be reviewed as part of the current budget round with the relevant decisions being taken in February 2010.
- 2.6 The Committee are asked to note that this Financial Strategy has been produced at a time of unprecedented economic turbulence with a great deal of uncertainty around future funding levels for Local Government however the figures reported are believed to be a realistic assessment of likely reductions in expenditure required. The actual savings required could be greater or lesser than the amounts reported and Committee will be advised of any changes in the figures as part of the 6 monthly update of the Financial Strategy.

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### **3.0 RECOMMENDATIONS**

- 3.1 It is recommended that the Committee note and approve the latest position of the 2009/10 – 2016/17 Financial Strategy.
- 3.2 That the Committee note that a further update will be reported to members in June 2010 reflecting decisions taken as part of the 2010/11 budget process.

Alan Puckrin  
Chief Financial Officer





Financial Strategy

2009/10 – 2016/17

December 2009

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## 1.0 Foreword

This is the third formal revision of the Council's Financial Strategy and has been undertaken at a time of unprecedented economic turbulence.

Given the challenging economic situation, and the significant financial issues we will face over the next five 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 objectives were agreed for the Financial Strategy – it will ensure that:

- **the Council has a comprehensive, coherent balanced budget;**
- **the Council reviews the level of Council Tax annually in the context of the Financial Strategy, given the commitment by the Scottish Government to seek a freeze in the level of Council Tax, to establish whether a freeze is in the best interest of Inverclyde;**
- **resources are allocated and deployed to facilitate delivery of the outcomes in the Corporate Plan, Community Plan and Single Outcome Agreement together with the Organisational Improvement Plan;**
- **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 sustainable basis;**
- **there is a significant improvement in the delivery of major projects;**
- **there remains a focus on securing efficiencies across the organisation;**
- **a significant proportion of efficiencies secured are invested in improving service quality, delivering new infrastructure, enhancing service levels and upgrading existing assets;**
- **there is an increased level of understanding on behalf of the wider community with regard to the finances of the Council.**

The primary financial challenge facing the Council over the next five years, given the impact of the economic downturn on public sector expenditure, will be to develop a coherent, balanced revenue budget and a sustainable capital programme that maintains appropriate investment in key infrastructure.

There is no doubt that this process will generate options that require difficult decisions – one of the main challenges for the Council will be that, once chosen, these options will inevitably require forward planning, preparatory investment and a sufficient lead in period prior to implementation.

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

The Council will also develop a coherent, corporate approach to charging and income generation – this will include maximising external funding from sources such as the various Lottery Funds to supplement existing resources and support service delivery.

The Financial Strategy also ensures that strategic initiatives which require long term revenue and capital commitments such as Single Status, Riverside Inverclyde, Leisure Strategy and the School Estate Management Plan are locked down.

Over the last two years the Council has implemented a new budget process, firmly located within the context of the Financial Strategy, which has already resulted in approval by members of our first ever two year revenue budget.

We also need to ensure that the Financial Strategy continues to take account of the Community Plan, the Single Outcome Agreement for Inverclyde, our Organisational Improvement Plan – one of the key tasks for the next year is to strengthen the link between the Strategy and our Directorate Plans.

The Financial Strategy is a dynamic document and will be monitored on an ongoing basis by the Corporate Management Team and the Policy & Resources Committee. It will continue to be formally reviewed twice yearly, after the Budget and during the Budget Process in November / 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 want to achieve for the communities of Inverclyde.

**Councillor Stephen McCabe**  
**Leader of the Council**

**John W Mundell**  
**Chief Executive**



## 2.0 What is the point of 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 Community Plan, Corporate Plan, the Single Outcome Agreement and is an integral part of the Organisational Improvement Plan.
- 2.3 The requirement to develop a medium to long term financial strategy covering the next five to ten years (and in some areas up to thirty years) had been recognised by the Council for some time.
- 2.4 The Council took into account guidance from the Institute of Public Finance (IPF) for local authorities in Scotland on developing a 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 covering a five to ten year period (and beyond where appropriate).
- 2.6 The value of such a Strategy is that it enables the Council to develop a better understanding 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 resourced deployment.

- 2.8 The Strategy covers a four year period in detail and also identifies issues that will impact in the longer term, so that the Council can plan ahead. It includes expenditure forecasts and projected funding, where known for key priorities.
- 2.9 Inevitably some of the information of the Financial Strategy will be based on forecasts and these will change over time - the Strategy will be reviewed regularly so that the Council can respond proactively to any such changes.
- 2.10 The inclusion of information in the Financial Strategy, for example on a specific project in 2011, does not infer approval and all financial projections and issues will have to be subject to approval through the budget process.
- 2.11 The Strategic Planning and Performance Management Framework will ensure there is a clear link between the strategic planning and budgeting processes.
- 2.12 This will also allow services to plan ahead, taking into account the resources available over the next four years, and proactively identify opportunities to achieve efficiencies or secure alternative funding sources.

### 3.0 Financial Summary

- 3.1 On 12 February 2009 the Council approved it's first ever two year revenue budget. The cumulative savings required to achieve Council Tax freeze for the next two years were £9.2 million.
- 3.2 The same meeting also approved the 2009/11 Capital Programme as shown in Table 2 and approved in principle the 2011/13 Capital Programme.

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

	2009-10 £million	2010-11 £million
<u>General Fund Revenue Budget</u>	200.527	205.873
<u>Financed by</u>		
Government Grant	(168.474)	(172.973)
Council Tax	(32.900)	(32.900)
Funding Gap	(0.847)	-
<u>General Fund Reserves</u>		
Projected Free Balance at Year End	4.070	4.070
<u>Capital Programme</u>		
Approved Spend	20.6	26.6
<u>Financed by</u>		
Government Supported Expenditure	11.3	9.6
Capital Receipts	1.2	0.2
Other Grants/CFCR etc	1.3	1.0
Prudential Borrowing	4.6	12.4
Resources Carried Forward from prior year	9.4	7.2
Sub Total	27.8	30.4
Balance	7.2	3.8

## 4.0 National Context

### *The Scottish Government and the Concordat*

- 4.1 The Scottish Parliamentary Elections in May 2007 brought about significant changes at a national level as the new Scottish Government sought to redefine its role and set a new direction of travel across a range of policy areas that impact on local government and the wider public sector.
- 4.2 One of the primary objectives of the Scottish Government was to develop a new positive relationship with local government which included the publication of the Concordat between the Scottish Government and the CoSLA Presidential Team in November 2007.
- 4.3 The Concordat sought to establish a new working relationship between COSLA and the Scottish Government, built upon genuine partnership and mutual respect for each others roles, responsibilities and contributions.
- 4.4 The Concordat also outlined the funding to be provided to local government by the Scottish Government over the period 2008/2009 to 2010/2011.
- 4.5 The Scottish Government undertook to provide funding to local government for the period 2008/09 to 2010/11 totaling £34.7 billion;
- £11.1bn in 2008/2009
  - £11.6bn in 2009/2010
  - £12.0bn in 2010/2011
- 4.6 This represented growth in real terms of 0.5% in 2008/09, 1.6% in 2009/10 and 2.3% in 2010/11 and, over the three year period, halted the decline in local government's share of the total budget available to the Scottish Government. However the funding available to Local Government in 2010/11 has been reduced by £174million as a result of the £500 million reduction in funding from Westminster.
- 4.7 The Council has sought to address the financial elements of the Concordat, including the removal of ring fencing and a freeze in the level of Council Tax, through the 2009/11 Budget and has reviewed its position for each specific commitment to establish whether further action and/or resource is required. The Finance Strategy has assumed that the Council Tax freeze will continue albeit there is currently no formal confirmation from the Scottish Government that Council Tax Freeze Grant will be available from 2011/12 onwards.

### *Uncertainty and Instability in the UK Economy*

- 4.8 As highlighted in the June 2009 revision of the Strategy the UK Economy continues to experience turbulence and uncertainty with almost weekly revisions of the length/depth of the recession.
- 4.9 The Institute of Fiscal Studies (IFS) predicts real term reductions in UK Government Expenditure Limits (DEL) of 2.3% each year over 2011/14. It is also expected that any growth over the period 2014/18 will be severely constrained.

4.10 Whilst the intention was that the three year settlement announced by the Scottish Government in December 2007 would be fixed, recent national economic events will result in revisions to certain assumptions.

The main factors are:

(a) Funding reductions from Westminster – As part of the November 2008 Pre-Budget Report the Chancellor announced that an extra £5 billion of efficiency savings would be assumed from 2010/11 for the UK. The Scottish block share of this sum is £521 million of which Local Government's share is £174 million.

The Council's share of this will be £2.156 million Revenue and £0.578 million Capital.

(b) Increased National Insurance Contributions – As part of the same announcement the Government advised that NI Contributions would increase by 0.5% from April 2011. It is estimated that this will increase the Council pay bill by £0.5 million.

(c) Interest Rates – Reductions in interest rates have significantly reduced the Council's investment income from 2009/10 onwards. Based on a 3.5% reduction in average returns on £40 million investments the Council's investment returns in 2009/10 are expected to fall by £1.3 million over a full year.

4.11 Due to the above uncertainty, SOLACE and CIPFA Directors of Finance commissioned a report from the Centre for Public Policy for Regions to estimate the medium term impact on the Scottish Government's budget.

The report issued in September 2009 estimated a real terms reduction in funding of 8.5% over the period 2011/14. This figure was factored up to 12.0% after taking into account the downside risks of extra fiscal tightening and over optimistic growth forecasts.

4.12 It is clear that turbulence in the global and national economy, and the associated instability and lack of certainty, has had a negative impact on the Council's overall financial position and highlights the need for the Council to continue to regularly review and revise its Financial Strategy.

## **5.0 Local Context**

- 5.1 The local environment within which the Council operates has changed significantly in recent years and will alter further over the next five 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 which was originally approved in January 2007 – this includes the Community Plan, Corporate Plan, Directorate Plans and the Financial Strategy.
- 5.3 The Framework has subsequently been revised in light of the introduction by the Scottish Government from April 2008 of Single Outcome Agreements.
- 5.4 An interim Single Outcome Agreement was produced and agreed between the Council and the Scottish Government in June 2008. A full partnership SOA has now been developed and submitted by the Inverclyde Alliance to the Scottish Government. This was agreed with the Scottish Government in August 2009.
- 5.5 The revised Strategic Planning and Performance Management Framework is shown in Diagram 1.

### *Inverclyde Single Outcome Agreement*

- 5.6 The introduction by the Scottish Government of Single Outcome Agreements with individual local authorities in 2008 and then subsequently with Community Planning Partnerships in 2009 was a key element of the Concordat and represented a significant new development in the relationship between central and local government.
- 5.7 The Single Outcome Agreement is a two year agreement which represents the practical expression of the Community Plan – it sets out in detail the challenges facing the area and the outcomes that need to be achieved in response to these challenges over the short, medium and long term.
- 5.8 The contribution of the Council to the achievement of the outcomes identified in the Community Plan and SOA is detailed in our Corporate Plan – it is recognised that further work will be required over the next few years to ensure that priorities and information flows effectively between these documents.
- 5.9 A key challenge for the Inverclyde Alliance, and the public agencies, operating in Inverclyde, over the next five years will be to ensure better alignment between available resources, across all agencies, and the outcomes identified in the SOA and Community Plan.
- 5.10 It is difficult to predict at this stage the financial implications that will arise from the implementation of the SOA but it is inevitable that there will be costs associated with managing and delivering the Agreement and its associated outcomes – further work will be undertaken in 2009/2010 to establish a detailed picture of resource deployment in the context of the SOA. This will be initially from a Council perspective, efforts will be made to highlight the organisations contribution to the outcomes detailed within the SOA.

### *Inverclyde Alliance - Community Plan*

- 5.11 A new Community Plan has now been developed for Inverclyde and was endorsed by the Policy and Resources Committee on 1 April 2008.

- 5.12 The Community Plan, *Inspiring Inverclyde*, sets out the long term, high level strategic outcomes that partners, through the Inverclyde Alliance, and the community wish to see for Inverclyde. It is very much about reshaping Inverclyde in physical, economic, environmental and social terms.
- 5.13 The primary purpose of the Alliance is to promote partnership working between those agencies that operate across the whole of Inverclyde, to deliver better, more coordinated services that ultimately have a positive impact on the wellbeing of communities and the area.
- 5.14 The Inverclyde Alliance Board has representation from the public, private, voluntary and community sectors, including;
- Inverclyde Council
  - Strathclyde Police
  - Strathclyde Fire and Rescue
  - Community Councils Forum
  - Job Centre Plus
  - James Watt College
  - Scottish Enterprise
  - The Voluntary Sector
  - Community Health Partnership
  - Strathclyde Partnership for Transport
  - Chamber of Commerce
  - Greenock Trades Council
- 5.15 Other local organisations such as River Clyde Homes, Inverclyde Leisure and Riverside Inverclyde are involved in partnerships and supporting networks key to the delivery of partnership working in Inverclyde, particularly in relation to delivering the outcomes identified in the SOA and Community Plan.

*Inverclyde Council - Corporate Plan*

- 5.16 In October 2007 the Council approved a new Corporate Plan which set out a clear vision for the area:

*A confident, inclusive Inverclyde with safe, sustainable, healthy communities, a thriving prosperous economy, where everyone is encouraged to achieve their potential and can make a positive contribution to the area.*

- 5.17 To achieve this vision for Inverclyde the Council will work with its key partners in the public, private, voluntary and community sectors.
- 5.18 The Corporate Plan highlights a number of strategic outcomes for delivery:
- Educated, Informed, Responsible Citizens
  - Healthy, Caring Communities
  - Safe Sustainable Communities
  - A Thriving, Diverse, Local Economy
  - A Modern, Innovative Organisation
- 5.19 The Corporate Plan identifies why each of these outcomes is important, what it is currently doing to make progress towards them, what else it will do over the next four years and indicators which will help measure progress.

5.20 The Financial Strategy underpins the delivery of the vision, outcomes and activities identified in the Corporate Plan by helping to ensure that resources are effectively deployed in line with agreed priorities

*Organisational Improvement Plan*

5.21 The Council's first Organisational Improvement Plan (OIP) was approved by Policy and Resources Committee on 3 February 2009.

5.22 The purpose of the OIP is to assist in achieving our organisational vision, to ensure we address both current and future challenges in a measured, managed way, to provide a framework for prioritising the deployment of limited capacity and resources, and deliver a modern, innovative organisation.

5.23 The OIP also has a key role to play in supporting the delivery of individual Directorate Plans, the Corporate Plan, the Community Plan and the SOA.

5.24 The Plan is structured around the following five key workstreams:

- Leadership, Governance and Management
- Organisational Transformation and Improvement
- Workforce Development
- Strategic Planning and Performance Management
- Management of Resources

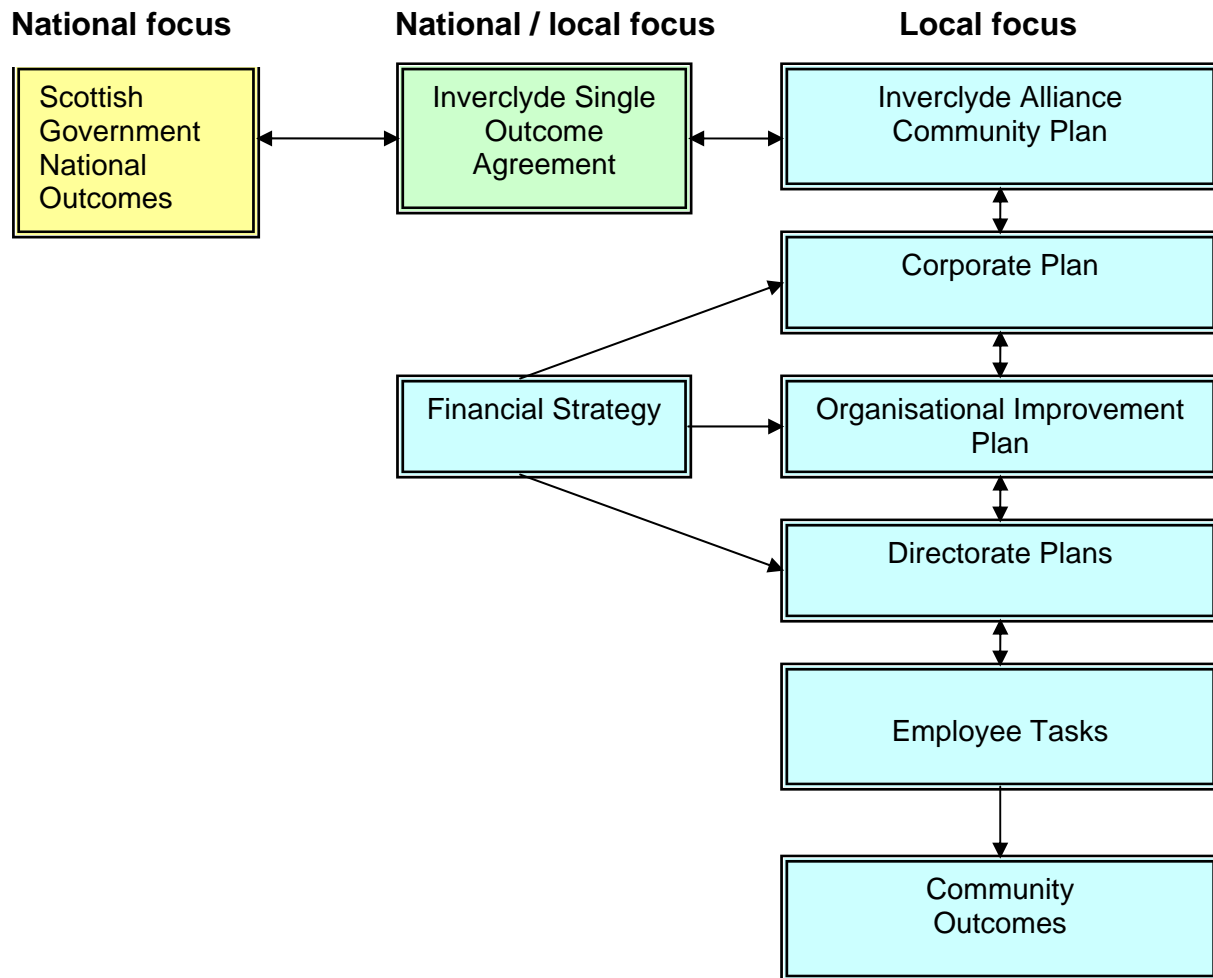
5.25 Each workstream in the OIP is sponsored by a member of the CMT and each improvement action has an identified Lead Officer, who is a Head of Service, or delivery group.

5.26 The Sponsors, Lead Officers and Delivery Groups are supported by a Reference Group of senior officers drawn from across all Directorates.

The purpose of the Reference Group is not to duplicate or cut across the work of existing delivery groups but to provide a wider opportunity for engagement with senior officers from across all services as well as mutual peer support.



**Diagram 1: Strategic Planning and Performance Management Framework**



*Demographics and Population*

- 5.27 The most significant challenge facing Inverclyde is depopulation and associated demographic change – this has been recognised as a priority by the Council and is reflected in the Corporate Plan. It is also a key priority in both the new Community Plan and Single Outcome Agreement.
- 5.28 The fundamental issue for the Council is that at some point if the decline in population continues at the current pace then the area could become no longer sustainable as a unit of administration which would have an associated impact on other services such as health, police and fire.
- 5.29 In 2008, the estimated population of Inverclyde was 80,780. The most recent population projections estimate that by 2031 the population will have decreased by -15.5% to 68,941, the largest projected rate of depopulation of any Council area in Scotland. The General Registers Office for Scotland recently re issued their new national population projections. This highlights that Inverclyde’s population could fall by 2350 by 2014/15. The current male population is projected to decrease by -14% and female population by -16% by 2031.

- 5.30 The proportion of children aged 0 - 15 years is projected to decrease by -27.6% by 2031 whilst the proportion of the population that is of pensionable age will increase by +16.2%. In the same period, the number of people of working age is projected to fall by -22.3%.
- 5.31 Between 2003 and 2008 the Inverclyde school roll across all sectors fell by 13.6%. The percentage decrease in the primary sector was 15.6% and 11.7% in the secondary sector.
- 5.32 The General Registers Office for Scotland (GROs) have projected that over the period 2009 to 2016, the primary school age group (5-11) in Inverclyde will increase by 1%. The GROs projections for the secondary school roll in Inverclyde indicates a drop of 18.9% over the same time frame.
- 5.33 Whilst a decline in population is projected locally, nationally Scotland's population is expected to increase from 5,116,900 in 2006 to 5,373,569 in 2031, a 0.5% increase.
- 5.34 In the SIMD 2004, Inverclyde had 36 data zones in the most deprived 15% of all data zones, however by 2006, this had increased to 42. In 2009 this was further increased to 43. Inverclyde's national share of the 5% most deprived data zones has increased from 3.79% in 2004 to 4.49% in 2009. This represents an increase from 36 datazones to 43 datazones. This equates to a 0.7% increase in the national share. Inverclyde has the second highest concentration of income deprivation, employment deprivation and health deprivation in Scotland.
- 5.35 Public service delivery is particularly challenging in the context of deprivation and depopulation which adds to the uniqueness of Inverclyde as an area.
- 5.36 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 likely to reduce in real terms over the next five years.
- 5.37 In terms of indicators of deprivation the profile for Inverclyde differs significantly from the national picture, these include:
- A higher percentage of those aged 60 and over (19.5% / 18.6%).
  - A higher percentage claiming a range of benefits – Incapacity Benefit, JSA, and those households triggering eligibility because they are below the income threshold – income support.
  - Lower percentage of economically active (53.9% / 57.9%).
  - Higher percentage of households with at least one person aged 16 – 74 who is unemployed or permanently sick.
  - Higher percentage of one person and lone parent households.
- 5.38 The projected population movement 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.
- 5.39 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 a targeted focus to move out of poverty and this will come at a significant cost to public agencies.
- 5.40 The predicted demographic changes also have other implications. A decline in younger economically active people means a growth in the older, more vulnerable age group with fewer informal carers which results in a higher dependency on the services provided Social Care.

*The changing public sector landscape in Inverclyde*

- 5.41 The public sector landscape has changed significantly in Inverclyde with the creation of Riverside Inverclyde and River Clyde Homes – these new organisations join Inverclyde Leisure and the wider voluntary sector as part of a mixed economy of public service provision.
- 5.42 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.
- 5.43 This is particularly relevant in the context of the SOA 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.
- 5.44 The Council is participating in the review of shared services and joint working commissioned by the Clyde Valley Community Planning Partnership. The review, led by Sir John Arbuthnott, will consider opportunities to develop opportunities across the eight member authorities to utilise shared services or joint working to improve service delivery or secure efficiencies.

5.45 *Riverside Inverclyde*

Riverside Inverclyde is a joint initiative between the Council, Clydeport Ltd and Scottish Enterprise to regenerate 330 acres of the Clyde Waterfront scheduled to run until 2016/17.

The development has an estimated potential and value of £342 million and will take ten years to complete, with the end result a successful living, recreational and business environment in a quality location.

The Council's contribution towards Riverside Inverclyde is £24 million over the ten year period with cash contributions over the period 2009/10 – 2010/11 budgeted to be £1.5 million and £1.6 million respectively.

In addition the Council will make contributions in kind by transferring specific assets to the Urban Regeneration Company.

5.46 *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 means significantly more money is 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.

River Clyde Homes prepared a Business Plan which gives tenants a clear understanding of what they can expect from the new organisation on key issues like improvements, repairs and rent levels. Progress against the Business Plan is reported to the Council annually.

5.47 *Inverclyde Leisure*

Inverclyde Leisure is a 'company limited by guarantee', not having share capital and recognised by HMRC 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 highest possible service for residents and visitors to Inverclyde and so to ensure the Trust's Mission Statement is implemented.

Discussions re on-going to transfer the Council's Community Facilities to Inverclyde Leisure in the early part of 2010/11.

#### 5.48 *Inverclyde Community Health Partnership (CHP)*

The Inverclyde Community Health Partnership (CHP) was formally established in June 2007 and brings a range of primary health services together into a single organisational entity.

These services include 16 GP practices, 14 dental practices, 19 pharmacies and 10 opticians. In addition the CHP has management responsibility for wider primary and community based health services including community nursing, physiotherapy, podiatry, speech and language, dietetics, mental health, addiction, learning disability, child health and health improvement.

The Council approved the move towards the establishment of an integrated Community Health Care partnership as part of the Management Restructure report in November 2009. This latest development will lead to greater partnership working and efficiencies in the future.

## **6.0 Key Organisational Issues**

### **6.1 Modernisation and Efficiency Programme**

The Council has had a Modernisation and Efficiency Programme in place since April 2007 which draws together a number of key strands of activity in relation to the ongoing modernisation and improvement of the organisation.

Governance is provided by a Modernisation & Efficiency Programme Board, chaired by the Corporate Director Improvement & Performance, comprising of senior officers representing all Directorates. A Member Reference Group was also established to provide advice to the Board and to maximize member engagement in this important area of activity.

The Policy and Resources Committee agreed to consolidate the remaining activities from Phase 1 of the Modernisation and Efficiency Programme with the output of the Diagnostic Project (VCA) and Customer Service Review to form Phase 2 of the Programme on 23 September 2008.

### **6.2 Future Operating Model (FOM)**

The Policy and Resources Committee, on 23 September 2008, also agreed to proceed with the development of the Future Operating Model of the Council.

Findings from the VCA Project and Customer Service Review conducted during 2008 demonstrated that the Council has opportunities to improve its operational effectiveness and efficiency both at a corporate and service level and to enhance the customer experience by adopting modern working practices and making information more readily available to employees.

The work done during the development phase confirms, with a high level of confidence, that there are significant efficiencies available from standardising, simplifying and modernising the processes in support of service delivery.

To capitalise on these efficiencies, the Council will reconfigure existing delivery arrangements to establish two new corporate support functions; Customer Management and Operational Support.

Adopting the operating model will significantly improve customer service, addressing the issues of consistency in service standards and delivery, and in reducing the current plethora of phone numbers and multiple contact points.

Adopting this operating model will also enable the Council to reduce overhead costs and enhance support to front line services, which will both sustain and improve these services in the future.

Members approved detailed proposals for the further development and implementation of the FOM on 14 May 2009 received an update on 17 November 2009.

### 6.3 Property Asset Management Plan

Proposals regarding the approach to be adopted in relation to property asset management have been developed using funding from the Modernisation and Efficiency Programme.

A review of the Council's property asset base and the services being delivered has been conducted with options identified for improvement, together with possible funding requirements.

The need to ensure services are configured to meet the needs of service delivery in the future have been taken into account when reviewing the options identified for the Council's property asset base.

An Asset Management Strategy, and associated action plan, was approved by the Regeneration Committee in March 2009.

Further work is required to develop an effective, integrated approach to corporate asset management which includes other areas like ICT but a report detailing proposals in respect of depots/offices is being put before members in December 2009.

### 6.4 Strategic Procurement Framework

The strategic landscape in respect of procurement, particularly at a national level, has changed significantly with the creation of Procurement Scotland and Scotland Excel.

As a consequence of this change, the Council has identified the need to evaluate its current approach to procurement with a view to establishing an overall corporate approach; this will be achieved through the development of a Strategic Procurement Framework.

It is acknowledged the Council's current approach to procurement requires improvement in a number of areas and that performance, together with associated processes, practices and behaviours, does not comply fully with the requirements of the McLelland Report on Public Procurement (2006).

Given the changing national context, together with the local position, it is appropriate to take stock of current arrangements to assess whether they are fit for purpose and initiate change through an improvement planning process.

This will be achieved through the development and implementation of a Strategic Procurement Framework - it is recognised that the status quo is not a sustainable or appropriate option, and the organisation cannot stand still with regards to procurement.

Any proposals to change the Council's approach to procurement need to reflect, and be consistent with, the proposals with regard to the FOM for the Council in both strategic and transactional terms.

The outline Strategic Procurement Framework will address four key areas for improvement: Leadership and Governance, Management Information, Managing Contracts including Collaborative Arrangements and Organisational Development.

The finalised Strategic Procurement Framework is to be submitted to Committee for approval in September 2009.

## **7.0 Financial Management**

### *Corporate Governance*

- 7.1 The Council positively promotes the principles of sound corporate governance within all aspects of its activities and via the recently approved Organisational Improvement Plan is reviewing and strengthening its Governance arrangements.
- 7.2 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.
- 7.3 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.
- 7.4 The Financial Regulations approved on 16 August 2007 are an essential component of the corporate governance of the Council.
- 7.5 The Chief Financial Officer has been designated as "the proper officer" and is responsible for advising the Council on all financial matters.
- 7.6 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, Trading Accounts, The Common Good and Sundry Accounts.
- 7.7 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*

- 7.8 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*

- 7.9 Elected Members, through Full Council and Strategic 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.
- 7.10 Throughout the year Committees receive reports which allow progress against approved budgets to be scrutinised. All members should 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*

- 7.11 The Chief Executive and Corporate Directors form the CMT, chaired by the Chief Executive, who are responsible, individually and collectively, for ensuring effective financial management across the organisation.
- 7.12 As Budget Holders they 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.

### *Chief Financial Officer*

- 7.13 The Chief Financial Officer has a statutory role to ensure appropriate arrangements are in place for the proper administration of the financial affairs of the Council. He has the authority to comment on any financial decision and advises CMT, Chief Executive and elected members on all financial matters.

### *Heads of Service*

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

### *Service Accountants/Budget Managers*

- 7.15 The main role of the service accountant is to advise the Corporate Directors and their management teams on all financial matters and to be responsible for the preparation of budget reports. They also provide financial advice and general guidance to Directorates on projects and financial matters.

However responsibility for budgetary control lies with the Corporate Directors 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 is progressing the Financial Capacity Development Plan which includes the development of training on all Financial Governance and budgeting control issues.

### *Internal Audit*

- 7.16 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*

- 7.17 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.
- 7.18 They also provide assurance to the elected members, the CMT and general public that the Council's performance is reported in accordance with the extant financial standards and presents a fair account of the Council's activities.

### ***Managing the Budget***

- 7.19 Committees receive four budget monitoring reports throughout the year. These are jointly prepared by the Chief Financial Officer and the relevant Corporate Director.
- 7.20 The Corporate Management Team receive and discuss a budget overview every month covering key budget lines, employee costs, earmarked reserves and key projects with financial implications.
- 7.21.1 All Services received detailed budget information every month prepared by Service Accountancy and in addition have access to real time information held on the Council's Finance Management System.
- 7.22 As a result of the recently approved management restructure, responsibility for providing appropriate financial support to Directorates is to move to the Chief Financial Officer. Proposals in this regard will be developed over coming months prior to reporting to members for approval

## **8.0 Financial Outlook**

- 8.1 Key financial issues are known or anticipated events and activities that have to be addressed within overall financial resources in the short-term (within 3 years), medium-term (within 3–8years) or long-term (over 8 years).
- 8.2 Events and activities includes 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.
- 8.3 The Council is due to receive Revenue Grant/Non-Domestic Rates Income of £168.474m in 2009/10. In addition to this the Council will receive £16.816m of Specific Grants.
- 8.4 When the Council's own projection of Council Tax Income based on 96.7% collection rate is added (£32.900m) then the gross income for the Council in 2009/10 is projected to be £218.19m.
- 8.5 The Financial Strategy runs up to 2016/17 and beyond in terms of identifying potential issues, but the revenue forecasts are limited to the period which can be reasonably forecast, 2009/10 - 2013/14.
- 8.6 Some assumptions have had to be made for 2009/10 - 2013/14 particularly given the lack of information and uncertainty caused by the economic downturn.
- 8.7 The level of resources available to the authority to fund its revenue expenditure is also dependent on Council Tax. The Financial Strategy assumes no increase in 2009/10 – 2013/14 but assumes a continuation of the current level of Council Tax Freeze Grant.
- 8.8 Revenue projections for 2009/10 and 2010/11 reflect the decisions taken at the 12 February 2009, Full Council.
- 8.9 As part of the budget process the Council agreed a Reserve Strategy which requires a minimum unallocated General Fund Reserve of £4.0 million.
- 8.10 The overall position of the Reserves considered as part of the 2009/10 budget process is shown in Appendix 8 and has been updated to reflect the latest projections.
- 8.11 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. This reflects decisions taken at the 12 February 2009 Full Council meeting.

8.12 Short to Medium Term – Revenue

**Table 3 – Projected Revenue Budget Position 2009/13 (Short – Medium Term)**

	<u>2009/10</u>	<u>2010/11</u>	<u>2011/12</u>	<u>2012/13</u>	<u>2013/14</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Base Budget for Prior Year	193.438	200.527	207.595	210.682	210.157
<b><u>UPLIFTS FROM PRIOR YEAR</u></b>					
<b><u>Inflation</u></b>					
Pay Inflation	2.762	2.744	2.750	2.750	2.750
Other Inflation	2.669	2.193	2.260	1.760	1.760
Income	-0.206	-0.206	-0.200	-0.200	-0.200
Joint Boards	0.666	0.556	0.600	0.600	0.600
	<u>5.891</u>	<u>5.287</u>	<u>5.410</u>	<u>4.910</u>	<u>4.910</u>
<b><u>Council Priorities (Note 1)</u></b>					
Single Status (App 4)	0.800	0.580	0.000	0.000	-
Riverside Inverclyde (App 5)	-0.327	0.100	0.237	0.300	0.100
School Estate Strategy - Funding	2.000	0.000	0.000	0.000	-
- Unitary Charge Grant (App 6)	0.216	1.254	3.827	0.692	-
Policy Priorities	0.248	0.200	0.300	0.300	0.300
Capital Programme Impact	0.000	0.000	0.250	0.250	-
	<u>2.937</u>	<u>2.134</u>	<u>4.614</u>	<u>1.542</u>	<u>0.400</u>
<b><u>Pressures (Note 2)</u></b>					
Corporate Pressures	1.914	1.364	1.500	1.500	1.500
Loan Charges Increase	-1.261	0.820	1.030	1.010	0.500
	<u>0.653</u>	<u>2.184</u>	<u>2.530</u>	<u>2.510</u>	<u>2.000</u>
Feb 2009 - Other Adjustments/Savings	-2.392	-4.374			
Nov 2009 - Adjustments	-	1.837	-	-	-
Overall Total	<u>200.527</u>	<u>207.595</u>	<u>220.149</u>	<u>219.644</u>	<u>217.467</u>
<b><u>Funded by: (Note 3)</u></b>					
Revenue Grant/NDR Income	167.170	173.657	171.508	169.251	167.001
Efficiency Saving/Fiscal Squeeze	-	-2.156	-2.250	-2.250	-2.250
Unitary Charge Grant	0.264	1.470	5.404	6.096	6.096
Council Tax Income	32.900	32.900	32.900	32.900	32.900
Council Tax Freeze Grant	1.040	2.080	3.120	4.160	5.200
	<u>201.374</u>	<u>207.951</u>	<u>210.682</u>	<u>210.157</u>	<u>208.947</u>
Budget Gap	<u>-0.847</u>	<u>-0.356</u>	<u>9.467</u>	<u>9.487</u>	<u>8.520</u>

## Note 1

### Council Priorities

(a) Single Status

Figures per report to the Inverclyde Council, 18/4/08 revised November 2009 – detailed financial impact shown at Appendix 4.

(b) Riverside Inverclyde

The funding strategy with Riverside Inverclyde is reviewed annually depending on the timing of projects and the possible use of land/property transfers in lieu of funding. Overall the Council requires to contribute £24 million by the end of 2016/17.

(c) School Estates - Unitary Charge

Annual increases in line with Government commitment to pay £6.096 million towards Unitary Charge costs associated with schools PPP.

(d) Policy Priorities

Allowance for further policy development assumed as £300k per year.

(e) Capital Programme

Allowance for extra revenue costs built into later years for impact of Leisure Strategy.

## Note 2

### Pressures

(a) Corporate Pressures

Figures in 2009/11 reflect the decisions of the November 2008 Policy & Resources Committee. From 2011/12 there is an allowance of £1.5 million for new pressures including those arising from the concordat and demographic trends.

### Note 3

#### Funding

(a) Revenue Grant/NDR Income

2009/10 figures are based on actual figures announced January 2008 with the 2010/11 figure abated by £2.16 million due to the Grant cut announced by the Government.

2011/14 takes prior years uplift and adjusts for PPP Unitary Charge Grant and reflects a funding reduction due to the anticipated fiscal squeeze in line with 12% real term reductions in funding expected by Councils.

(b) Council Tax

Reflects latest Council Tax base. It assumes no change in Council Tax base as if base increases then grant would reduce correspondingly.

(c) Council Tax Freeze Grant

Assumed that this will remain at current level for 2010/14.

### 8.13 *Other Short to Medium Term Revenue Issues*

#### Fairer Scotland Fund

The level of funding allocated to the Council for the Fairer Scotland Fund in 2009/10 is £6.15 million – from 2010/11 the Fairer Scotland Funding will be within the overall grant settlement and has been reduced to £5.78 million.

An exercise is underway to consider the possible impact on the Council of the mainlining of FSF and the reduction in funding was undertaken and members received a report in this regard in September 2009.

### 8.14 *Long-Term Revenue Issues*

Looking beyond 2013/14 becomes increasingly difficult with significant uncertainty around how local authorities will be funded (possibly through a Local Income Tax) let alone the level of funding likely to be available.

By 2013/14 the incremental impact of most current major initiatives including Single Status, Riverside Inverclyde Leisure Strategy and the Schools Estate Strategy will have been fully incorporated the overall Budget.

Post 2013/14 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.
- Pension costs influenced by the impact of the changes to LGPS, Police and Fire Pensions plus costs associated with the Council resizing its workforce in order to save over £28 million over the period 2011/14.
- 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.
- Penalties and costs associated with Carbon reduction.
- Overall global economic situation resulting in uncertainty around investment returns, inflation levels and expected reductions in public sector funding.

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

## 8.15 *Short to Medium Term Capital Projections*

The Council agreed in February 2009 the two year Capital Programme 2009/11.

It is estimated that the minimal investment in core infrastructure such as Property, Roads and ICT is £4.0 million per year - the annual allowance included for 2009/11 is £2.7 million.

The Council also agreed in principle to the 2011/13 Capital Programme and this increased the allowance for asset maintenance to £4.5 million per year making the average annual allowance over the 4 year period, £3.6 million.

In addition, the Council approved a significant level of Prudentially Funded capital projects including investment in Leisure, a new Depot, vehicles and a new Residential Children's Home.

The recent 2010/11 funding announcement confirmed a £0.5 million reduction in Capital Grant for 2010/11. It is prudently estimated that the Council will be required to reduce its planned Capital expenditure by £5 million over 2010/14. Members have agreed to address this matter as part of the budget to be approved in February 2010.

**Table 4 – Capital Programme 2009/2013 (Short - Medium Term Capital Projections)**

Table 4

<u>Expenditure/Projects</u>	<u>2009/10</u> <u>£m</u>	<u>2010/11</u> <u>£m</u>	<u>2011/12</u> <u>£m</u>	<u>2012/13</u> <u>£m</u>
Policy & Resources	2.9	3.25	1.69	1.25
Regeneration	4.75	11.65	11.08	6.53
Safe & Sustainable Communities	6.74	3.3	4.65	7.75
Social Care	1.62	2.16	0.16	-
Education & Lifelong Learning (Incl SEMP)	5.66	8.09	20.36	37.4
	<hr/> 21.67	<hr/> 28.45	<hr/> 37.94	<hr/> 52.93
<u>Finance By</u>				
Government - Grant	5.69	3.76	4	3.5
Supported Borrowing	5.5	5.36	4.5	4.5
Sales	0.38	0.62	0.51	8.47
Other Receipts	1.56	0.82	-	5.7
CFCR	1.4	0.66	0.09	-
Prudential Borrowing	6.44	11.84	10.78	32.57
Resources Carried Forward	9.59	8.89	3.50	(14.56)
	<hr/> 30.56	<hr/> 31.95	<hr/> 23.38	<hr/> 40.18
Carry Forward	8.89	3.50	(14.56)	(12.75)

\*\* 2012/13 various receipts/funding streams relating to Rankin Park Development.  
(IL Bus Plan, SFA, Lottery, Sale of Nelson Str)

Notes

1/ As per Nov 2009 P&R plus Sept 2009 SEMP Model

2/ Receipts:

	<u>2009/10</u> <u>£m</u>	<u>2010/11</u> <u>£m</u>	<u>2011/12</u> <u>£m</u>	<u>2012/13</u> <u>£m</u>
Vehicles	0.38	0.44	0.21	-
SEMP	-	-	-	8.47
Redholm	-	-	0.300	-
Other	-	0.18	-	-
Total	<hr/> 0.38	<hr/> 0.62	<hr/> 0.51	<hr/> 8.47

3/ The estimated shortfall in resources of £12.75 million by 31/2/13 contains £6.66 million for SEMP& leaves a £6.1 million shortfall in the 2010/13 non-SEMP programme.



## 8.16 *Long-Term Capital Projections*

There is greater certainty around supported capital spend for the post 2013/14 period due to the fact that the School Estate Strategy will use over 50% of projected capital resources for at least the next 10 years with members also being asked to take longer term Asset Management decisions in December 2009.

This will leave a relatively small amount for other projects and the bulk this will be required to maintain the Council's existing infrastructure asset base i.e. Operational Properties, Roads, Lighting and ICT.

Unless there is a substantial increase in resources from the Government or alternative funding sources are identified then the Council will be in the position that it may struggle to have sufficient capital resources to maintain it's existing asset base for the foreseeable future.

## **9.0 Treasury Management**

- 9.1 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.

- 9.2 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.

- 9.3 The following reports are also submitted to Committee in accordance with the Code of Practice:

- (a) An annual Treasury Management Strategy submitted at the start of the financial year and which includes the Council’s Prudential Indicators and covers issues such as the economic situation, the prospects for interest rates, and the Council’s borrowing and investment strategy for the coming year.
- (b) Quarterly Treasury Management Monitoring reports which include details of the Council’s debt and investment position, activity undertaken during the quarter, and performance to date against the Council’s Prudential Indicators and agreed policy limits.
- (c) An Annual Report for Treasury Management which is submitted to Committee before the end of September each year and which advises members of Treasury Management activities during the previous financial year.

The report reviews the agreed strategy for the year, gives an update on the economic situation during the year, shows performance against Prudential Indicators and treasury limits for the year, and shows the Council’s investment performance against a benchmark rate.

- 9.4 The table on the next page shows the Council’s debt and investments position as at 30/9/09.

**Table 5 – Council’s Debt and Investment Position – 30/9/09.**

The Council's treasury portfolio position at 30/9/2009 comprised:

		Principal		Average Rate
		£000	£000	
Fixed rate funding	PWLB	65,781		
	Market	56,000	121,781	4.03%
Variable rate funding	PWLB	0		
	Market	46,926	46,926	4.55%
Other long term liabilities			0	0.00%
<b>TOTAL DEBT</b>			<b>168,707</b>	<b>4.18%</b>
<b>TOTAL INVESTMENTS</b>			<b>32,127</b>	<b>2.05%</b>

## **10.0 Reserves**

- 10.1 A key aspect of the consideration of the General Fund Revenue Budget and Capital Programme is the position of the General Fund Reserves.
- 10.2 A Reserves Strategy was agreed by Council as part of the 2008/09 Budget and the projected position is shown in Appendix 7.
- 10.3 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 unknown or predicted liabilities.
- 10.4 The Reserves Strategy seeks agreement that the core General Fund Reserve be maintained at a level of 2% of turnover. Based on turnover of approximately £200 million, it has been agreed that the core General Fund Reserve for the next three year period be £4.0 million.
- 10.5 Furthermore, in the event that the reserves are projected to fall below this level then members must approve a strategy for bringing reserves back up to the level over the subsequent three financial years.
- 10.6 The Reserves Strategy is predicated on the continued use of earmarked reserves for the Modernisation & Efficiency Programme and Early Release of Employees, Single Status and smoothing the impact of the economic downturn.

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.

- 10.7 For the main reserves/funds there should be a clear protocol on:
- The reason for/purpose of the reserve
  - How and when the reserve can be used
  - Procedures for the reserve's management and control
  - A process and timescale for review of the reserve to ensure ongoing relevance and adequacy

Within Inverclyde Council these main Reserves/Funds comprise; General Fund Reserve, Insurance Fund, Capital Fund and Repairs & Renewals Fund.

- 10.8 The level and use of reserves is determined by the Council, informed by the advice and judgement of the Chief Financial Officer. In order to help the Council reach its decision in respect of reserves, the Chief Financial Officer reports the facts that influenced his judgement and ensure that the advice given is recorded formally.

10.9 Where the Chief Financial Officer's advice is not accepted, then this should be recorded formally in the minutes of that Council meeting.

10.10 The Council's projected funds and reserves at the beginning of 2009/10 are summarised below:

	£million
General Fund Reserve	4.639
Insurance Fund	5.143
Capital Fund	1.741
Repairs & Renewal Fund	0.333
Other Reserves	0.176
Earmarked Revenue Reserve	16.017

The total funds and reserves were £28.049 million at the beginning of 2009/10 and projected to be £25 million at the end of 2009/10. The General Fund balance is estimated to remain around £4.0 million until 2013/14.

The Insurance Fund is used to ensure the Council can fund self insurance costs and is subject to a triennial assessment which is currently ongoing.

## **11.0 Monitoring, Reporting and Review Processes**

- 11.1 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, after the Budget and then in November.
- 11.1 The formal review of the Financial Strategy will be reported to CMT and Policy & Resources Committee 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.
- 11.2 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.
- 11.3 The deminimus level for a major impact requiring immediate review is 50% of the planned General Fund reserves, £2.0 million, subject to the opinion of the Chief Financial Officer.
- 11.4 The financial management principles and expectations have been communicated and are understood by all Chief Officers and budget holders.
- 11.5 The Financial Strategy has been drawn up with the full involvement of the CMT and, will be communicated throughout the organisation.
- 11.6 It is envisaged that in future, where appropriate wider consultation will take place regarding the Financial Strategy including with partner agencies.

## 12.0 Risk Management

- 12.1 The Council has made significant progress in developing a Corporate Risk Register, Directorate Risk Registers and individual service risk registers where appropriate.
- 12.2 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.
- 12.3 The risk assessment below considers the risks to our financial position arising out of matters considered in this Financial Strategy and utilises the same methodology used for the Corporate, Directorate and Service Risk Registers.

Risk	Management of Risk
The outcome of the next CSR and subsequent Local Government Finance settlement is worse than anticipated.	<p>The Council; has recognised through the Financial Strategy that the current position with regard to funding is likely to deteriorate post 2011/12 following the next Comprehensive Spending Review.</p> <p>The Council has reviewed the financial impact using nationally agreed funding reductions and these figures are included in the current Strategy.</p>
The Financial Strategy does not reflect in financial terms the objectives set out in other strategic plans of the Council.	<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 SOA and Community Plan but it is not possible to quantify these at present.</p> <p>The Financial Strategy will evolve over time and will be updated as further information becomes available regarding these strategic plans.</p>
Insufficient financial resources will be available to deliver the corporate priorities as set out in the Corporate Plan.	The Corporate Plan sets out a number of strategic outcomes along with supporting projects and activities – where additional resources are required these will be identified in the relevant Directorate Plans, and factored into the Financial Strategy.
The directorate planning process will identify a range of additional budget pressures over and above those currently considered in this Financial Strategy.	The Directorate Planning Guidance identifies that directorate plans should reflect the resources allocated – the need for additional resources to achieve a particular priority should be specifically identified in the Plan and thereafter considered as part of the budget process.

<b>Risk</b>	<b>Management of Risk</b>
Income budgets not achieved or become unsustainable.	<p>Heads of Service 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>A specific exercise around income generation is included in the OIP for completion during 2010.</p>
Pay award and/or inflation vary from those assumed in the Financial Strategy.	The Council will, through the Financial Strategy and budget process, take an informed view on what should be budgeted for with regard to inflation and pay awards. However, this is difficult in the current economic climate.
The Council has insufficient capital resources to sustain capital commitments.	<p>The Council has already identified through the Financial Strategy a reduced reliance on capital receipts in the medium term.</p> <p>The combination of a poor settlement and economic instability mean that the Council has to focus on maintaining key infrastructure whilst utilising prudential borrowing for specific capital projects.</p>
There is reduction in specific grants/external income.	<p>The Financial Strategy incorporates prudent assumptions on the future availability of specific grants/external income unless there is certainty of continuity.</p> <p>Each year the Council undertakes an exercise to identify terminating externally funded projects in order to be in a position to react in a managed way should funding cease.</p> <p>There is a specific workstream within the OIP to develop an approach for attracting External Funding on a sustainable basis. This is due to report in 2010.</p>
Legislative changes are not anticipated and the financial impact is not addressed through the budget process of Financial Strategy.	Heads of Service are required to highlight the impact of legislative changes through the strategic planning and budgeting process and the likely resource requirement.



**Short-Term Issues (2009/11)**

The tables in Appendices 1, 2 and 3 will be developed further as part of the Action Plan through ongoing consultation with Directorates by the Chief Financial Officer to develop detailed knowledge of the issues to inform the Financial Strategy and future budget setting.

In addition to these issues, which will need to be addressed over the next two years, a number of other issues have been removed from the original list as extra resources were agreed as part of the 2009/11 budget.

<u>Service</u>	<u>Issues Identified</u>	<u>Issues &amp; Potential Impacts</u>	<u>Action Taken</u>	<u>Responsible Officer</u>	<u>Timescale to report back</u>
Corporate	Fairer Scotland Fund	Councils is to manage with reduced funding and funding no longer ring fenced	Added to budget projects list with a view to developing a commissioning proposal..	Aubrey Fawcett	September 2010
	Review Income Targets	Council is not optimising charging opportunities resulting in unnecessary Service reduction.	Forms part of O.I.P.	Alan Puckrin	June 2010
	Equal Pay	Outstanding claims may result in significant pay outs and new groups may claim.	Estimated provision included in annual accounts. External advice being taken.	Alasdair Moore	On going
	External Funding	Council is not optimising external funding resulting in missed Service development opportunities.	Included in OIP as a work stream.	Aubrey Fawcett/Stuart Jamieson	June 2010
	Changes to Pension rules.	Release costs will increase post 31.3.10 added to which terms of release are proposed to change.	Approval sought (19/11/09) to maximize releases by 31/03/10.	J Mundell/A Moore	March 2010
Environment & Community Protection	New Depots	Increased costs but significantly improved working conditions linked to Waste Strategy.	Depot solutions being developed.	Neil Graham/Aubrey Fawcett	December 2009
Health & Social Care	Fostering/Adoption	Need to review and increase payments for a budget which is already showing a 6 figure overspend.	Budget pressure to be developed for 2010/11.	Robert Murphy	February 2010

Medium-Term Issues (2011/16)

<u>Service</u>	<u>Issues Identified</u>	<u>Issues &amp; Potential Impacts</u>	<u>Action to be Taken</u>	<u>Responsible Officer</u>	<u>Timescale to report back</u>
Corporate	Modn & Efficiency Programme	Significant one-off investment needed in ICT and Property to reshape service delivery including costs for Early Release.	10 year funding model to be prepared.	Gordon McLoughlin/ J Arthur	June 2010
	Economic Downturn	Reduced Government Funding estimated at 12% over 2011/14.	Await SR 2010 and factor estimates into Financial Strategy.	Alan Puckrin	February 2011
	Increase in working week 35 to 37 hours from 01/04/2012	Will increase available hours amongst a large number of staff by almost 6%.	Factor into future delivery models and overall workforce planning.	Alasdair Moore	2011/12
Education and Social Care	Potential Resource Transfer Redistribution	Could result in significant reduction in Funding within Inverclyde.	On going monitoring & reports to Committee.	Barbara Billings	?
	School Estate Strategy	1. Refinancing PPP. 2. Potential cost increases.	Six Monthly Review of SEMP.	1. Alan Puckrin 2. A Henderson	Every August/February
	CHCP Implementation	Need to identify opportunities from greater joint working and budget alignment.	Jointly appointed senior team and support management to be progressed. Thereafter joint planning/resource allocation model to be developed.	J Mundell/R Murphy  John Mundell/ Robert Murphy/ Alan Puckrin	April 2010  April 2011
Improvement & Performance	Move to Local Income Tax	Reduced funding & impact on Council Tax collection function.	Await next election and policy direction from new Government.	Alan Puckrin	August 2012/13
Regeneration & Resources	Scheduled end of Riverside Inverclyde.	Council's annual contribution of £2 million to be reviewed from 2016/17.	£600k already identified to fund new Depot. Develop future funding requirements.	Aubrey Fawcett	2015/16
Environment & Community Protection	Waste Strategy	Exceeding landfill targets and increased fines	Waste strategy to be developed taking account of depot proposals and national developments.	Neil Graham	December 2010
	Carbon Management	Potential significant costs if Council exceeds quota.	Officer Group to develop Baseline and identify improvements.	Neil Graham	2010/11

**Long-Term Issues – Post 2016**

<u>Service</u>	<u>Issues Identified</u>	<u>Issues &amp; Potential Impacts</u>	<u>Action to be Taken</u>	<u>Responsible Officer</u>	<u>Timescale to report back</u>
Corporate	Depopulation and Change of Demographics  Continued pressure on Public Finances.	Continued loss of grant income, over provision of infrastructure. Viability of area under threat.  Ongoing slow recovery in economy leads to SR 2014 continuing to squeeze Public Sector Finances.	Ensure Financial Strategy continues to be developed to facilitate long term planning.	CMT  Alan Puckrin	
Education & Social Care	Increase in number of Elderly and Adults with Learning Difficulties.	Significantly costs associated with reshaping,expanding delivery models.	Develop as part of CHCP remit.	Barbara Billings & Rab Murphy	
Improvement & Performance					
Environment & Community Protection	Global Warming leading to rising sea levels	Significant impact on Council area with increased flooding and expenditure on sea defences.		Neil Graham	
Regeneration & Resources	Closure of Electronic Sector.	A review of impact on the area and how it will be addressed is recommended		Aubrey Fawcett	

Finance StrategySingle Status: Impacts

	<u>2008/09</u> <u>£000</u>	<u>2009/10</u> <u>£000</u>	<u>2010/11</u> <u>£000</u>	<u>2011/12</u> <u>£000</u>	<u>2012/13</u> <u>£000</u>
Pay and Grading Model	3632	4751	5577	5654	5872
Conditions of Service	-179	-501	-565	-667	-667
Total Cost	<u>3453</u>	<u>4250</u>	<u>5012</u>	<u>4987</u>	<u>5205</u>

Funded by:

Incremental Drift	200	350	500	650	800
Budget Allowance (Note)	2900	3700	4280	4280	4280
Externally Funded Posts	228	298	349	349	349
Overall Funding	<u>3328</u>	<u>4348</u>	<u>5129</u>	<u>5279</u>	<u>5429</u>
(Surplus)/Deficit	<u>125</u>	<u>-98</u>	<u>-117</u>	<u>-292</u>	<u>-224</u>

Note – Amount included in annual budget. Year on year movement shown in table 3. (Para 8.12)

AP/CF  
11/11/2009

## Appendix 5

### Riverside inverclyde Funding Profile

2006/7 → 2016/17

Year	Revenue £000	Capital £000	Other £000	Total £000
To 31/03/08	1,772	700	1,878	4,350
2008/9	1,840	85	1,112	3,037
2009/10	1,513	-	-	1,513
2010/11	1,613	-	-	1,613
2011/12	1,850	-	-	1,850
2012/13	2,150	-	-	2,150
2013/14	2,250	-	-	2,250
2014/15	2,350	-	-	2,350
2015/16	2,450	-	-	2,450
2016/17	2,437	-	-	2,437
	<b>20,225</b>	<b>785</b>	<b>2,990</b>	<b>24,000</b>

The above funding profile is currently under review to take into account other possible land/asset transfers to Riverside Inverclyde.

Year on year movement in Revenue Funding shown in Table 3.

AP/CF  
25/11/09

## Post Financial Close – School Estate Earmarked Reserves

## Appendix 6

<u>Unitary Charge/Loan Charges</u>	<u>2009/10</u>	<u>2010/11</u>	<u>2011/12</u>	<u>2012/13</u>	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>	<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>	<u>2021/22</u>	<u>2022/23</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Earmarked Reserve b/fwd	1786	3767	5111	4658	4500	3781	3274	2900	3063	3070	2999	2832	2623	2686
Available Savings added (a)	1880	2493	2942	3743	4248	4692	4907	4907	4907	4907	4907	4907	4972	4972
Extra Financing (b)	3250	3250	3250	3250	3250	3250	3250	3250	3250	3250	3250	3250	3250	3250
Prudential Schools Loan Charges (c)	-2095	-2176	-2757	-3505	-4053	-4487	-4523	-4531	-4535	-4540	-4545	-4550	-4555	-4561
Unitary Charge Payment (d)	-477	-2909	-8219	-9042	-9042	-9042	-9042	-9042	-9042	-9042	-9042	-9042	-9042	-9042
One Off Costs (e)	-528	-587	-977	-211	-674	-737	-750	-246	-390	-454	-537	-565	-283	-30
Extra Revenue Repairs (f)	-313	-360	-49	-224	-116	-230	-263	-271	-279	-288	-296	-305	-314	-324
Cash Flow Deficit Funding (g)	0	0	-47	-265	-428	-49	-49	0	0	0	0	0	-61	0
Unitary Charge RSG (h)	264	1633	5404	6096	6096	6096	6096	6096	6096	6096	6096	6096	6096	6096
<b>Earmarked Reserve c/fwd</b>	<b>3767</b>	<b>5111</b>	<b>4658</b>	<b>4500</b>	<b>3781</b>	<b>3274</b>	<b>2900</b>	<b>3063</b>	<b>3070</b>	<b>2999</b>	<b>2832</b>	<b>2623</b>	<b>2686</b>	<b>3047</b>

(a) Per figures 26/5/08. Increased transport costs included.

(b) Per 2008/9 budget process and £1 million from 2009/10 loan charges savings.

(c) Assumes Inverclyde Academy , Newark Primary & New Build Joint Campus are Prudentially funded.

Uses a pool fund rate of 5.0%.

(d) Based on Financial close figure of £8.842 million plus a £100k contingency and assuming inflation from 2013/14 will be contained in the core budget.

(e) Includes £600k increase in SET costs required in 2008/9. After 2022/23 one-off costs cease.

(f) Increased Revenue Repairs.

(g) Based on 5% interest on any cumulative deficit on capital financing model.

(h) Government have only confirmed funding to 2009/10.

## Leisure Strategy - Financial Implications

	2009/10 £'000	2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000	Total £'000
<b>Capital</b>							
Ravenscraig Stadium	70	1,450	180	0	0	0	1,700
Parklea Pavillion & Stadium	410	2,132	2,302	1,354	150	0	6,348
Rankin Park Sports Centre	50	1,826	3,821	4,503	700	0	10,900
Rankin Park Receipt	0	0	0	0	(5,700)	0	(5,700)
Gourock Park	695	280	25	0	0	0	1,000
Broomhill Park	520	180	0	0	0	0	700
Gourock Swimming Pool	30	750	850	170	0	0	1,800
Sundry	0	0	0	152	100	0	252
<b>Total</b>	<b>1,775</b>	<b>6,618</b>	<b>7,178</b>	<b>6,179</b>	<b>(4,750)</b>	<b>0</b>	<b>17,000</b>
<b>Revenue</b>							
Loan Charges	38	327	887	1,401	1,571	1,286	
Running Allowance (provisional)	0	0	50	100	300	300	
Revenue Costs/Savings	0	0	0	0	0	0	
Maintenance	(42)	(38)	(59)	(50)	(50)	(50)	
Income	16	(50)	(38)	(67)	(67)	(67)	
<b>Net Annual Impact</b>	<b>12</b>	<b>240</b>	<b>840</b>	<b>1,384</b>	<b>1,754</b>	<b>1,469</b>	

Finance Strategy  
General Fund "Free" Reserves  
2009/14 Balance Projection

	<u>2009/10</u> <u>£000</u>	<u>2010/11</u> <u>£000</u>	<u>2011/12</u> <u>£000</u>	<u>2012/13</u> <u>£000</u>	<u>2013/14</u> <u>£000</u>
1. Starting Balance	4590	4,225	4,225	4,025	4,025
2. Budgeted Contribution to Reserves	847	1,500	0	0	0
3. Early Retirals/Voluntary Severance	-1800	-1,000	-700	0	0
4. Other one off costs	-500	0	0	0	0
5. Policy Priorities	0	-500	0	0	0
6. Projected Surplus/(Deficit)	1088	0	500	0	0
	<u>4,225</u>	<u>4,225</u>	<u>4,025</u>	<u>4,025</u>	<u>4,025</u>

Notes:

1. RSG/NDR/Council Tax now £200 million. Recommended minimum level of reserves is 2% / £4.0 million
2. 2011/12 includes an initial estimate for further cashflow funding for early release costs. This would be repaid from part year employee savings in 2011/12.