

<b>Report To:</b>	<b>The Inverclyde Council</b>	<b>Date:</b>	<b>10 June 2010</b>
<b>Report By:</b>	<b>Chief Financial Officer</b>	<b>Report No:</b>	<b>FIN/32/10/AP/GJ</b>
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<b>Subject:</b>	<b>Financial Strategy 2010/11 – 2017/18</b>		

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## **1.0 PURPOSE**

- 1.1 The purpose of this report is to present to the Council the latest revision to the Council's Financial Strategy.

## **2.0 SUMMARY**

- 2.1 The Council's Financial Strategy is reviewed on a six monthly basis and thereafter presented to the Full Council in June and December each year.
- 2.2 The Financial Strategy covers an 8 year period and identifies the projected high level financial implications of both a Revenue and Capital nature for the Council.
- 2.3 In addition the Financial Strategy captures other matters which may impact on the Council's finances in the medium and longer term.
- 2.4 The Financial Strategy is prepared in consultation with the Directorates and the Corporate Management Team has endorsed the content of the latest version.
- 2.5 An all Member briefing on the latest version of the Financial Strategy was due to be given on 8 June.

## **3.0 RECOMMENDATIONS**

- 3.1 It is recommended that the Council consider and approve the latest version of the Council's Financial Strategy covering the period 2010/11 – 2017/18.

Alan Puckrin  
Chief Financial Officer



Financial Strategy

2010/11 – 2017/18

June 2010

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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 Riverside Inverclyde, Leisure Strategy, Asset Management Strategy and the School Estates 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 CIPFA 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 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 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 2012, 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 9 February 2010 the Council reviewed the 2010/11 Revenue Budget and confirmed further savings of £1.8 million..

3.2 The same meeting also approved the 2010/14 Capital Programme reflecting an estimated 33% reduction in Government Grant by 2013/14.

**Table 2 – Short Term Summary – Approved Revenue and Capital Budgets as at May 2010.**

	2010-11 £million
<u>General Fund Revenue Budget</u>	207.455
<u>Financed by</u>	
Government Grant (Including NDR)	(175.462)
Council Tax	(32.900)
Contribution to General Reserve	(0.907)
<u>General Fund Reserves</u>	
Projected Free Balance at Year End	4.200
<u>Capital Programme (2010/11)</u>	
Approved Spend	32.1
<u>Financed by</u>	
Government Supported Expenditure	10.0
Capital Receipts	0.9
Other Grants/CFCR etc	1.5
Prudential Borrowing	14.2
Resources Carried Forward from prior year	5.3
	31.9
	(0.2)
Balance carried forward to 2011/12	

## 4.0 National Context

### *The Scottish Government*

- 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 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
- 4.4 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.
- 4.5 However the funding available to Local Government in 2010/11 has been reduced by £174 million as a result of the £521 million reduction in funding from Westminster. The impact of this reduction resulted in a cut in revenue funding of £2.16 million and capital funding of £0.6 million from the level of funding originally announced.
- 4.6 The Council has sought to address these issues, including the removal of ring fencing and a freeze in the level of Council Tax, through the 2009/11 Budget. The Finance Strategy has assumed that the Council Tax freeze will continue albeit there is currently no confirmation from the Scottish Government that Council Tax Freeze Grant will be available from 2011/12 onwards.

### *UK Context*

- 4.7 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 2014/17 will be severely constrained.
- 4.8 The recent formation of a Conservative/Liberal Democratic Coalition following the recent Westminster Parliament elections is expected to impact upon the Council's financial position over that included in the last Financial Strategy. A significant change has been the implementation of £6billion Public Sector Funding reductions in 2010/11. Whilst indications are that the Scottish Government will not apply Scotland's share of this reduction (£332 million) in 2010/11, it will result in increased savings in 2011/12.

4.9 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 then 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 was £2.156 million Revenue and £0.578 million Capital.

(b) Interest Rates – Falls in interest rates have significantly reduced the Council's investment income from 2009/10 onwards. Based on a 3.5% reduction the Council's investment returns have fallen by over £1 million per year. Indications are that investment returns will remain low for the remainder of 2010/11

(c) The incoming Westminster Coalition has confirmed a reduction in Public Sector spending by £6 billion in 2010/11. Scotland's share has been deferred until 2011/12 but comes to £332 million.

(d) One change announced by the new Westminster Government is that the 0.5% increase in Employers National Insurance from April 2011 will now not be implemented. The Financial Strategy has been amended to reflect this change.

4.10 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. This level of reduction has been subsequently endorsed by Audit Scotland in their report, Scotlands Public Finances – Preparing for the Future.

4.11 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 and Directorate Plans – 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 to establish a detailed picture of resource deployment in the context of the SOA. This will be initially from a Council perspective and 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 was 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
  - Skills Development Scotland
  - The Voluntary Sector
  - Community Health and Care Partnership
  - Strathclyde Partnership for Transport
  - Greenock Chamber of Commerce
  - Greenock and District 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.

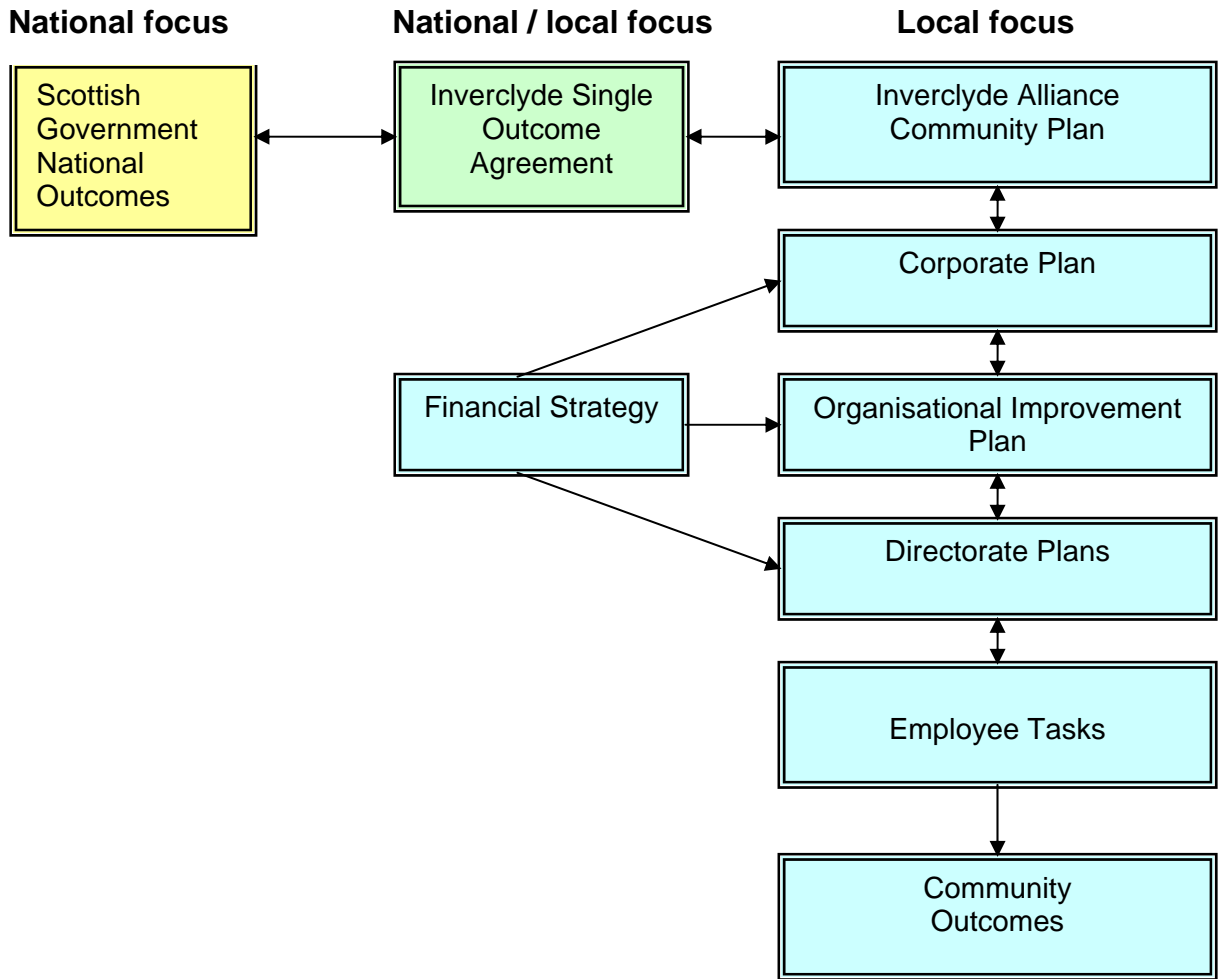
5.24 The Plan is structured around the following five key workstreams:

- 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 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 2,031 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 2,350 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 2,031 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. Locally 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 participated in the review of shared services during 2009 and joint working commissioned by the Clyde Valley Community Planning Partnership. The review, led by Sir John Arbutnott, 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. A number of working groups are now investigating the potential for shared services in regard to work streams highlighted in the Review Report.

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 from 2006/7 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 in 2010/11 increased by £487,000 to £2.1 million.

In addition the Council will make contributions in kind by transferring specific assets to the Urban Regeneration Company which will count towards the £24 million contribution.

#### 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.

The Council's Community Facilities transferred to Inverclyde Leisure in April 2010.

#### 5.48 *Inverclyde Community Health Care Partnership (CHCP)*

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

A Director has been appointed for the CHCP and progress is being made to fill the rest of the management structure over the summer.

The CHCP will have a combined budget of over £120 million.

## **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 maximise member engagement in this important area of activity.

### **6.2 Operating Model (OM)**

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

Findings from the Value Chain Analysis 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.

### **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 high level plans were approved by the Policy & Resources Committee in December 2009.

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.

Detailed work has commenced in designing the reconfiguration of the Clyde Square frontage of the Municipal Buildings whilst design work is commencing on proposals for the conversion of Wellington Academy for offices.

## 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.

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 conformance 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 recently approved Strategic Procurement Framework.

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

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

## **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 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.

#### *Budget Managers*

- 7.15 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 budgetary control issues.

#### *Financial Support to Services*

- 7.16 The Council agreed in November 2009 to a fundamental change in the way financial support and advice is delivered to Directorates. The approved "Hub and Spoke" model means each Directorate has a dedicated Principal Accountant who, assisted by a team of Finance Officers, prepares and monitors the Directorate budget as well as providing a full range of financial advice to the Directorate.

#### *Internal Audit*

- 7.17 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*

- 7.18 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 extant financial standards and presents a fair account of the Council's activities.

***Managing the Budget***

- 7.19 Committees receive five 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, progress on the approved saving workstreams and key projects with financial implications.
- 7.21 All Services receive detailed budget information every month from their Directorate Finance Team and in addition have access to real time information held on the Council's Finance Management System.

## **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 £175.462 m in 2010/11.
- 8.4 When the Council's own projection of Council Tax Income based on 96.7% collection rate is added (£32.900m) then the income for the Council in 2010/11 is projected to be £208.362 m.
- 8.5 The Financial Strategy runs up to 2017/18 and beyond in terms of identifying potential issues, but the revenue forecasts are limited to the period which can be reasonably forecast, 2010/11-2013/14.
- 8.6 Some assumptions have had to be made for 2010/11 - 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 2010/11 – 2013/14 but assumes a continuation of the current level of Council Tax Freeze Grant.
- 8.8 Revenue projections for 2010/11 reflect the decisions taken at the 9 February 2010 Policy & Resources Committee.
- 8.9 As part of the budget process the Council agreed a Reserve Strategy which requires a minimum unallocated General Fund Reserve of 2% of turnover. This equates to £4.2 million.
- 8.10 The overall position of the Reserves 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.
- 8.12 Details of the short, medium and long-term issues identified in consultation with Services are contained at Appendices 1, 2 and 3.



8.12 Short to Medium Term – Revenue

**Table 3 – Projected Revenue Budget Position 2010/14 (Short – Medium Term)**

		<u>Finance Strategy</u>			
		<u>Projected Budget Position – (Short/Medium Term)</u>			
		<u>2010/14</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>
Base Budget for Prior Year		200.527	207.455	220.282	229.634
<b><u>UPLIFTS FROM PRIOR YEAR</u></b>					
<b><u>Inflation</u></b>					
Pay Inflation 2.5%		2.749	2.750	2.750	2.750
Other Inflation		2.255	2.320	2.320	2.320
Income 2.5%		-0.206	-0.170	-0.170	-0.170
Joint Boards		0.361	0.500	0.500	0.500
		5.159	5.400	5.400	5.400
<b><u>Council Priorities (Note 1)</u></b>					
Single Status	(App 4)	0.580	-	-	-
Riverside Inverclyde	(App 5)	0.487	-	-	-
School Estate- Unitary Charge Increase	(App 6)	1.361	3.827	0.692	-
Policy Priorities		0.265	0.300	0.300	0.300
Capital Programme Impact		-	0.200	0.200	0.100
		2.693	4.327	1.192	0.400
<b><u>Pressures (Note 2)</u></b>					
Corporate Pressures		0.829	1.750	1.750	1.750
Loan Charges Increase		1.836	1.350	1.010	1.000
		2.665	3.100	2.760	2.750
Feb 2010 - Savings		-3.589			
Overall Total		207.455	220.282	229.634	238.184
<b><u>Funded by: (Note 3)</u></b>					
Revenue Grant/NDR Income		172.845	172.845	172.845	172.845
Fiscal Squeeze		-	-2.300	-4.600	-6.900
Unitary Charge Grant		1.577	5.404	6.096	6.096
Council Tax Income		32.900	32.900	32.900	32.900
Council Tax Freeze Grant		1.040	2.080	3.120	4.160
		208.362	210.929	210.361	209.101
Cumulative Budget Gap		-0.907	9.353	19.273	29.083
Year on Year Movement		-	10.260	9.920	9.810

AP/CF

28/05/2010

## Note 1

### Council Priorities

(a) Single Status

Figures per report to the Inverclyde Council, 18/4/08 revised for latest information – 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 net revenue impact of Leisure Strategy.

## Note 2

### Pressures

(a) Corporate Pressures

From 2011/12 there is an allowance of £1.75 million for new pressures including those arising from demographic trends and other matters raised in Appendices 1-3.

## Note 3

### Funding

(a) Revenue Grant/NDR Income

2010/11 figures are based on actual figures included in the approved budget.

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 due to the fact that if base increases then grant would reduce correspondingly.

(c) Council Tax Freeze Grant

Assumed that this will remain at current level for 2011/14.

8.13 *Other Short Term Revenue Issues*

The recent change of Westminster Government has added further uncertainty to what was an already uncertain period covering the next spending review (2011/14). One announcement already made indicates that the planned 0.5% rise in Employer's National Insurance will no longer take place.

There is however going to be a reduction in Public Sector funding in 2010/11 and what if any impact this may have on the Council will only become clear over the summer.

Equal Pay costs could become a significant issue over the next few years as the large number of outstanding claims are settled. The Council will review its provisions as part of the 2009/10 Annual Accounts exercise.

#### 8.14 *Medium to Long Term Revenue Issues*

Looking beyond 2013/14 becomes increasingly difficult with significant uncertainty around how local authorities will be funded 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 £30 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.
- 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 a 4 year Capital Programme 2010/14 in February 2010.

In addition, the Council has already approved a significant level of Prudentially Funded capital projects including investment in schools, leisure, a new depot, rationalisation of offices, vehicles and a new Residential Children's Home.

The recent 2010/11 funding announcement confirmed a £0.6 million reduction in Capital Grant for 2010/11, Further reductions in capital grant of £0.5 million per year have been factored into the approved 2010/14 Capital Programme however, this assumption awaits confirmation.

The Council has agreed an asset disposal strategy on the premise that assets are not sold whilst the market continues to be depressed unless the Council is clear it can demonstrate Best Value is being achieved. As a result the 2010/14 Capital Programme assumes £12.5 million of receipts which represents only 9% of total resources.

The downturn in the value of former school sites may have an impact on the financial assumptions made when preparing the School Estate Management Plan (SEMP). A fundamental review of this issue will take place in coming months with a report being presented to Members in September 2010.

**Table 4 – Capital Programme 2010/2014 (Short - Medium Term Capital Projections)**Table 4

<u>Expenditure/Projects by Committee</u>	<u>2010/11</u> <u>£m</u>	<u>2011/12</u> <u>£m</u>	<u>2012/13</u> <u>£m</u>	<u>2013/14</u> <u>£m</u>
Policy & Resources	1.86	1.04	1.08	0.96
Regeneration	12.84	14.24	9.15	6.54
Safe & Sustainable Communities	8.88	2.56	2.36	2.11
Health & Social Care	1.08	1.12	0.07	-
Education & Lifelong Learning (Incl SEMP)	7.48	21.88	37.39	15.66
	<hr/> 32.14	<hr/> 40.84	<hr/> 50.05	<hr/> 25.27
<u>Finance By</u>				
Government Grant	4.64	4.68	4.17	3.66
Supported Borrowing	5.36	4.50	4.5	4.50
Sales/Contributions	0.90	0.15	11.48	-
Other Grants (Note 3)	0.77	-	4.30	3.20
Revenue	0.75	0.09	-	-
Prudential Borrowing	15.70	21.60	22.35	11.33
Resources Carried Forward	12.41	8.39	(1.43)	(4.68)
	<hr/> 40.53	<hr/> 39.41	<hr/> 45.37	<hr/> 18.01
Carry Forward	8.39	(1.43)	(4.68)	(7.26)

Notes

1. As per May 2010 P & R plus SEMP Model.
2. Deficit of £7.26 million at end of 2013/14 is made up of £6.2 million planned cashflow deficit in SEMP plus £1.0 million shortfall in resources in the balance of the Capital Programme.
3. Grants from Scottish Futures Trust, Strathclyde Passenger Transport & Lottery.

## 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 plus the other approved Prudentially funded investment ring fencing flexibility in this area for the next 10 to 20 years.

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.

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.

Unless there is a substantial increase in resources from the Government or alternative funding sources are identified then the Council will face significant challenges 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 Some significant changes were made to the requirements for Treasury Management reporting following the implementation of the revised CIPFA Treasury Management Code of Practice in April 2010. This has resulted in the following:
- (a) An annual Treasury Management Strategy submitted at the start of the financial year and which includes the Council’s Prudential Indicators and covers issues such as the economic situation, the prospects for interest rates, and the Council’s borrowing and investment strategy for the coming year.
  - (b) A mid-year review of the Strategy which include details of the Council’s debt and investment position, activity undertaken during the quarter, and performance to date against the Council’s Prudential Indicators and agreed policy limits.
  - (c) An Annual Report for Treasury Management which is submitted to Members before the end of September each year and which advises Members of the Treasury Management activities during the previous financial year.

It should be noted that from 2010/11, 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.

- 9.4 The table on the next page shows the Council’s debt and investments position as at 31/3/10.

**Table 5 – Council’s Debt and Investment Position – 31/3/10.**

The Council's treasury portfolio position at 31/3/2010 comprised:

		Principal		Average Rate
		£000	£000	
Fixed rate funding	PWLB	80,779		4.23%
	Market	51,000	131,779	
Variable rate funding	PWLB	0		4.64%
	Market	51,926	51,926	
<b>TOTAL DEBT</b>			<b>183,705</b>	<b>4.35%</b>
<b>TOTAL INVESTMENTS</b>			<b>44,898</b>	<b>1.02%</b>



## **10.0 Reserves**

10.1 A key aspect of the consideration of the Financial Strategy is the position of the General Fund Reserves. A Reserves Strategy was agreed by Council as part of the 2008/09 Budget.

10.2 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.

10.3 The Reserves Strategy seeks agreement that the core General Fund Reserve be maintained at a level of 2% of turnover. A turnover of approximately £210 million results in a core General Fund Reserve of £4.2 million. 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.

10.4 The Reserves Strategy is predicated on 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.

10.5 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. The latest projected position is shown over the page.

- 10.6 (a) General Fund Core Reserves – This Reserve represents the Council's contingency for unforeseen/unquantifiable events. The level of the Reserve is recommended by the Chief Financial Officer and is reviewed on an annual basis as part of the Budget Process whilst the projected balance is reported to each Policy and Resources Committee.

Projected Balance 31.03.2010 = £4.2 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.

Projected Balance 31.03.2010 = £5.4 million

- (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 will be incorporated into the Financial Strategy.

Projected Balance 31.03.2010 = £1.76 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 is agreed at the time contributions are made and the overall position will be reported as part of the Financial Strategy.

Projected Balance 31.03.2010 = £0.74 million

## **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 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.
- 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, £2.1 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.

## 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 from 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 and are being actively managed.</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 all of 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 via the Financial Strategy prior to the preparation of the Directorate Plan.

<b>Risk</b>	<b>Management of Risk</b>
Income budgets not achieved or become unsustainable.	<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>A specific exercise around income generation is ongoing and will form part of the 2011/13 Budget.</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 and Government Grants 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 optimising External Funding on a sustainable basis. This is due to report in 2010/11.</p>
Legislative changes are not anticipated and the financial impact is not addressed through the budget process of Financial Strategy.	<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>

**Short-Term Issues (2010/11)**

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.

<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	Savings Target 2011/13	The estimated saving of £20 million over 2011/13 may not be achievable.	A saving workstream programme has been approved and progress monitored monthly from June 2010.	John Mundell / Alan Puckrin	Each Policy & Resources Committee from September 2010
	Equal Pay	Outstanding claims may result in significant pay outs and new groups may claim.	Review provision included in annual accounts. External advice being taken.	Alasdair Moore / Alan Puckrin	July 2010 - CMT
	Operating Model	Required saving of £1.4 million may not be achieved by 31/3/11.	Detailed analysis of affected population ongoing in consultation with Services.	Paul Wallace	December 2010 - CMT
	External Service Level Agreements	Retendering/Terminating various external SLAs will impact on 2011/13 budget.	Analysis of all SLAs and development of exit strategies to take place.	Paul Wallace / Aubrey Fawcett	September 2010 - CMT

**Appendix 2**  
**Medium-Term Issues (2011/17)**

<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	Prioritisation of Service Reduction	Anticipated funding gap will require an element of Service reduction / withdrawal. Unless this can be identified the Council will not be able to set a balanced budget.	Facilitated discussions with Members to take place and developed as part of 2011/13 budget.	John Mundell	February 2011
	Reductions in other public sector partner's funding streams	As Public Sector funding reductions take hold, partners may reduce their contributions to key Council priorities such as Riverside Inverclyde, Resource Transfer etc..	Continue dialogue with partners & highlight issues via budget process	Aubrey Fawcett/Albert Henderson/Rab Murphy	February 2011
	Reduction in Public Sector Funding	Government Funding over 2011/14.	Await SR 2010 and factor estimates into Financial Strategy.	Alan Puckrin	February 2011
	Government needs to reduce Public Sector Borrowing	Prudential Borrowing Capping may require revision of longer term capital plans.	Keep programmes on track and develop alternative delivery model if required.	Aubrey Fawcett/Alan Puckrin	Ongoing
	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
	Changes to Local Government Funding regime.	Reduced funding & impact on Council Tax collection function.	Await next Scottish election and policy direction from new Government.	Alan Puckrin	August 2012
Social Care	Potential Resource Transfer Redistribution	Could result in significant reduction in Funding to Inverclyde.	On going monitoring & reports to Committee.	Robert Murphy	?
	CHCP Implementation	Creation of CHCP requires clarity on roles & responsibilities around budgets and treatment of any overspend/savings.	Joint planning/resource allocation model to be developed supported by Accountancy Manager.	Robert Murphy/Alan Puckrin	April 2011
Regeneration & Environment	Waste Strategy	Exceeding landfill targets and increased fines.	Waste strategy to be developed taking account of depot proposals and national developments.	Alan Barnes	December 2010
	Carbon Management	Potential significant costs if Council exceeds quota.	Officer Group to develop Baseline and identify improvements.	Aubrey Fawcett	February 2011

	Asset Management Plan	Initial cost estimates for new Depot / Office Accommodation may be unrealistic.	Costs for Offices being reviewed and work on new Depot to be progressed over next year. Will form an Appendix to Financial Strategy from December 2010.	Aubrey Fawcett / Joe Lynch	Throughout 2010/12
Education & Communities	School Estate Management Plan	Reducing receipts and unexpected costs may make timescales for delivery of SEMP unaffordable.	Six monthly review of all aspects of SEMP.	Albert Henderson / Alan Puckrin / Joe Lynch	Every August / February



**Long-Term Issues – Post 2017**

<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 loss of grant income, over provision of infrastructure. Viability of area under threat.	Key policy priority identified in SOA and Community Plan.	CMT	Ongoing
	Continued pressure on Public Finances.	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.	Alan Puckrin	6 monthly
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.	Rab Murphy	
Regeneration & Environment	Global Warming leading to rising sea levels	Significant impact on Council area with increased flooding and expenditure on sea defences.	Flood Plan to be developed to include this issue.	Aubrey Fawcett	
	Scheduled end of Riverside Inverclyde	Review Council's £2.1 million input and future delivery of Economic Regeneration function.	£0.6 million already approved for new Depot from 2016/17.	Aubrey Fawcett	2015
	Closure of major local employer	Could further increase rate of depopulation and would significantly impact of areas regeneration efforts.	A review of the Economic Strategy and how it will be delivered is recommended	Aubrey Fawcett	2011
Education & Communities	Removal of Education from Council control	Removal of such a large aspect of Council business and budget will have a knock on impact to remaining Services.	Report on potential impacts to be progressed and report to Education & LLL Committee.	Albert Henderson	Nov 2010

Single Status: Impacts on Existing Budgets

Implementation date 18 August 2008

	2009/10	2010/11	2011/12	2012/2013
	£000	£000	£000	£000
Pay & Grading Model	4,742	5,588	5,673	5,902
Term Time Adjustment				
<u>Conditions of Service</u>	-			
Long Service	-171	-171	-171	-171
Additional Annual Leave	85	85	85	85
Public Holidays	-126	-126	-126	-126
Overtime	-73	-73	-73	-73
Car Allowances	-192	-234	-234	-234
Professional Fees	0	-22	-22	-22
A typical Working Allowances	-24	-24	-126	-126
<b><u>Sub Total</u></b>	4,241	5,023	5,006	5,235
<u>Funding</u>	-			
Budget Allowance	3,600	4,180	4,180	4,180
Incremental Drift	350	500	650	800
Externally Funded Posts	298	349	349	349
<b><u>Sub Total</u></b>	4,248	5,029	5,179	5,329
<b>Shortfall/(Excess)</b>	-7	-6	-173	-94

AE  
21/5/10

Current Profile

Riverside inverclyde  
Funding Profile  
→  
2006/7    2016/17

<u>Year</u>	<u>Revenue</u> <u>£000</u>	<u>Capital</u> <u>£000</u>	<u>Other</u> <u>£000</u>	<u>Total</u> <u>£000</u>
To 31/03/08	1,772	700	1,878	4,350
2008/9	1,840	85	1,112	3,037
2009/10	1,513	-	-	1,513
2010/11	2,100	-	-	2,100
2011/12	2,100	-	-	2,100
2012/13	2,100	-	-	2,100
2013/14	2,100	-	-	2,100
2014/15	2,200	-	-	2,200
2015/16	2,200	-	-	2,200
2016/17	2,300	-	-	2,300
	<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.

AP/CF  
25/05/2010

Post Financial Close – School Estate Earmarked Reserves

Appendix 6

Feb-10

	School Estate - Earmarked Reserves													
	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Earmarked Reserve b/fwd	1,786	3,994	5,352	4,955	4,866	4,326	3,868	3,543	3,706	3,713	3,642	3,475	3,199	3,109
Available Savings added (a)	1,880	2,493	2,942	3,743	4,248	4,692	4,907	4,907	4,907	4,907	4,907	4,907	4,972	4,972
Extra Financing (b)	3,250	3,250	3,250	3,250	3,250	3,250	3,250	3,250	3,250	3,250	3,250	3,250	3,250	3,250
Prudential Schools Loan Charges (c)	-1,868	-2,106	-2,704	-3,505	-4,053	-4,487	-4,523	-4,531	-4,535	-4,540	-4,545	-4,550	-4,555	-4,561
Unitary Charge Payment (d)	-477	-2,909	-8,219	-9,042	-9,042	-9,042	-9,042	-9,042	-9,042	-9,042	-9,042	-9,042	-9,042	-9,042
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	-44	-196	-249	0	0	0	0	0	0	-67	-214	-66
Unitary Charge RSG (h)	264	1,577	5,404	6,096	6,096	6,096	6,096	6,096	6,096	6,096	6,096	6,096	6,096	6,096
Earmarked Reserve c/fwd	<u>3,994</u>	<u>5,352</u>	<u>4,955</u>	<u>4,866</u>	<u>4,326</u>	<u>3,868</u>	<u>3,543</u>	<u>3,706</u>	<u>3,713</u>	<u>3,642</u>	<u>3,475</u>	<u>3,199</u>	<u>3,109</u>	<u>3,404</u>

(a) Per figures 13/08/09 - Based on full years actual expenditure 09/10 budget.

(b) Per 2008/9 budget and £1 million for Shared Campus approved Feb 2009.

(c) Assumes Inverclyde Academy , Newark Primary & Shared Campus are Prudentially funded.

Uses a pool fund rate of 4.75% from 2012/13.

(d) Based on Financial close figure of £8.842 million plus £200k contingency and assuming inflation from 2013/14 will be contained in the core Council inflation budget.

(e) After 2022/23 one-off costs cease.

(f) Increased Revenue Repairs.

(g) Assumes 4.0% Internal Borrowing Rate on any short term cashflow funding of capital investment. Based on Capital contribution being frozen at £4.8 m from 2010/11.

(h) Government have yet to include full funding in Council settlements from 2011/12.

**Finance Strategy**  
**Leisure Strategy**

**Appendix 7**

**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	97	1,423	180	0	0	0	1,700
Parklea Pavillion & Stadium	262	2,590	2,634	800	100	0	6,386
Rankin Park Sports Centre	103	1,773	3,521	4,503	200	0	10,100
Rankin Park Grants/Contributions	0	0	0	(4,900)	0	0	(4,900)
Gourock Park Amphitheatre & DDA Works	217	91	31	0	0	0	339
Broomhill/George Road Pitches	935	68	0	0	0	0	1,003
Broomhill Park Changing Accomodation	9	176	15	0	0	0	200
Gourock Swimming Pool	32	748	850	170	0	0	1,800
Birkmyre Park Drainage	0	0	0	130	10	0	140
Sundry	0	0	0	0	232	0	232
<b>Total</b>	<b>1,655</b>	<b>6,869</b>	<b>7,231</b>	<b>703</b>	<b>542</b>	<b>0</b>	<b>17,000</b>

Note: Allowance in overall Finance Strategy for up to £300k of increased revenue costs from 2012/13.

Finance Strategy  
General Fund "Free" Reserves  
2009/13 Balance Projection

	<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	6,645	4,200	4,200	4,200
2. Budgeted Contribution to Reserves	907	0	0	0
3. Early Retirals/Voluntary Severance	-752	0	0	0
4. Planned Use of Reserves	-2600	0	0	0
5. Projected Surplus(Deficit)	0	0	0	0
	<u>4,200</u>	<u>4,200</u>	<u>4,200</u>	<u>4,200</u>

Notes:

1/ RSG/NDR/Council Tax now £210 million. Recommended minimum level of reserves is 2% / £4.2 million

2/ Agreed that any projected surplus in 2010/11 over the £4.2 million maximum balance would be allocated to the Early Retiral/  
 Voluntary Severance earmarked reserve.

AP/CF

26/05/2010

Finance Strategy  
Capital Fund

Appendix 9

	<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>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Balance B/fwd	(1,751)	(1,760)	(1,378)	(2,492)	(1,942)	(1,381)	(809)	(225)
Additions (Estimate)			(1,700) a					
Interest (Estimate)	(9)	(18)	(14)	(50)	(39)	(28)	(16)	(5)
Principal Repayments	b 0	400	600	600	600	600	600	0 c
Other Payments								
Balance at Year End	<u>(1,760)</u>	<u>(1,378)</u>	<u>(2,492)</u>	<u>(1,942)</u>	<u>(1,381)</u>	<u>(809)</u>	<u>(225)</u>	<u>(230)</u>

Notes

- a) Estimated Receipt, Kempock.
- b) Per Depot funding Proposal
- c) From 2017/18 it was agreed that the £600,000 for Depot would be met from current Riverside Inverclyde funding.

Finance Strategy  
Repairs & Renewals Fund

	<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>	<u>2014/15</u> <u>£'000</u>	<u>2015/16</u> <u>£'000</u>	<u>2016/17</u> <u>£'000</u>	<u>2017/18</u> <u>£'000</u>
Balance B/fwd	(741)	(695)	(653)	(609)	(572)	(533)	(493)	(453)
Maintenance Payments:								
Greenock Cut	14	14	14	14	14	14	14	14
Gallaghers/Port Glasgow Development	36	36	36	36	36	36	36	36
Interest								
Greenock Cut	(2)	(4)	(3)	(7)	(6)	(6)	(6)	(6)
Gallaghers/Port Glasgow Development	(2)	(4)	(3)	(6)	(5)	(4)	(4)	(3)
Balance:								
Greenock Cut	(346)	(336)	(325)	(318)	(310)	(302)	(294)	(286)
Gallaghers/Port Glasgow Development	(349)	(317)	(284)	(254)	(223)	(191)	(159)	(126)
Balance at Year End	<u>(695)</u>	<u>(653)</u>	<u>(609)</u>	<u>(572)</u>	<u>(533)</u>	<u>(493)</u>	<u>(453)</u>	<u>(412)</u>