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| Report To: | The Inverclyde Council | Date: | 1 December 2011 |
| Report By: | Chief Financial Officer | Report No: | FIN/115/11/AP/LM |
| Contact Officer: | Alan Puckrin | Contact No: | 01475 712223 |
| Subject: | Update of Financial Strategy 2011/2018 | | |

1.0 PURPOSE

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

2.0 SUMMARY

- 2.1 The 6 monthly review of the Financial Strategy has been undertaken and takes into account the recent updating of the School Estate Management Plan, recent reports in respect of Riverside Inverclyde, the estimated impact of the spending review announced in September 2011 and the latest Policy & Resources positions in respect of Revenue & Capital.
- 2.2 It can be seen from table 3 in paragraph 8.12 that the latest projection is that the Council is facing a revenue funding gap of just under £20 million for the period to 31 March 2015. This is a reduction of just over £1.5 million from the last review and is largely due to projected savings in loans charges.
- 2.3 The Council should note the table also shows those projected savings from workstreams which are not included in approved budgets in order that members can get an indication of the real funding gap which at this point in time is approximately £15.5 million.
- 2.4 It can be seen from table 4 in paragraph 8.15 that overall the Council has a funding shortfall of £3.24 million on its 3 year capital programme. This shortfall is in context of an investment of £146 million over the 3 year period and should give no cause for concern.
- 2.5 All the other appendices and tables have been updated as follows.

Appendix 4 Riverside Inverclyde – This has been updated to reflect the latest decisions in respect of the Gourock one way system and recent discussions with Riverside Inverclyde regarding the Council's contributions.

Appendix 5 School Estate Management Plan – This reflects the decisions taken at the Education & Lifelong Learning Committee on 1 November.

Appendix 6 Leisure Strategy – This reflects the latest reported position.

Appendix 7 General Fund Reserves – This reflects the significant increase in surplus resources being reported at Period 6.

Appendix 8 Capital Fund – This reflects the latest review of receipts which has both reduced values and delayed timing of receipts. As a result it is proposed to reduce the contribution from the Capital Fund to the Early Release Reserve from £4.045 million to £3 million. This reduction will still leave the Council with an appropriate level of funding set aside for this purpose.

Appendix 9 – Repairs and Renewals Fund – This reflects the position in the year end accounts.

Appendix 10 AMP – This reflects the latest projected figures taken into account latest information.

- 2.6 Finally, Section 12 reflects the identified risks to the Financial Strategy and mitigating actions whilst Appendices 1 to 3 highlight the major short/medium/long term issues the Council needs to be aware of which could materially impact on the figures presented.
- 2.7 Overall the Financial Strategy confirms the significant challenges facing the Council in coming years but introduces no major new information. The June 2012 revision of the Financial Strategy will fully reflect the detailed announcements as part of the 3 year spending review and will form the basis for the Council's 2013/15 Revenue Budget.

3.0 RECOMMENDATIONS

- 3.1 It is recommended that the Council approve the latest revision of the Financial Strategy and specifically approve the reduction in the Capital Fund contribution to the Early Release Reserve outlined in 2.5.

Alan Puckrin
Chief Financial Officer

Inverclyde council

Financial Strategy

2011/12 – 2018/19

December 2011

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1.0 Foreword

This latest revision of the Council's Financial Strategy and has been undertaken at a time of continued economic turbulence.

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

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

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

- **the Council has a comprehensive, coherent balanced budget;**
- **the Council reviews the level of Council Tax annually in the context of the Financial Strategy, to determine an appropriate level in the best interests of the people of Inverclyde;**
- **resources are allocated and deployed to facilitate delivery of the outcomes in the Corporate Plan, 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 four years, given the impact of the economic downturn on public sector expenditure, will be to develop a, 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.

The Council has implemented a budget process, firmly located within the context of the Financial Strategy, which resulted in the Council's second two year budget, covering the period 2011/13 being approved in February 2011.

We also need to ensure that the Financial Strategy continues to take account of the Community Plan, the Corporate Plan, the Single Outcome Agreement for Inverclyde, our Organisational Improvement Plan and effectively link this 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 by the Council twice yearly, in June and in December.

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

Councillor Stephen McCabe
Leader of the Council

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 has taken into account guidance from CIPFA when developing the Financial Strategy as well as best practice from other local authorities.
- 2.5 Our ambition is to maintain a single, coherent Financial Strategy that brings together the corporate objectives of the Council along with all the relevant financial information in a clear, accessible document 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 2015, 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 10 February 2011 the Council approved a two year Revenue Budget covering the period 2011/13.
- 3.2 The same meeting also approved the 2011/14 Capital Programme which took into account the expected reduction in Government Grant by 2013/14.

Table 2 – Short Term Summary – Approved Revenue and Capital Budgets as at December 2011.

| | 2011/12 £million | 2012/13 £million |
|---|---------------------|---------------------|
| <u>General Fund Revenue Budget</u> | 204.922 | 204.482 |
| <u>Financed by</u> | | |
| Government Grant (Including NDR) | (173.438) | (171.532) |
| Council Tax | (32.950) | (32.950) |
| Approved Contribution to General Reserve | (1.466) | - |
| | | |
| <u>General Fund Reserves</u> | | |
| Projected Free Balance at Year End | 6.140 | 9.821 |
| | | |
| <u>Capital Programme (2011/13)</u> | | |
| Approved Spend | 35.4 | 73.0 |
| <u>Financed by</u> | | |
| Government Grants | 8.3 | 10.5 |
| Capital Receipts | 1.3 | 2.6 |
| Other Grants/CFCR etc | 3.9 | 3.4 |
| Prudential Borrowing | 14.7 | 50.7 |
| Resources Carried Forward from prior year | 14.2 | 7.0 |
| Surplus Resources | 7.0 | 1.2 |
| | | |

4.0 National Context

UK Context

- 4.1 The Comprehensive Spending Review announced by the Westminster Coalition in October 2010 provided information on Public Sector expenditure over the period 2011/15. The undernoted table shows the high level Revenue and Capital figures indicated for the Scottish Block over this period.
- 4.2 From the table below it can be seen that the largest funding reduction occurs in 2011/12. However it can be seen that in each year over the 2011/15 period the Scottish Block is reducing in real terms ie Grant is not keeping up with estimated inflation pressures.

Real Terms Funding Changes – UK Level

| | <u>2010/11</u> | <u>2011/12</u> | <u>2012/13</u> | <u>2013/14</u> | <u>2014/15</u> | <u>Overall Change</u> | <u>%</u> |
|-------------------|----------------|----------------|----------------|----------------|----------------|---------------------------|----------|
| Revenue | 25.9 | 24.9 | 24.7 | 24.3 | 23.8 | (2.1) | (8.1) |
| Capital | 3.3 | 2.5 | 2.4 | 2.1 | 2.1 | (1.2) | (36.4) |
| Total | <u>29.2</u> | <u>27.4</u> | <u>27.1</u> | <u>26.4</u> | <u>25.9</u> | <u>(3.3)</u> | |
| Movement £billion | | (1.9) | (0.3) | (0.7) | (0.5) | | |
| Movement % | | (6.4%) | (0.8%) | (2.9%) | (1.9%) | | |

- 4.3 Since the production of these figures the real term reduction in overall funding has increased due to inflation remaining stubbornly high.

The Scottish Government

- 4.4 The incoming SNP Government at Holyrood has confirmed that Council Tax will be frozen for the period of the Parliament, this allied to the already announced Westminster block grant position makes it all but certain that the Council's funding will be cut in real and cash terms for the next 4 years.
- 4.5 The Scottish Government announced it's 3 Year Spending Review in September. For Local Government the high level figures were based on a 3 Year revenue cash freeze. In addition further temporary reductions in Capital Grant of £120 million and £100 million were announced for 2012/13 and 2013/14. These reductions to be rephased over 2014/16.
- 4.6 The CPPR have issued a paper for Directors of Finance and calculate that based on current/projected deflators the real term reduction in resources to Local Government over 2011/15 is 14%. This is before any specific demographic or legislative pressures.
- 4.7 The assumptions regarding the financing of the Local Government settlement has been the subject of debate due to the increased reliance on Non-domestic Rate income to plug some of the gap caused by reductions in Westminster Funding and the continuing Council Tax Freeze.
- 4.8 Whilst some of the assumed increase in NDR income is clear and relates to the reductions in empty property relief, health levy and RPI increases, the assumptions around NDR buoyancy are less certain. Given the continued difficult economic conditions, the top slicing of some of the NDR yield for TIF schemes and the national income sharing agreement, there remains a real risk the NDR income target will not be achieved.

- 4.9 The Government has emphasised that for the current Spending Review, Local Authority funding is guaranteed and any NDR shortfall will be funded by the Government however, it is not clear how this would be dealt with post 2014/15.
- 4.10 Based on the above it is clear that Local Government faces a continued squeeze on resources for the foreseeable future which will require clear prioritisation and inevitably a review of some of the universal service provision policies at both a national and local level.

5.0 Local Context

- 5.1 The local environment within which the Council operates has changed significantly in recent years and will alter further in future years due to the impact of national legislation and policy, further economic turbulence, societal changes and developing customer expectations.
- 5.2 The overall strategic framework within which the Council operates is outlined in the Strategic Planning and Performance Management Framework which was originally approved in January 2007 – this includes the Community Plan, Corporate Plan, Directorate Plans and the Financial Strategy.
- 5.3 The Framework was subsequently revised in light of the introduction by the Scottish Government from April 2008 of Single Outcome Agreements (SOA).
- 5.4 Inverclyde Alliance has a full partnership SOA, which was agreed with the Scottish Government in August 2009. The SOA ran from 2009/2011 and is in the process of being reviewed to take it forward for the term of the new Scottish Government.
- 5.5 The revised Strategic Planning and Performance Management Framework is shown in Diagram 1.

Inverclyde Alliance - Community Plan

- 5.6 Inverclyde's 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.
- 5.7 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.
- 5.8 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
- 5.9 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 Single Outcome Agreement

- 5.10 Inverclyde's Single Outcome Agreement (SOA) 2009/11 is a two year agreement between the partners that make up the Inverclyde Alliance and the Scottish Government
- 5.11 The focus of the SOA is on addressing the main challenges facing the area:
- Depopulation
 - Coping with de-industrialisation
 - Poverty, deprivation and area renewal
 - Employment
 - Health
 - The natural, built and physical environment
- 5.12 The specific strategic local outcomes contained within the SOA reflects the Community Plan. The focus of the SOA is on the eight local outcomes which are important to the area and will make a difference to the people living in Inverclyde, particularly those living in areas of multiple deprivation.
- 5.13 How the Council will achieve the outcomes identified in the Community Plan and SOA is detailed in our Corporate Plan and Directorate Plans. The Corporate Plan will be refreshed and renewed in 2012 to match the new administrative term of Local Government and the opportunity will be taken to ensure that priorities, outcomes and information flows effectively between these documents.
- 5.14 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.
- 5.15 There are some costs associated with managing and delivering the SOA, 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 Council - Corporate Plan

- 5.16 In October 2007 the Council approved a new Corporate Plan which sets 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 life of the plan and indicators which will help measure progress. The Corporate Plan is being rolled forward to meet the current local

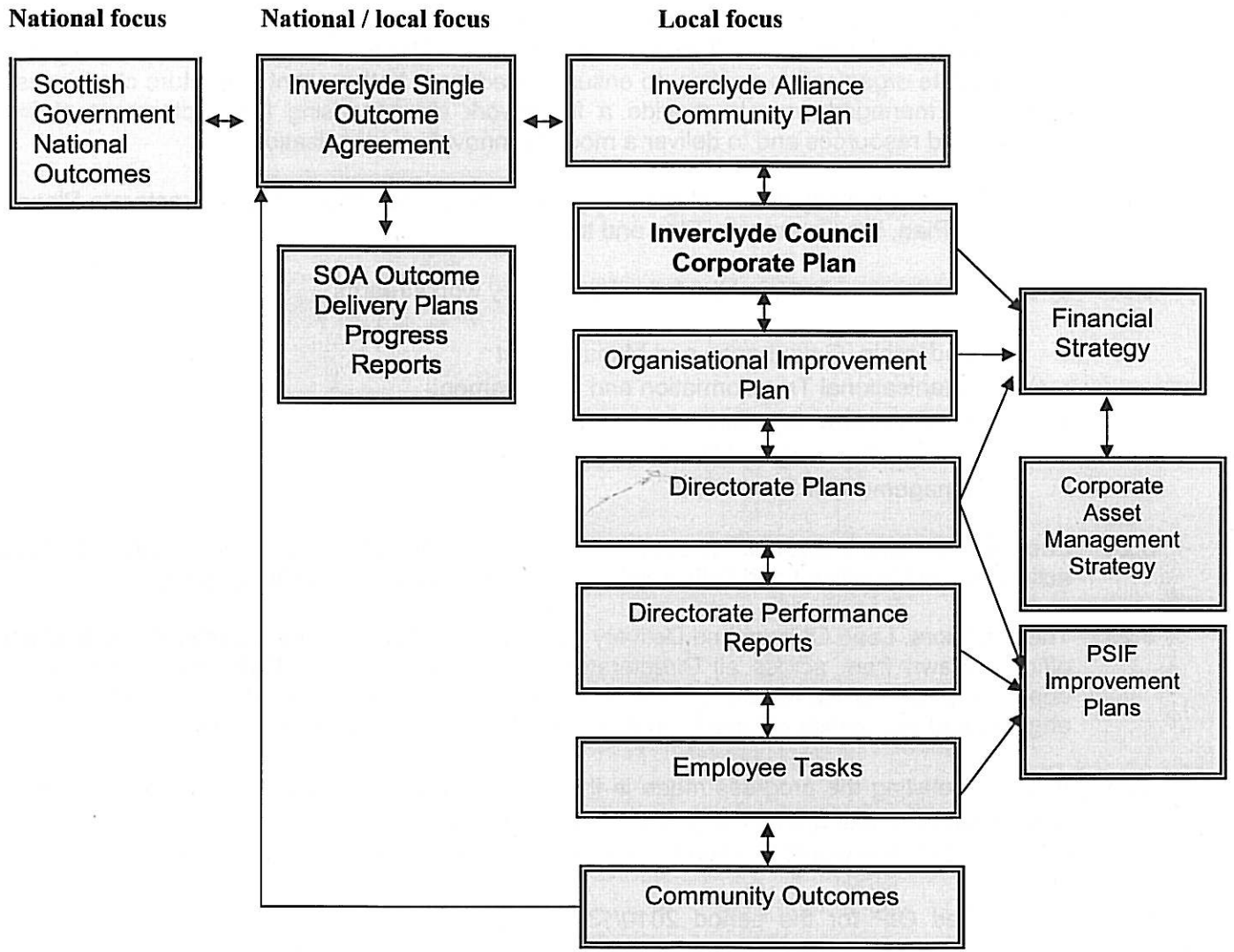
government administrative term and will be fully renewed in 2012 following the 2012 Council elections.

- 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 Organisational Improvement Plan provides the strategic framework for continuous improvement within the Council over the next 3 years. The purpose of the OIP is to help deliver our corporate 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 to deliver a modern, innovative organisation.
- 5.22 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.
- 5.23 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
- 5.24 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.
- 5.25 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.
- 5.26 A report detailing the progress made in the first year of the OIP was considered by Policy and Resources Committee on 21 September 2010. The Committee approved the development of a refreshed OIP that would build on the significant progress that had been made.
- 5.27 A refreshed OIP for the period 2010/13, was subsequently presented to Committee on 16 November 2010. The purpose of the refreshed Plan is to develop the areas within the organisation where progress has been made. It also seeks to strengthen our approach to measuring our performance, particularly in relation to our customers. New improvement actions have been built into the Plan to help prepare the Council for the challenges that lie ahead

Diagram 1: Strategic Planning and Performance Management Framework



Demographics and Population

- 5.28 The most significant challenge facing Inverclyde is depopulation and associated demographic change – this has been recognised by the Council and our Partners as a priority and is reflected in the Corporate Plan, the Community Plan and Single Outcome Agreement.
- 5.29 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.
- 5.30 In 2010, the estimated population of Inverclyde was 79,770. The most recent population projections (based on the 2008 data) estimate that by 2033 the population will have decreased 66,611, the largest projected rate of depopulation of any Council area in Scotland. The male population is projected to decrease by 17% and female population by 18% by 2033 (based on the 2008 data).
- 5.31 The proportion of children aged 0 - 15 years is projected to decrease by 29% by 2033 whilst the proportion of the population that is of pensionable age will increase by 18%. In the same period, the number of people of working age is projected to fall by 26%.
- 5.32 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.
- 5.33 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.
- 5.34 Whilst a decline in population is projected locally, nationally Scotland's population is expected to increase from 5,169,000 in 2008 to 5,544,000 in 2033, a 7% increase.
- 5.35 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, the number of datazones in the most deprived 15% remained static at 42. Inverclyde's national share of the 5% most deprived data zones has increased from 1.8% in 2004 to 5.2% in 2009. This represents an increase from 36 datazones to 42 datazones. Locally Inverclyde has the second highest concentration of income deprivation, employment deprivation and health deprivation in Scotland.
- 5.36 Public service delivery is particularly challenging in the context of deprivation and depopulation which adds to the uniqueness of Inverclyde as an area.
- 5.37 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.
- 5.38 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.

- 5.39 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.
- 5.40 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.
- 5.41 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

- 5.42 The public sector landscape has changed significantly in recent years in Inverclyde with the creation of Riverside Inverclyde, River Clyde Homes and the Community Health & Care Partnership – these new organisations join Inverclyde Leisure and the wider voluntary sector as part of a mixed economy of public service provision.
- 5.43 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.
- 5.44 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.
- 5.45 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 Arbuthnott, considered opportunities to develop proposals across the eight member authorities to utilise shared services or joint working to improve service delivery or secure efficiencies.
- 5.46 The Council decided in September 2011 to continue discussions with like minded Councils to develop proposals around Shared Support Services and asked that the Chief Executive bring proposals back in the summer of 2012.
- 5.47 Proposals in respect of shared Waste Services are due to be put before the Council in December 2011.
- 5.48 *Riverside Inverclyde*

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

Recent announcements by the Scottish Government make it highly unlikely the Council's partners (Scottish Government/Scottish Enterprise) will meet their envisaged contributions. Clarification of this matter is being sought by the Council via CoSLA.

5.49 *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 was based on significantly more money being available to invest in homes and neighbourhoods and give tenants a real say in the decisions that are made about their housing, with tenants on the Board influencing policies and investment decisions.

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 in addition to which six monthly briefings are given to Members.

Government cuts are impacting on progress against the original Business Plan.

5.50 *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 and discussions are ongoing regarding the transfer of some of the new Leisure Facilities to Inverclyde Leisure.

5.51 *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 which came into existence in October 2010. This latest development is leading to greater partnership working and efficiencies.

The CHCP has a combined budget of over £120 million.

6.0 Key Organisational Issues

6.1 Operating Model (OM)

The Policy and Resources Committee, in March 2010, agreed to the revised scope, governance and management arrangements for implementation of Phase 2 of the Council's Operating Model.

The Operating Model Executive Implementation Group (EIG) was established in March 2010 to monitor the progress in meeting the key milestones for the Operating Model.

Implementation of Phase 1 of the Operating Model delivered the new Customer Service Centre. The key components planned to be delivered in Phase 2 were:-

- Further development of the Customer Service Centre by transferring more services into it.
- The creation of a Business Support unit to deliver
 - Transactional Employee Support Services
 - Transactional Finance Support Services
 - Council Wide Support Desk

A review of the direction and expected efficiencies is currently ongoing and the Chief Executive will present a report with clear recommendations to the Council in December 2011.

6.2 Property Asset Management Plan

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 with the detail of the Office AMP approved in September 2010.

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 been carried out in preparing for the reconfiguration of the Clyde Square frontage of the Municipal Buildings which commenced in April 2011 whilst design work is commencing on proposals for the conversion of the Central Library for offices.

Proposals in respect of the Depots were approved by Committee in January 2011 however some of the investment is dependent on the outcome of the Clyde Valley Waste Management review. The Asset Executive Implementation Group monitors progress against the key milestones of this strategy.

6.3 Strategic Procurement Framework

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

It was recognised that the Council's current approach to procurement required improvement in a number of areas, and that performance, together with associated processes, practices and behaviours, did not comply with the conformance requirements of the McLelland Report on Public Procurement.

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 Strategic Procurement Framework.

Any proposals to change the Council's approach to procurement need to reflect, and be consistent with 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.

The Council has a key target of achieving Conformance Status with the requirements of the McLelland report by December 2011.

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 in October 2011 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 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.
- 7.12.1 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.
- 7.13 The CMT have a specific meeting each month to consider corporate financial matters including employee costs, key budget lines and work stream savings progress.

Chief Financial Officer

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

Heads of Service

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

Budget Managers

- 7.16 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

- 7.17 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

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

External Audit

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

Managing the Budget

- 7.20 Committees receive five budget monitoring reports throughout the year. These are jointly prepared by the Chief Financial Officer and the relevant Corporate Director.
- 7.21 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.
- 7.22 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 3–8 years) 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 £173.438 m in 2011/12.
- 8.4 When the Council's own projection of Council Tax Income based on 96.7% collection rate is added (£32.950m) then the income for the Council in 2011/12 is projected to be £206.388 m.
- 8.5 The Financial Strategy runs up to 2018/19 and beyond in terms of identifying potential issues, but the revenue forecasts are limited to the period which can be reasonably forecast, 2011/12-2014/15.
- 8.6 Some assumptions have had to be made for 2011/12 - 2014/15 given the lack of detailed information for future years from the Scottish Government and the continuing economic uncertainty.
- 8.7 The level of resources available to the authority to fund its revenue expenditure is also dependent on Council Tax. The Financial Strategy shows no increase over 2011/15.
- 8.8 Figures for 2011/12 and 2012/13 reflect the decisions taken at the 10 February 2011 Council Meeting.
- 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 7 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.

Finance Strategy
Projected Budget Position (Before 2012/13 Budget)

| | <u>2011/12</u> | <u>2012/13</u> | <u>2013/14</u> | <u>2014/15</u> |
|---|----------------|----------------|----------------|----------------|
| | <u>£m</u> | <u>£m</u> | <u>£m</u> | <u>£m</u> |
| Base Budget for Prior Year | 208.382 | 206.388 | 204.482 | 201.528 |
| <u>UPLIFTS FROM PRIOR YEAR</u> | | | | |
| <u>Inflation (Note 1)</u> | | | | |
| Pay Inflation (3.0% from 2013/14) | - | - | 3.300 | 3.300 |
| Other Inflation | 1.378 | 1.600 | 1.860 | 1.860 |
| Income | -0.253 | -0.153 | -0.150 | -0.150 |
| Joint Boards (2.0% from 2013/14) | - | - | 0.330 | 0.330 |
| | <u>1.125</u> | <u>1.447</u> | <u>5.340</u> | <u>5.340</u> |
| <u>Council Priorities (Note 2)</u> | | | | |
| Riverside Inverclyde | - | - | -0.300 | - |
| School Estate- Unitary Charge Grant | 3.827 | 0.692 | - | - |
| Capital Programme Impact | 0.200 | 0.200 | 0.100 | 0.100 |
| | <u>4.027</u> | <u>0.892</u> | <u>-0.200</u> | <u>0.100</u> |
| <u>Pressures (Note 3)</u> | | | | |
| Corporate Pressures (movement) | 1.466 | 0.634 | 2.000 | 2.000 |
| Loan Charges | 0.369 | -0.390 | 0.200 | 0.200 |
| | <u>1.835</u> | <u>0.244</u> | <u>2.200</u> | <u>2.200</u> |
| Savings/Adjustments Applied (Feb 2011) | -10.447 | -5.689 | | |
| Approved Budget (Note 4) | <u>204.922</u> | <u>203.282</u> | <u>211.822</u> | <u>209.168</u> |
| <u>Funded by: (Note 5)</u> | | | | |
| Revenue Grant/NDR Income | 173.438 | 173.438 | 173.438 | 173.438 |
| Fiscal Squeeze (1.5% Grant Cut) | - | -1.906 | -4.860 | -7.808 |
| Council Tax Income | 32.950 | 32.950 | 32.950 | 32.950 |
| | <u>206.388</u> | <u>204.482</u> | <u>201.528</u> | <u>198.580</u> |
| Annual Budget (Surplus/Deficit) | <u>-1.466</u> | <u>-1.200</u> | <u>10.294</u> | <u>10.588</u> |
| Cumulative Savings Needed | <u>-</u> | <u>-1.200</u> | <u>9.094</u> | <u>19.682</u> |
| <u>Workstream Savings 2012/13 & On (Note 6)</u> | <u>-</u> | <u>-1.207</u> | <u>-2.995</u> | <u>tba</u> |

Finance Strategy Notes – November 2011

Note 1 Inflation

(a) Pay

| | <u>11/12</u> | <u>12/13</u> | <u>13/14</u> | <u>14/15</u> |
|----------|--------------|--------------|--------------|--------------|
| Teaching | - | - | 1100 (3.0%) | 1100 (3.0%) |
| Others | - | - | 2200 (3.0%) | 2200 (3.0%) |
| | - | - | 3300 | 3300 |

(b) Other Inflation

| | | | | |
|----------------|-------|-------|-------|-------|
| Utilities | 319 | 400 | 400 | 400 |
| Landfill Tax | 257 | 260 | 260 | 260 |
| Contracts etc. | 802 | 940 | 1200 | 1200 |
| | 1,378 | 1,600 | 1,860 | 1,860 |

(c) Income – Based on 2011/12 is estimated to be £150K (2.5%)

(d) Joint Boards

| | <u>2011/12</u> |
|--------|----------------|
| Police | 7.911 |
| Fire | 6.222 |
| SPT | 1.666 |
| RVJB | 0.567 |
| | <u>16.366</u> |

Assume a 2.0% uplift = £330k

Finance Strategy Notes – November 2011

Note 2 Council Priorities

- a) Riverside Inverclyde – Reduction in funding reflects decisions taken by Regeneration Committee in November 2011.
- b) Capital Programme Impact – Reflects a General Allowance for increased running costs arising from the Council's Capital Programme. This will be reviewed as part of the 2012/13 Budget.

Note 3 Pressures

- a) Corporate Pressures – 2011/13 figures reflect approvals from December 2010. 2013/15 are a General Allowance to meet costs of issues identified in Appendix 1 & 2.
- b) Loan Charges Movement – 2012/15 figures reflect latest figures resulting from October 2011 review.

Note 4 Approved Budget

- a) Reflects the recurring Approved budget ie: Before any contributions to or from Reserves.

Note 5 Funded By

- a) Whilst the Government has provisionally announced a cash freeze it is prudent to build in a 1.5% Grant Cut to compensate for:
 - 1) Distribution issues arising from continued reduction in Inverclyde's population.
 - 2) Ring Fencing of Government Initiative Funding included within the Settlement which leaves less for other Council Services.

Note 6 Workstreams

- a) This figure reflects Workstream savings not built into approved annual budgets with the exception of the Riverside Inverclyde saving which is reflected in Note 2a above.

8.13 *Other Short Term Revenue Issues*

The lack of any budget detail for 2012/13 and onwards made agreeing a two year budget in February 2011 more uncertain however the prize of setting a two year budget outweighs any uncertainty caused by the one year Scottish budget announcement.

Equal Pay costs could become a significant issue over the next few years as the large number of outstanding claims are settled. The Council reviewed its Equal Pay provision as part of the 2010/11 Annual Accounts exercise and it is intended that a large number of claims will be settled in coming months.

8.14 *Medium to Long Term Revenue Issues*

Looking beyond 2014/15 becomes increasingly difficult with significant uncertainty around how local authorities will be funded let alone the level of funding likely to be available.

By 2014/15 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 2014/15 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.**
- **Welfare Reform changes which will impact on both DWP/Government income to the Council, Service demands on the Council and employee numbers in certain Council Services.**
- **Pension costs influenced by the impact of the changes to LGPS, Teachers, Police and Fire Pensions plus costs associated with the Council resizing its workforce in order to balance its budgets over the period 2011/15.**
- **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 further 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 3 year Capital Programme 2011/14 in February 2011.

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 2011/12 funding announcement confirmed a £1.2 million reduction in Government Funding. Further reductions in capital grant have been factored into the approved 2011/14 Capital Programme however, this assumption will need to be revised in light of the 2012/15 Scottish budget figures.

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.

The downturn in the value of former school sites had an impact on the financial assumptions made when preparing the School Estate Management Plan (SEMP). This was reflected in a review of the overall funding model which was approved by the Education & Lifelong Learning Committee in November 2011.

Table 4 – Capital Programme 2011/2014 (Short - Medium Term Capital Projections)

Table 4

| <u>Expenditure/Projects by Committee</u> | <u>2011/12</u> <u>£m</u> | <u>2012/13</u> <u>£m</u> | <u>2013/14</u> <u>£m</u> | <u>Totals</u> <u>£m</u> |
|---|-----------------------------|-----------------------------|-----------------------------|----------------------------|
| Policy & Resources | 1.28 | 1.90 | 1.06 | 4.24 |
| Regeneration | 12.04 | 26.96 | 12.59 | 51.59 |
| Safe & Sustainable Communities | 6.57 | 4.80 | 2.76 | 14.13 |
| CHCP | 1.10 | 0.37 | - | 1.47 |
| Education & Lifelong Learning (Incl SEMP) | 14.42 | 38.93 | 21.28 | 74.63 |
| | 35.41 | 72.96 | 37.69 | 146.06 |
| <u>Finance By</u> | | | | |
| Government Grant | 8.38 | 10.65 | 8.52 | 27.55 |
| Sales/Contributions | 1.29 | 0.36 | 1.00 | 2.65 |
| Other Income | 0.29 | 2.25 | 0.78 | 3.32 |
| Revenue | 3.52 | 3.31 | 0.56 | 10.39 |
| Prudential Borrowing | 14.68 | 50.66 | 22.36 | 87.7 |
| Resources Carried Forward | 14.23 | | | 14.21 |
| | 42.37 | 67.23 | 33.22 | 142.82 |
| Shortfall in resources | | | | 3.24 |

Notes

1. As per November 2011 P & R Committee.
2. Deficit of £3.24 million at end of 2013/14 is made up of £1.62 million planned cashflow deficit in SEMP plus £1.62 million shortfall in resources in the balance of the Capital Programme.

8.16 *Long-Term Capital Projections*

There is greater certainty around capital spend for the post 2014/15 period due to the fact that the School Estate Strategy will use well over 50% of projected capital resources for at least the next 10 years plus the other approved Prudentially funded investment reducing flexibility in this area for the next 10 to 20 years.

This will leave a relatively small amount for other projects which 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 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 30/9/11.

Table 5 – Council's Debt and Investment Position – 30/9/11.

The Council's treasury portfolio position at 30/9/11 comprised:

| | | Principal | | Average Rate |
|--------------------------|--------|-----------|----------------|--------------|
| | | £000 | £000 | |
| Fixed rate funding | PWLB | 95,775 | | 4.19% |
| | Market | 56,000 | 151,775 | |
| Variable rate funding | PWLB | 0 | | 5.04% |
| | Market | 46,931 | 46,931 | |
| TOTAL DEBT | | | 198,706 | 4.39% |
| TOTAL INVESTMENTS | | | 67,593 | 1.71% |

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 have a clear route 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 31/3/12 = £6.14 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.

Balance 30.9.11 = £4.90 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 31.03.2012 = £1.74 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 31.03.2012 = £0.63 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, in May 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 developed 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 |
|--|---|
| <p>The outcome of the next Local Government Finance settlement are worse than anticipated.</p> | <p>The Council recognised through the Financial Strategy that funding is likely to deteriorate over 2012/15.</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> |
| <p>The Financial Strategy does not reflect in financial terms the objectives set out in other strategic plans of the Council.</p> | <p>The Financial Strategy provides a high level overview of the various strategic plans the Council has signed up to – it acknowledges that there will inevitably be financial implications arising from the SOA and Community Plan but it is not possible to quantify all of these at present.</p> <p>The Financial Strategy will be updated as further information becomes available regarding these strategic plans.</p> |
| <p>The directorate planning process will identify a range of additional budget pressures over and above those currently considered in this Financial Strategy.</p> | <p>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.</p> |
| <p>Forecasts within the Financial Strategy are not accurately determined or reviewed on a regular basis.</p> | <p>The Budget and Financial Strategy set out the expected levels of expenditure and income for the future. The forecasts are arrived at through careful consideration of historic trends and actual expenditure levels and any factors which may have an impact in the future.</p> <p>It also requires a degree of estimation and assumption, such as to calculate the impact of a perceived increase or decrease in future demand as a result of demographic changes or patterns of behaviour that have a socio-economic impact.</p> <p>Throughout the financial year, the Council regularly monitors its financial performance against its budgets and will revise them where necessary, subject to remaining within the agreed overall budget for the Council.</p> |

| Risk | Management of Risk |
|--|---|
| <p>The savings workstream target of £23.2 million over 2010/14 may not be achieved leading to more savings requiring to be taken from front line Services.</p> | <p>Individual workstreams are reviewed by lead officers on a monthly basis and reported to the CMT. In addition progress is reported to each Policy & Resources Committee. The recent review of workstream targets shows that the £23.2 million target will now be exceeded</p> |
| <p>Income budgets not achieved or become unsustainable.</p> | <p>Chief Officers are consulted on proposed increases in income budgets/fees and charges and have the opportunity determine the levels of individual charges to achieve the budgeted income target.</p> <p>Equally, income budgets are monitored throughout the financial year and where a shortfall in income is anticipated, this is highlighted in reports to Committee.</p> |
| <p>The Council has insufficient capital resources to sustain capital commitments.</p> | <p>The Council has already identified through the Financial Strategy a reduced reliance on capital receipts and Government Grants in the medium term.</p> <p>The combination of 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> |
| <p>Bankruptcy of a major supplier or customer which could result in the Council having to pay twice for the same service or see artificially inflated prices if a replacement service needs to be obtained at very short notice.</p> | <p>The Council has recently reviewed its procurement process and a procurement manual has been developed which includes supplier financial appraisal at PQQ stage. This will ensure that the financial position of new contractors is vetted prior to ITT stage and entering into any large contracts.</p> |
| <p>Legislative changes are not anticipated and the financial impact is not addressed through the budget process of Financial Strategy.</p> | <p>Chief Officers are required to highlight the impact of legislative changes through the strategic planning and budgeting process and the likely resource requirement.</p> <p>In addition COSLA has a key role in assessing the financial impact of changes in legislation and lobbying for Councils to be funded appropriately.</p> |
| <p>Interest rates on borrowing may be higher than forecast.</p> | <p>Regular review of treasury management decisions. Prudent assumptions on likely interest rates have been incorporated into Financial Strategy. Borrowing is spread to reduce impact of short-term changes.</p> |
| <p>Reserves are required to cash flow unanticipated budget shortfalls and fall below minimum recommended level.</p> | <p>Reserve Strategy is in place which clearly states that these must be a clear route to bring reserves back up to the minimum level over the subsequent 3 financial years.</p> |
| <p>Large contracts are due to be re-tendered where costs are likely to be higher due to the current economic climate.</p> | <p>Assumptions have been built into the budget for increase in price of goods and services.</p> |

Short-Term Issues (2011/13)

The tables in Appendices 1, 2 and 3 have been developed 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 & Potential Impacts</u> | <u>Action Taken</u> | <u>Responsible Officer</u> | <u>Timescale to report back</u> |
|----------------|--------------------------|---|---|-----------------------------|---------------------------------|
| Corporate | Savings 2011/13 | The approved savings in 2011/13 may not be delivered. | Almost all savings for 2011/13 are now implemented. | CMT / Alan Puckrin | February 2011 and on. |
| | Equal Pay | Outstanding claims may result in significant pay outs and new groups may claim. | Provision in 2010/11 accounts increased and significant settlements anticipated by March 2012. | Alasdair Moore | April 2012 |
| | 2012/13 Settlement | The 2012/13 Government settlement may vary considerably from the estimates assumed in setting the 2011/13 budget. | An element of flexibility has been built into the 2011/13 budget. Spending Review figures appear to be in line with Financial Strategy estimates. | Alan Puckrin | December 2011 |
| | CHCP Implementation | Creation of CHCP creates a degree of uncertainty as managers familiarise themselves with budgets. | Joint planning/resource allocation model developed supported by the Accountancy Manager. Monthly Finance SMT takes place. | Rab Murphy/ Alan Puckrin | June 2011 and on |

Appendix 2
Medium-Term Issues (2013/17)

| <u>Service</u> | <u>Issues Identified</u> | <u>Issues & Potential Impacts</u> | <u>Action to be Taken</u> | <u>Responsible Officer</u> | <u>Timescale to report back</u> |
|----------------|---|--|---|---------------------------------|---------------------------------|
| Corporate | Shared Services | Shared Services could require significant up front investment and could result in temporary reduction in Service quality. | Continue to attend and engage in Shared Service meetings and report back to Council. | John Mundell | August 2012 |
| | 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, CHCP etc. | Continue dialogue with partners & highlight issues via budget process | Aubrey Fawcett/Rab Murphy | Ongoing |
| | Reduction in Public Sector Funding | Government Funding over 2013/15 may be further reduced if recovery is delayed. | Await Scottish Government 2012/15 Figures and factor into revised Financial Strategy. | Alan Puckrin | June 2012 |
| | Government needs to reduce Public Sector Borrowing | Prudential Borrowing Capping and cuts to Government Capital Grant may require revision of longer term capital plans. | Rolling 3 Year Capital Programme developed annually. | Aubrey Fawcett/ Alan Puckrin | From January 2012 |
| | Removal of key services from Council control. | Government could review Public Sector landscape which could result in loss of large parts of the Council remit. | Keep track of developments and report to Committee as required. | John Mundell | Ongoing |
| | Auto enrolling of Pension Fund Membership | Will increase employers contributions to Pension Fund | Await developments and factor estimate into 2013/15 revenue budget. | Alan Puckrin | December 2012 |
| | Increased NI contributions for contracted out pensions | Whilst the Government has indicated that it does not intend to introduce this change before 2015, the estimated annual cost is over £1 million. | Keep an eye on developments and report to Committee as required. | Alan Puckrin | Ongoing |

| | | | | | |
|--|--|---|--|---|---------------------------------------|
| Social Care | Potential Resource Transfer Redistribution | Could result in significant reduction in Funding to Inverclyde. | On going monitoring & reports to Committee. | Rab Murphy | Ongoing |
| Regeneration & Environment | Ongoing Demographic demand pressures across many Social Care areas | Continuing increased demand will put considerable pressure on "flat cash" budgets. | Ongoing review of Service Delivery models allied to clear prioritisation/charging policies | Rab Murphy | Ongoing |
| | Waste Strategy | Exceeding landfill targets and increased fines. | Waste strategy being developed taking account of depot proposals, Shared Services and national developments. | Aubrey Fawcett / Ian Moffat | Ongoing |
| | Reduction in Capital Programme post 2013/14 | On completion of AMP, Secondary School SEMP and Leisure Strategy fee income for Property Services will drop considerably. | Review ongoing technical resource requirement and factor into 2013/15 budget proposals. | Aubrey Fawcett/Andrew Gerrard | December 2012 |
| Education & Communities | Asset Management Plan | Initial cost estimates for new Depot / Office Accommodation may be unrealistic. | Costs reviewed and included in Finance Strategy. | Aubrey Fawcett / Andrew Gerrard | Ongoing |
| | School Estate Management Plan | Limited funding available for Roads AMP delivery. | Report due to Committee June 2012 to incorporate funding proposals. | Aubrey Fawcett/Ian Moffat | June 2012 |
| | DWP Reform Agenda | Reduced Capital resources and corporate cost pressures may make current timescales for delivery of SEMP unachievable. | Six monthly review of all aspects of SEMP to continue. | Albert Henderson/ Alan Puckrin / Andrew Gerrard | Ongoing |
| Organisational Improvement and Resources | | (a) Reductions in benefits paid will put pressure on Council Services and budgets. | Close working needed with other Councils and Services to monitor developments. | Alan Puckrin/Rab Murphy | Ongoing |
| | | (b) Potential move of Benefit Processing to DWP from Council will impact on current employees and service design. | Being monitored at a national level. Reports will be presented as necessary. | Alan Puckrin | As soon as clarification is received. |
| | | (c) Devolving Council Tax Benefit expected to result in a 10% reduction in resources from 2013/14. | Factor funding loss into 2013/14 budget. Reports will be presented as necessary. | Alan Puckrin | December 2012 |

Long-Term Issues – Post 2017

| <u>Service</u> | <u>Issues Identified</u> | <u>Issues & Potential Impacts</u> | <u>Action to be Taken</u> | <u>Responsible Officer</u> | <u>Timescale to report back</u> |
|----------------------------|---|---|--|--|---------------------------------|
| Corporate | 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. | Key policy priority identified in SOA and Community Plan. Ensure Financial Strategy continues to be developed to facilitate long term planning. | CMT Alan Puckrin | Ongoing 6 monthly |
| Social Care | Increase in number of Elderly and Adults with Learning Difficulties. | Significant costs associated with reshaping, expanding delivery models. | Develop as part of CHCP remit. | Rab Murphy | Ongoing |
| Regeneration & Environment | Global Warming leading to rising sea levels Scheduled end of Riverside Inverclyde Closure of major local employer | Significant impact on Council area with increased flooding and expenditure on sea defences. Review Council's annual contribution and future delivery of Economic Regeneration function. Could further increase rate of depopulation and would significantly impact of areas regeneration efforts. | Flood Plan to be developed to include this issue. £0.6 million already earmarked for Depot and Gourrock one way system from 2016/17. A review of the Economic Strategy and how it will be delivered is recommended | Aubrey Fawcett Aubrey Fawcett Aubrey Fawcett | tbc 2015 2011 |

Long-Term Issues – Post 2017

| <u>Service</u> | <u>Issues Identified</u> | <u>Issues & Potential Impacts</u> | <u>Action to be Taken</u> | <u>Responsible Officer</u> | <u>Timescale to report back</u> |
|----------------------------|---|---|---|--|---------------------------------|
| Corporate | 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. | Key policy priority identified in SOA and Community Plan. Ensure Financial Strategy continues to be developed to facilitate long term planning. | CMT Alan Puckrin | Ongoing 6 monthly |
| Social Care | Increase in number of Elderly and Adults with Learning Difficulties. | Significant costs associated with reshaping, expanding delivery models. | Develop as part of CHCP remit. | Rab Murphy | Ongoing |
| Regeneration & Environment | Global Warming leading to rising sea levels Scheduled end of Riverside Inverclyde Closure of major local employer | Significant impact on Council area with increased flooding and expenditure on sea defences. Review Council's annual contribution and future delivery of Economic Regeneration function. Could further increase rate of depopulation and would significantly impact of areas regeneration efforts. | Flood Plan to be developed to include this issue. £0.6 million already earmarked for Depot and Gourock one way system from 2016/17. A review of the Economic Strategy and how it will be delivered is recommended | Aubrey Fawcett Aubrey Fawcett Aubrey Fawcett | tbc 2015 2011 |

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 | 1,900 | - | - | 1,900 |
| 2013/14 | 1,600 | - | - | 1,600 |
| 2014/15 | 1,600 | - | - | 1,600 |
| 2015/16 | 1,500 | - | - | 1,500 |
| 2016/17 | 1,500 | - | - | 1,500 |
| Gourock Redevelopment | - | - | 1,100 | 1,100 |
| PG Town Centre | - | - | 500 | 500 |
| Gourock - 1 way system | - | - | 1,000 | 1,000 |
| Area Renewal Fund | - | - | 200 | 200 |
| | 17,425 | 785 | 5,790 | 24,000 |

Reflects decisions of November 2011 Regeneration Committee

AP/LM
09/11/2011

Appendix 5

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 | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 | 2029/30 |
|---|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Earmarked Reserve b/fwd | 1,786 | 3,994 | 1,964 | 2,472 | 2,649 | 2,077 | 2,161 | 2,209 | 2,298 | 2,338 | 2,272 | 2,238 | 2,146 | 2,033 | 1,825 | 1,837 | 1,671 | 1,509 | 1,577 | 1,774 | 2,003 |
| Available Savings added (a) | 1,880 | 2,493 | 3,301 | 4,148 | 4,431 | 4,612 | 4,705 | 4,705 | 4,705 | 4,705 | 4,705 | 4,705 | 4,770 | 4,770 | 4,770 | 4,770 | 4,770 | 4,770 | 4,770 | 4,770 | 4,770 |
| Extra Financing (b) | 3,250 | 3,250 | 3,410 | 3,310 | 3,310 | 3,550 | 3,550 | 3,550 | 3,550 | 3,550 | 3,550 | 3,550 | 3,550 | 3,550 | 3,550 | 3,550 | 3,550 | 3,550 | 3,550 | 3,550 | 3,550 |
| Prudential Schools Loan Charges (c) | -1,747 | -2,040 | -2,142 | -2,700 | -3,785 | -4,138 | -4,158 | -4,163 | -4,168 | -4,173 | -4,178 | -4,183 | -4,188 | -4,193 | -4,198 | -4,204 | -4,209 | -4,214 | -4,219 | -4,224 | -4,229 |
| Receipts- Prudential Funding (d) | 0 | 0 | 0 | -128 | -401 | -517 | -517 | -517 | -517 | -517 | -517 | -517 | -517 | -517 | -517 | -517 | -517 | -517 | -517 | -517 | -517 |
| Unitary Charge Payment (e) | -360 | -2,991 | -8,244 | -9,042 | -9,042 | -9,042 | -9,042 | -9,042 | -9,042 | -9,042 | -9,042 | -9,042 | -9,042 | -9,042 | -9,042 | -9,042 | -9,042 | -9,042 | -9,042 | -9,042 | -9,042 |
| Unitary Charge Inflation Element (f) | 0 | 0 | -60 | -242 | -495 | -757 | -1,030 | -1,314 | -1,609 | -1,916 | -2,235 | -2,567 | -2,912 | -3,271 | -3,645 | -4,033 | -4,437 | -4,857 | -5,294 | -5,748 | -6,221 |
| Unitary Charge Funding from Inflation Contingency | 0 | 0 | 60 | 242 | 495 | 757 | 1,030 | 1,314 | 1,609 | 1,916 | 2,235 | 2,567 | 2,912 | 3,271 | 3,645 | 4,033 | 4,437 | 4,857 | 5,294 | 5,748 | 6,221 |
| One Off Costs (g) | -204 | -475 | -1,162 | -283 | -966 | -224 | -323 | -269 | -305 | -397 | -352 | -396 | -468 | -537 | -314 | -476 | -456 | -96 | 0 | 0 | 0 |
| Extra Revenue Repairs (h) | -273 | -344 | -49 | -224 | -116 | -230 | -263 | -271 | -279 | -288 | -296 | -305 | -314 | -324 | -333 | -343 | -354 | -364 | -375 | -389 | -401 |
| Cash Flow Deficit Funding (i) | 0 | 0 | 0 | 0 | -99 | -23 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -11 | 0 | 0 | 0 | -115 | -66 | -15 | 0 |
| Unitary Charge RSG | 264 | 1,577 | 5,394 | 6,096 | 6,096 | 6,096 | 6,096 | 6,096 | 6,096 | 6,096 | 6,096 | 6,096 | 6,096 | 6,096 | 6,096 | 6,096 | 6,096 | 6,096 | 6,096 | 6,096 | 6,096 |
| Written Back to General Reserves | -602 | -3,500 | 0 | -1,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Earmarked Reserve c/fwd | 3,994 | 1,964 | 2,472 | 2,649 | 2,077 | 2,161 | 2,209 | 2,298 | 2,338 | 2,272 | 2,238 | 2,146 | 2,033 | 1,825 | 1,837 | 1,671 | 1,509 | 1,577 | 1,774 | 2,003 | 2,230 |

(a) Per figures 11/12 Budget - includes additional Clydeview savings and Port Glasgow Denominational PS remaining open. Full review of Janitors and Cleaning savings for new rates included.

(b) Per 2008/9 budget and £1 million for Shared Campus approved Feb 2009 plus £160k for St Laurences refurbishment from 2011/12 less £100k saving 2012/13. Also £240k from Capital Fund from 2014/15 in lieu of Capital receipts.

(c) Assumes Inverclyde Academy, Newark Primary, Shared Campus and St Laurences refurbishment are Prudentially funded. Uses a pool fund rate of 4.5% from 2011/12.

(d) Assumes 30 year write off period of £9.474 million at 4.5% for resultant investment.

(e) Based on Actual Unitary Charge at Jan 2011 RPI of £8,842 million plus £200k contingency.

(f) Base at Jan 2011 RPI. Assumes 2.7% annual inflation (4% RPI discounted by factor of 1.5)

(g) After 2026/27 one-off costs cease.

(h) Increased Revenue Repairs.

(i) 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.

Finance Strategy
Leisure Strategy

Leisure Strategy - Financial Implications

| | 2009/10 £'000 | 2010/11 £'000 | 2011/12 £'000 | 2012/13 £'000 | 2013/14 £'000 | 2014/15 £'000 | Total £'000 |
|---------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|----------------|
| Capital | | | | | | | |
| Ravenscraig Stadium | 104 | 28 | 1,400 | 216 | 0 | 0 | 1,748 |
| Parklea Pavillion & Stadium | 278 | 1,220 | 2,279 | 1,681 | 100 | 0 | 5,558 |
| Rankin Park | 110 | 158 | 170 | 1,200 | 2,350 | 0 | 3,988 |
| Nelson St Sports Centre Refurbishment | 0 | 0 | 50 | 450 | 100 | 0 | 600 |
| South West Library Refurbishment | 0 | 0 | 62 | 238 | 15 | 0 | 315 |
| Wellington Community Facility | 0 | 0 | 50 | 600 | 50 | 0 | 700 |
| Gourock Park Amphitheatre & DDA Works | 217 | 99 | 7 | 0 | 0 | 0 | 323 |
| Broomhill/George Road Pitches | 960 | 50 | 0 | 0 | 0 | 0 | 1,010 |
| Broomhill Park | 0 | 187 | 14 | 0 | 0 | 0 | 201 |
| Gourock Swimming Pool | 37 | 137 | 1,449 | 170 | 0 | 0 | 1,793 |
| Birkmyre Drainage | 0 | 0 | 0 | 130 | 10 | 0 | 140 |
| Indoor Bowling Refurbishment | 0 | 0 | 138 | 14 | 0 | 0 | 152 |
| Waterfront Ice Rink | 0 | 0 | 0 | 100 | 0 | 0 | 100 |
| Unallocated Balance | 0 | 0 | 0 | 206 | 0 | 0 | 206 |
| Total | 1,706 | 1,879 | 5,619 | 5,005 | 2,625 | 0 | 16,834 |

Notes

- a Allowance in overall Finance Strategy for up to £200k of increased revenue costs from 2012/13.
 b Leisure Strategy partly funded from external contributions, specifically:
 Sports Scotland Grant, £1m, 2011/12 - 2013/14
 Inverclyde Leisure Contribution, £2.25m, 2012/13

Finance Strategy
General Fund "Free" Reserves
2011/15 Balance Projection

| | <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> |
|--------------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| 1/ Starting Balance | 7,169 | 6,140 | 9,547 | 9,547 |
| 2/ Budgeted Contribution to Reserves | 1466 | 0 | 0 | 0 |
| 3/ Planned Use of Reserves (Note 2) | (5,518) | 0 | 0 | 0 |
| 4/ Write Back to Reserves (Note 3) | 0 | 1,000 | 0 | 0 |
| 5/ Projected Surplus(Deficit) | 2291 | 1200 | 0 | 0 |
| 6/ Workstream Over-recovery | 732 | 1207 | 0 | 0 |
| | <u>6,140</u> | <u>9,547</u> | <u>9,547</u> | <u>9,547</u> |

Notes:

- 1/ RSG/NDR/Council Tax now £210 million. Recommended minimum level of reserves is 2% / £4.2 million.
- 2/ Consists of £4.386 million allocated in February 2011 as part of budget plus a further £1.132 million approved by Policy & Resources in September 2011.
- 3/ Represents a £1.0 million write back from SEMP accumulated balance per latest approved SEMP Financial Model.
- 4/ Decisions on utilisation of any "free" reserves to be taken as part of the 2012/13 budget.

A Puckrin
09/11/11

Finance Strategy
Capital Fund

Appendix 8

| | 2010/11 £'000 | 2011/12 £'000 | 2012/13 £'000 | 2013/14 £'000 | 2014/15 £'000 | 2015/16 £'000 | 2016/17 £'000 | 2017/18 £'000 |
|-----------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Balance B/fwd | (1,751) | (1,723) | (1,740) | (2,957) | (1,342) | (2,705) | (4,629) | (4,061) |
| Additions (Estimate) | (2,693) | | (1,200) | (250) | (3,475) | (2,531) | | |
| Interest (Estimate) | (10) | (17) | (35) | (35) | (28) | (33) | (72) | (60) |
| Principal Repayments | 0 | 0 | 0 | 400 | 640 | 640 | 640 | 240 c |
| Other Payments | 2,731 | 0 | 0 | 1,500 | 1,500 | 0 | | |
| Balance at Year End | (1,723) | (1,740) | (2,957) | (1,342) | (2,705) | (4,629) | (4,061) | (3,881) |

Notes

- a Estimated Receipts:
 2010/11 Greenock High School site, £2.693m
 2012/13 SEMP Receipts, includes Barmoss Nursery, Ravenscraig, Highlanders & Kings Glen Primaries
 2013/14 SEMP Receipts, St Gabriels
 2014/15 SEMP Receipts, includes Lilybank & St Stephens High School
 2014/15 Kempock, £0.4m
 2015/16 SEMP Receipts, £1.8m, Greenock Academy
 2015/16 Recovery of ERDF Clawback, £0.731m
 b £400k per Depot AMP from 2013/14, £240k SEMP from 2014/15
 c From 2017/18 | Sports Scotland Grant, £1m, 2011/12 - 2013/14
 d Other Payments:
 2010/11 £2m payment to fund Loan Charges, subsequent saving in Loan Charges will fund Voluntary Severence Trawl Earmarked Reserve.
 2010/11 £0.731m payment to fund Loan Charges, subsequent saving in Loan Charges will fund potential ERDF Clawback, East India Harbour.
 2012/13-14/15 £3.0m payment to fund Loan Charges, subsequent saving in Loan Charges will fund Voluntary Severence Trawl Earmarked Reserve.

Finance Strategy
Repairs & Renewals Fund

| | 2010/11 £'000 | 2011/12 £'000 | 2012/13 £'000 | 2013/14 £'000 | 2014/15 £'000 | 2015/16 £'000 | 2016/17 £'000 | 2017/18 £'000 |
|-------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Balance B/fwd | (703) | (671) | (628) | (584) | (546) | (507) | (467) | (427) |
| Additions: | | | | | | | | |
| None - see note a | | | | | | | | |
| Maintenance Payments: | | | | | | | | |
| Greenock Cut | 0 | 14 | 14 | 14 | 14 | 14 | 14 | 14 |
| Gallaghers/Port Glasgow Development | 36 | 36 | 36 | 36 | 36 | 36 | 36 | 36 |
| Interest | | | | | | | | |
| Greenock Cut | (2) | (3) | (3) | (6) | (6) | (6) | (6) | (5) |
| Gallaghers/Port Glasgow Development | (2) | (4) | (3) | (6) | (5) | (4) | (4) | (3) |
| Balance: | | | | | | | | |
| Greenock Cut | (322) | (311) | (300) | (292) | (284) | (276) | (268) | (259) |
| Gallaghers/Port Glasgow Development | (349) | (317) | (284) | (254) | (223) | (191) | (159) | (126) |
| Balance at Year End | (671) | (628) | (584) | (546) | (507) | (467) | (427) | (385) |

Notes
a Stewart Milne are committed to pay the Council a £300,000 sum in respect of all estimated future costs relating to the provision of a footbridge at Inverkip Station. On receipt this will be added to the Repairs & Renewals Fund.

Appendix 10a

Finance Strategy
Asset Management Plan - Offices

| | 2010/11 £000's | 2011/12 £000's | 2012/13 £000's | 2013/14 £000's | 2014/15 £000's | 2015/16 £000's | 2016/17 £000's | 2017/18 £000's |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Earmarked Reserve Offices | 0 | 852 | 1,220 | 1,229 | 780 | 792 | 981 | 1,270 |
| Earmarked Reserve b/fwd | | | | | | | | |
| Additional Funding (Note d) | 1,000 | 800 | 800 | 800 | 800 | 800 | 800 | 800 |
| Available Savings/(Cost) Added (Note a) | 0 | (100) | (251) | (506) | 44 | 236 | 336 | 336 |
| Loan Charges (Note b) | (11) | (85) | (337) | (663) | (832) | (847) | (847) | (847) |
| Further One Off Costs (Note c) | (137) | (247) | (203) | (80) | 0 | 0 | 0 | 0 |
| Net Saving/(cost) for year | 852 | 368 | 9 | (449) | 12 | 189 | 289 | 289 |
| Earmarked Reserve c/fwd | 852 | 1,220 | 1,229 | 780 | 792 | 981 | 1,270 | 1,559 |

Notes

- a Net Revenue Savings & Costs Excluding Loan Charges
b Assumes an interest rate of 4.6%
c Further One Off costs relate to the temporary appointment of an Asset Manager as well as costs for various decants, demolitions and rental of storage area.
d £200k Workstream Savings applied against original £1m allocated funding from 2011/12.

Finance Strategy
Asset Management Plan - Depots

| | 2010/11 £000's | 2011/12 £000's | 2012/13 £000's | 2013/14 £000's | 2014/15 £000's | 2015/16 £000's | 2016/17 £000's | 2017/18 £000's |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Earmarked Reserve Offices | 0 | 155 | 306 | 530 | 639 | 483 | 394 | 332 |
| Earmarked Reserve b/fwd | | | | | | | | |
| Additional Funding (Note d) | 200 | 200 | 500 | 900 | 900 | 900 | 900 | 900 |
| Available Savings/(Cost) Added (Note a) | 0 | 0 | (7) | (26) | 14 | 124 | 124 | 124 |
| Loan Charges (Note b) | 0 | (10) | (215) | (763) | (1,070) | (1,113) | (1,086) | (1,086) |
| Further One Off Costs (Note c) | (45) | (39) | (54) | (2) | 0 | 0 | 0 | 0 |
| Net Saving/(cost) for year | 155 | 151 | 224 | 109 | (156) | (89) | (62) | (62) |
| Earmarked Reserve c/fwd | 155 | 306 | 530 | 639 | 483 | 394 | 332 | 270 |

Notes

- a Net Revenue Savings & Costs Excluding Loan Charges
b Assumes an interest rate of 4.6%
c Further One Off costs relate to the temporary appointment of an Asset Manager and increased rent at the Materials Recycling Facility.
d Additional funding made up of:
- | | | |
|--------------------------------------|-------|--|
| Contribution from Zero Waste Fund | £200k | From 2010/11 |
| Contribution from Revenue Budget | £300k | From 2012/13, original £500k allocation reduced by £200k Workstream Saving |
| Contribution from Capital Fund | £400k | From 2013/14 to 2016/17 |
| Additional Contribution from Revenue | £400k | From 2017/18, diversion of Riverside Inverclyde budget |