Inverclyde
council

AGENDA ITEM NO. 7

Report To:	**The Inverclyde Council**	**Date:**	**28 June 2012**
Report By:	**Chief Financial Officer**	**Report No:**	**FIN/45/12/AP/LM**
Contact Officer:	**Alan Puckrin**	**Contact No:**	**01475 712223**
Subject:	**Update of Financial Strategy 2012/2020**		

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 February 2012 Council budget, a review of all funding models included in the appendix and the latest information in respect of Strategic budgeting issues such as Welfare Reform plus Police & Fire Reform.

2.2 It can be seen from table 3 in paragraph 8.10 that the latest projection is that the Council is facing a revenue funding gap of £11.24 million for the period to 31 March 2015. This is a reduction of £8.44 million from the last review and is largely due to the £4.05 million surplus agreed as part of the 2012/13 budget plus a review of the allowance for pay and Joint Board inflation.

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 remaining funding gap which at this point in time is approximately £8.56 million.

2.4 It can be seen from table 4 in paragraph 8.12 that overall the Council has a funding shortfall of £2.26 million on its 3 year capital programme. This shortfall is in context of an investment of £129 million over the 3 year period and should give no cause for concern at this point in time.

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 contributions to other projects.

Appendix 5 School Estate Management Plan – This reflects the latest phasings and decisions.

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

Appendix 7 General Fund Reserves – This reflects the decisions taken as part of the budget and the provisional out-turn for 2011/12.

Appendix 8 Capital Fund – This reflects the last review of receipts which has both reduced values and delayed timing of receipts. An update on this position will be incorporated in the December 2012 Strategy.

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

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

2.6 Section 12 reflects the identified risks to the Financial Strategy and mitigating actions whilst Appendices 1 to 3 highlights the major short/medium/long term issues the Council needs to be aware of which could materially impact on the figures presented.

2.7 Overall the Financial Strategy confirms the significant challenges facing the Council in coming years and fully reflects the detailed announcements as part of the 3 year spending review and will form the basis for the Councils 2013/15 Revenue Budget.

3.0 RECOMMENDATIONS

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

Alan Puckrin
Chief Financial Officer

Financial Strategy

2012/13 – 2019/20

June 2012

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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 continued improvement in the delivery of major projects;**
- **there remains a focus on securing efficiencies across the organisation;**
- **a significant proportion of efficiencies secured are invested in improving service quality, delivering new infrastructure, enhancing service levels and upgrading existing assets;**
- **there is an increased level of understanding on behalf of the wider community with regard to the finances of the Council.**

The primary financial challenge facing the Council over the 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 two year budget process, firmly located within the context of the Financial Strategy with a new two year budget due to be agreed in February 2013 for the period 2013/15.

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 the period 2012/15 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 continues to develop links between the strategic planning and budgeting processes.

2.12 This will also allow services to plan ahead, taking into account the resources available and proactively identify opportunities to achieve efficiencies or secure alternative funding sources.

3.0 Financial Summary

3.1 On 9 February 2012 the Council confirmed the 2012/13 Revenue Budget.

3.2 The same meeting also approved the 2012/15 Capital Programme which took into account the reductions in Government Grant.

Table 2 – Short Term Summary – Approved Revenue and Capital Budgets as at June 2012.

	2012/13 £million
General Fund Revenue Budget	202.047
Financed by	
Government Grant (Including NDR)	(173.078)
Council Tax	(33.022)
Approved Contribution to General Reserve	(4.053)
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General Fund Reserves	
Projected Free Balance at Year End	4.200
Capital Programme (2012/13)	
Approved Spend	53.0
Financed by	
Government Grants	9.2
Capital Receipts	0.8
Other Grants/CFCR etc	4.3
Prudential Borrowing	35.7
Resources Carried Forward from prior year	9.5
Surplus Resources	6.5

4.0 National Context

UK Context

4.1 The Comprehensive Spending Review (CSR) 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

	2010/11	2011/12	2012/13	2013/14	2014/15	Overall Change	%
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	29.2	27.4	27.1	26.4	25.9	(3.3)	
Movement £billion		(1.8)	(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.

4.4 The Chancellor's 2012 Budget included a revision of the above figures by the Office of Budgetary Responsibility (OBR) on the basis that latest forecasts were worse than those made at the time of the CSR in 2010. This was due to a combination of higher price rises, poorer growth and hence lower tax revenues.

4.5 The impact of the above has meant the addition of 2 further years of austerity (2015/17) with further real term cuts to UK budgets of 3.8% which is a higher level of cuts than those currently being experienced.

The Scottish Government

4.6 The 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 available funding will be cut in real and cash terms for the period 2012/17.

4.7 The Scottish Government announced 3 year Local Government grant figures in December 2012 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.

4.8 The impact for Inverclyde Council was year on year cash reductions in Government Revenue grant of approximately £1.2 million (2012/13), £1.0 million (2013/14) and £1.1 million (2014/15).

4.9 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.

4.10 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. 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 Tax Incremental Financing (TIF) schemes and the national income sharing agreement, there remains a real risk the NDR income target will not be achieved.

4.11 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.

4.12 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 is currently being reviewed 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 currently under review.

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.

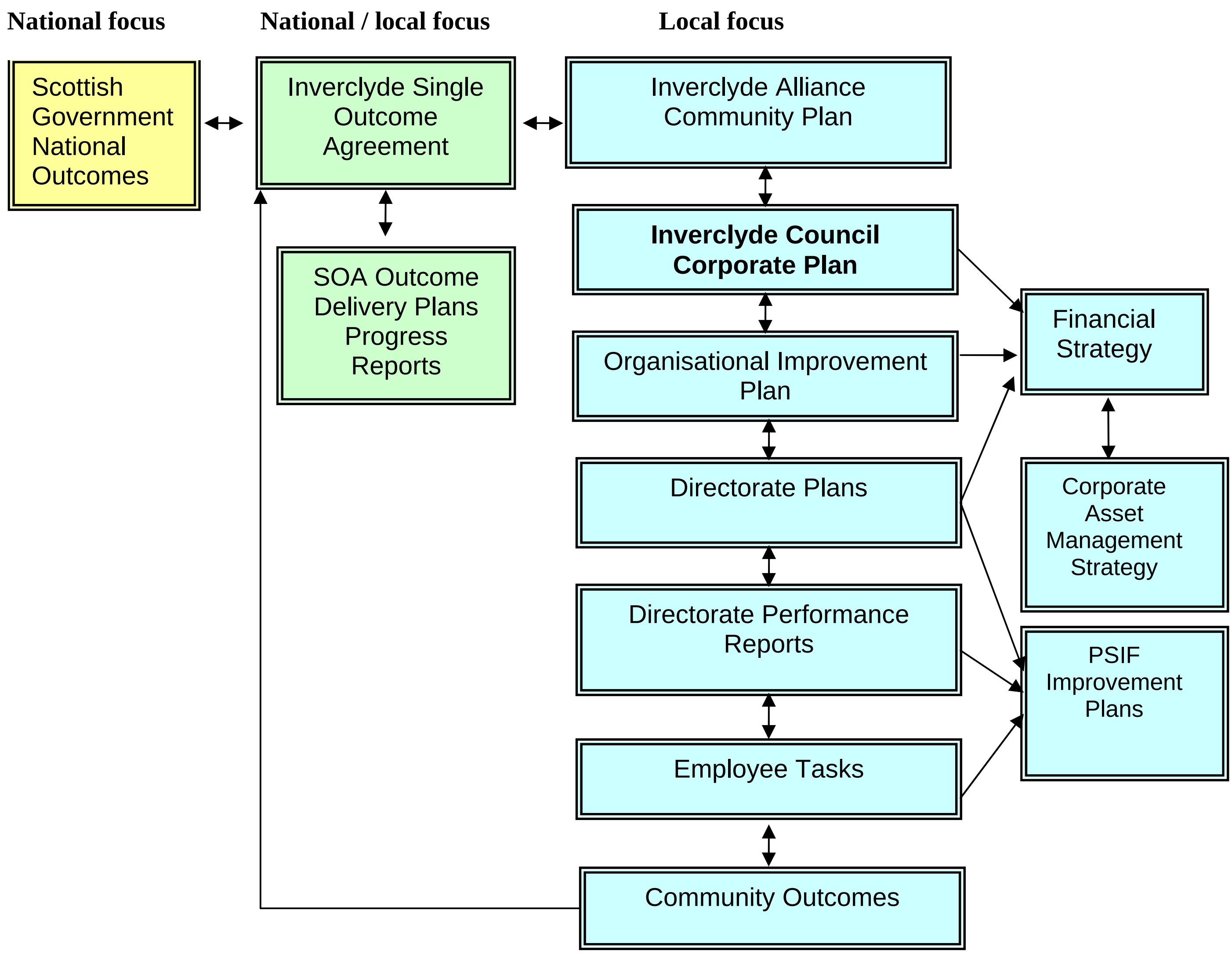
5.23 The Plan is structured around the following five key workstreams:

- 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.

Diagram 1: Strategic Planning and Performance Management Framework (Under Review)



Demographics and Population

5.26 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.

5.27 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.

5.28 In 2011 the mid year population estimate for Inverclyde was 79,220, a decrease of 0.7% from 79,770 in 2010. In Inverclyde 17.5% of the population are aged 16 to 29 years. This is smaller than Scotland where 18.7% are aged 16 to 29 years. Pesrons aged 60 and over make up the 25.1% of Inverclyde. This is larger than Scotland where 23.3% are aged 60 and over.

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

5.30 The most recent population projections (based on 2010 data) estimate that Inverclyde's population will drop to 66,488 by 2035, a decrease of 16.7% compared to the population in 2010, the largest projected rate of depopulation of any Council are in Scotland. In comparison, the population of Scotland as a whole is expected to increase by 10.2% between 2010 and 2035.

5.31 Over the 25 year period the age group that is projected to increase the most in size in Inverclyde is the 75+ age group. This is the same for Scotland as a whole.

5.32 The population aged under 16 in Inverclyde is projected to decline by 27% over the 25 year period. The under 16 population of Scotland as a whole is expected to increase slightly. The working age population is expected to decrease by 23.5% by 2035.

5.33 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 and the fifth highest concentration of income deprivation.

5.34 Public service delivery is particularly challenging in the context of deprivation and depopulation which adds to the uniqueness of Inverclyde as an area.

5.35 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.

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

- Of the 11760 working age benefit claimants in Inverclyde 6240 (12.1% of the working age population) are claiming Employment Support Allowance and Incapacity Benefits.
- 5% (2570) of working age benefit claimants are claiming Job Seekers Allowance. Of this, a higher proportion of 18 – 24 year olds (9.8%) are claiming than 25 – 49 year olds (5.3%) or 50 – 64 year olds (2.4%).
- Approximately 19.8% of the population of Inverclyde are working age (16-64 yrs) out-of-work benefit claimants.
- Approximately 12.3% of working age adults in Inverclyde have no formal qualifications.
- Medium earnings for full time workers in 2011 in Inverclyde were £464.40 which has increased from the 2007 rate of £383 per week. This is still approximately 6% lower than those for Scotland as a whole, but the gap has decreased from 13%.

- Working age people account for 64.5% of all people in Inverclyde. This is 1.2% lower than for Scotland as a whole.

5.37 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.

5.38 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.

5.39 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

5.40 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.

5.41 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.

5.42 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.

5.43 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.

5.44 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 later in 2012.

5.45 *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 has made contributions in kind by transferring specific assets to the Urban Regeneration Company which will count towards the £24 million contribution and a further £3.1 million financial support to specific major Regeneration projects led by Riverside Inverclyde.

Recent announcements by the Scottish Government make it highly unlikely the Councils partners (Scottish Government/Scottish Enterprise) will meet their envisaged contributions.

5.46 *River Clyde Homes*

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

The transfer to River Clyde Homes 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 have impacted on progress against the original Business Plan.

5.47 *Inverclyde Leisure*

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

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

The Council's Community Facilities transferred to Inverclyde Leisure in April 2010 and discussions are ongoing regarding the transfer of some of the new Leisure Facilities to Inverclyde Leisure.

5.48 *Inverclyde Community Health Care Partnership (CHCP)*

The Council approved the move towards the establishment of an integrated Community Health and Care Partnership as part of the Management Restructure report in November 2009 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.

Proposals for greater integration of Health and Social Care are currently issued for consultation by the Government.

6.0 Key Organisational Issues

6.1 The Council has 2 specific Executive Implementation Officer Groups both of which are chaired by the Corporate Director, Environment, Regeneration & Resources. Both these groups currently report to the Transformation Board which is chaired by the Chief Executive and is attended by Senior Officers plus the Trade Unions.

6.2 The first Executive Implementation Group is the Modernisation EIG. This group coordinates the main Modernisation projects including Mobile/Home Working, Electronic Document Management, Customer Services Development and Back Office Shared Services Review. The EIG meets bi-monthly.

6.3 The second EIG is the Asset Management Planning EIG which again meets bi-monthly. In addition to reviewing progress in respect of the Office Rationalisation AMP and Depot AMP, it reviews overall progress in respect of the School Estate Management Plan and Capital Programme. This group is supported by the Capital and Asset Management Sub Group which is chaired by the Head of Property Assets and Facilities Management.

6.4 A review of the Councils approach to Corporate improvement is currently ongoing and proposals in respect of the above 2 EIG's plus the important area of Corporate Performance Management will be brought before Members by the Chief Executive in coming months.

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 it's 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 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 3–8years) or long-term (over 8 years).

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

8.3 The Council is due to receive Revenue Grant/Non-Domestic Rates Income of £173.078 m in 2012/13.

8.4 When the Council's own projection of Council Tax Income based on 96.7% collection rate is added (£33.022m) then the income for the Council in 2012/13 is projected to be £206.100 m.

8.5 The Financial Strategy runs up to 2019/20 and beyond in terms of identifying potential issues, but the revenue forecasts are limited to the period which can be reasonably forecast, 2012/13-2014/15.

8.6 Some assumptions have had to be made for 2012/13 - 2014/15 given the lack of detailed information for future years on pay awards etc. 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 2012/15.

8.8 The Council has agreed a Reserve Strategy which requires a minimum unallocated General Fund Reserve of 2% of turnover. This equates to £4.2 million. The overall position of the Reserves shown in Appendix 7 and has been updated to reflect the latest projections.

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

Table 3

Finance Strategy - June 2012
Post 2012/13 Budget Approval

	2012/13 £m	2013/14 £m	2014/15 £m
Base Budget for Prior Year	206.388	206.100	204.895
UPLIFTS FROM PRIOR YEAR			
Inflation (Note1)			
Pay Inflation (2.0% from 2013/14)	-	2.130	2.130
Other Inflation	1.600	1.960	1.960
Income	-0.153	-0.158	-0.158
	1.447	3.932	3.932
Council Priorities (Note 2)			
School Estate- Unitary Charge Grant	0.692	-	-
Capital Programme Impact	0.200	0.100	0.100
	0.892	0.100	0.100
Pressures (Note 3)			
Corporate Pressures (movement)	0.634	2.700	2.000
Loan Charges	-0.390	0.200	0.200
	0.244	2.900	2.200
Savings/Adjustments Applied (Feb 2011/2012)	-6.924		
Adjustments Applied		-0.149	
Approved Budget (Note 4)	202.047	212.883	211.127
Funded by: (Note 5)			
Revenue Grant/NDR Income	173.078	171.873	170.801
Council Tax Income	33.022	33.022	33.022
	206.100	204.895	203.823
Annual Budget (Surplus/Deficit)	-4.053	7.988	7.304
Cumulative Savings Needed	-4.053	3.935	11.239
Workstream Savings 2013/14 & On (Note 6)	0.000	-2.622	-0.05

Finance Strategy Notes – June 2012

Note 1 Inflation

a) Pay

	2012/13	2013/14		2014/15	
Teaching	0	730	2.00%	730	2.00%
Others	0	1400	2.00%	1400	2.00%
	0	2130		2130	

Note : Assumes that this will include any costs relating to the Living Wage.

b) Other Inflation

Utlities	400	400	400
Landfill Tax	260	260	260
Contracts/Joint Boards.	940	1300	1300
	1600	1960	1960

c) Income - based on 2012/13 is estimated to be £158k (2.5%)

Finance Strategy Notes – June 2012

Note 2 Council Priorities

a) School Estate - 2012/13 is the final year of increased Government Grant to fund the SEMP.

b) Capital Programme Impact – Reflects a General Allowance for increased running costs arising from the Council's Capital Programme.

Note 3 Pressures

a) Corporate Pressures – 2012/13 figures reflect approvals from December 2010. 2013/15 are a General Allowance with an extra £0.7 million in 2013/14 to reflect the Council's contribution to the Government's 10% cut in Council Tax Benefit.

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) Reflects 2012/15 Finance Settlement included in Scottish Government Circular 3/2012 and 1/2012.

Note 6 Workstreams

a) This figure reflects Workstream savings not built into approved annual budgets and reflects latest review in May 2012.

   Cumulative savings required over 2013/15 are £8.56million on the assumption that all Workstream savings over that period are fully achieved.

8.11 Other Short Term Revenue Issues

Now that the Government has announced the Council's Revenue Grant for 2012/15 it is strongly recommended that the Council sets a two year Revenue Budget covering 2013/15 in February 2013. This will help the Council manage the undoubtedly difficult issues which have to be addressed.

Equal Pay costs are a significant issue over coming months/years as the large number of outstanding claims are settled. The Council reviewed its Equal Pay provision as part of the 2011/12 Annual Accounts exercise.

Welfare reform will have other financial impacts over the 2013/15 budget period over and above those build into Table 3. These matters will be reported to Members as detail emerges.

8.12 Medium to Long Term Revenue Issues

Looking beyond 2014/15 becomes increasingly difficult with uncertainty around 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.**

- **Health/Social Care integration will be implemented over this period and whilst debate is on going regarding delivery models and governance the fundamental fact that there is not enough money to meet increasing demand remains.**

- **Pension costs influenced by the impact of the changes to LGPS and Teachers Pensions, plus costs associated with the Council resizing its workforce in order to balance its budgets over the period 2012/15.**

- **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.

8.13 Short to Medium Term Capital Projections

The Council agreed a 3 year Capital Programme 2012/14 in February 2012.

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 2012/15 funding announcement confirmed an overall reduction in Government Funding and this will require a detailed review of the Capital Programme as part of the next budget.

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.

8.14 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 60% of projected capital grant for at least the next 15 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.

Table 4 – Capital Programme 2012/2015 *(Short Term Capital Projections)*

Table 4

Expenditure/Projects by Committee	2012/13 £m	2013/14 £m	2014/15 £m	Totals £m
Policy & Resources	1.45	1.70	0.90	4.05
Regeneration	9.91	24.31	11.70	45.92
Safe & Sustainable Communities	6.48	3.55	3.51	13.54
CHCP	0.88	0.14	-	1.02
Education & Lifelong Learning (Incl SEMP)	34.24	28.94	3.34	66.52
	52.96	58.64	19.45	131.05
Financed By				
Government Grant	9.21	7.39	8.16	24.76
Sales/Contributions	0.79	0.90	3.87	5.56
Other Income	0.41	0.27	0.13	0.81
Revenue	3.87	5.09	1.38	10.34
Prudential Borrowing	35.65	34.20	7.99	88.84
Resources Carried Forward	9.48			9.48
	59.41	47.85	21.53	128.79
Shortfall in resources				2.26

Notes

1. As per June 2012 P & R Committee.

2. Deficit of £2.26 million at end of 2014/15 is made up of £0.6 million planned cashflow deficit in SEMP plus £1.66 million shortfall in resources in the balance of the Capital Programme.

3. Reflects former Committee Structure. Projects to be allocated over new structure for next Financial Strategy update.

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 31/3/12.

Table 5 – Council's Debt and Investment Position – 31/3/12

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

		Principal		**Average Rate**
		£000	£000	
Fixed rate funding	PWLB	91,697		
	Market	51,000	142,697	4.29%
Variable rate funding	PWLB	0		
	Market	51,943	51,943	4.79%
TOTAL DEBT			**194,640**	**4.43%**
TOTAL INVESTMENTS			**59,204**	**2.02%**

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 elevance 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) <u>General Fund Core Reserves</u> – 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. See Appendix 7.

<u>Balance 31/3/12 = £8.9 million</u>

(b) <u>Insurance Fund</u> – The Insurance Fund balance is required to meet Insurance Liabilities not covered by external Insurance Policies. The balance on the Fund is reviewed every 3-5 years by an independent actuary who comments upon not only the balance of the Fund but also the on-going internal contributions to the Fund.

<u>Balance 31/3/12 = £4.9 million</u>

(c) <u>Capital Fund</u> – The Capital Fund is a Fund into which Capital Receipt income can be paid and used to fund either capital investment or repay the Principal element of debt repayments. The balance and planned usage of the Capital Fund will be incorporated into the Financial Strategy. See Appendix 8.

<u>Balance 31/3/12 = £1.7 million</u>

(d) <u>Repairs & Renewals Fund</u> – The Repairs & Renewals Fund consists of sums received from external parties or allocated directly from Council resources which are thereafter released on a phased basis to maintain specific assets. Use of specific allocations to the Fund is agreed at the time contributions are made and the overall position will be reported as part of the Financial Strategy. See Appendix 9.

<u>Balance 31/3/12 = £0.6 million</u>

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
The Financial Strategy does not reflect in financial terms the objectives set out in other strategic plans of the Council.	The Financial Strategy provides a high level overview of the various strategic plans the Council has signed up to – it acknowledges that there will inevitably be financial implications arising from the SOA and Community Plan but it is not possible to quantify all of these at present. The Financial Strategy will be updated as further information becomes available regarding these strategic plans.
The directorate planning process will identify a range of additional budget pressures over and above those currently considered in this Financial Strategy.	The Directorate Planning Guidance identifies that 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.
Forecasts within the Financial Strategy are not accurately determined or reviewed on a regular basis.	The Budget and Financial Strategy set out the expected levels of expenditure and income for the future. The forecasts are arrived at through careful consideration of historic trends and actual expenditure levels and any factors which may have an impact in the future. 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. 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.

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

Appendix 1

Short-Term Issues (2012/14)

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.

Service	Issues Identified	Issues & Potential Impacts	Action Taken	Responsible Officer	Timescale to report back
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 2011/12 accounts revised and being progressed.	Alasdair Moore	September 2012
	Living Wage	Commitment made by new Administration to implement. Financial impacts to be calculated.	Report to members as part of 2013/15 budget.	Alasdair Moore	February 2013
	Police & Fire Reform	Budget adjustments implemented from April 2013 are uncertain and may have an adverse impact on Council budgets.	Receive updates from Cosla/Government and factor into 2013/15 budget,	Alan Puckrin	February 2013
	Council Tax Benefit Replacement	Council will have to fund shortfall in funding and implement new scheme. Details not yet received on either aspect.	Continue to disseminate detailed briefings and factor into 2013/15 budget.	Alan Puckrin	February 2013
	Auto enrolling of Pension Fund Membership	Will increase employers contributions to Pension Fund	Await developments and factor estimate into 2014/15 revenue budget.	Alasdair Moore/Alan Puckrin	February 2014

Appendix 2

Medium-Term Issues (2014/17)

Service	Issues Identified	Issues & Potential Impacts	Action to be Taken	Responsible Officer	Timescale to report back
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	Ongoing
	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/Brian Moore	Ongoing
	Reduction in Public Sector Funding	Government Funding over 2015/17 likely to be further reduced as recovery is delayed.	Await Scottish Government 2015/17 Figures and factor into revised Financial Strategy.	Alan Puckrin	December 2014
	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 February 2013
	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
	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
	DWP Reform Agenda	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	From June 2012

Service	Issues Identified	Issues & Potential Impacts	Action to be Taken	Responsible Officer	Timescale to report back
Social Care	Health/Social Care Integration	Likely implementation for, as a minimum, Elderly Care. Impacts on Governance/Funding will be significant	Monitor developments, report to relevant Committees and CMT. Factor into budgets at appropriate time.	Brian Moore/Alan Puckrin	Ongoing
	Ongoing Demographic demand pressures across many Social Care areas and on going drive towards Self-Directed Support and Independent Living	Continuing increased demand will put considerable pressure on "flat cash" budgets.	Ongoing review of Service Delivery models allied to clear prioritisation/charging policies	Brian Moore	Ongoing
	DWP Reform Agenda	Reductions in benefits paid will put pressure on Council Services and budgets.	Close working needed with other Councils and Services to monitor developments.	Brian Moore	Ongoing
Regeneration & Environment	Waste Strategy	Significant cost increases expected in treating residual waste from 2016/17.	Monitor and factor into 2015/17 budget.	Aubrey Fawcett / Ian Moffat	February 2015
	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	February 2013
	Asset Management Plan	Limited funding available for Roads AMP delivery.	Report due to Committee in 2012 to incorporate funding proposals into 2013/15 budget.	Aubrey Fawcett/Ian Moffat	September 2012
Education & Communities	School Estate Management Plan	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. Fundamental review needed by February 2014.	Albert Henderson/ Alan Puckrin / Andrew Gerrard	February 2014

Appendix 3

Long-Term Issues – Post 2017

Service	Issues Identified	Issues & Potential Impacts	Action to be Taken	Responsible Officer	Timescale to report back
Corporate	Depopulation and Change of Demographics	Continued loss of grant income, over provision of infrastructure. Viability of area under threat.	Key policy priority identified in SOA and Community Plan.	CMT	Ongoing
Social Care	Increase in number of Elderly and Adults with Learning Difficulties and resource implications of policy direction of Independent Living and Self Directed Support.	Significant costs associated with reshaping, expanding delivery models.	Develop as part of CHCP remit.	Brian Moore	Ongoing
Regeneration & Environment	Global Warming leading to rising sea levels	Significant impact on Council area with increased flooding and expenditure on sea defences.	Flood Plan to be developed to include this issue.	Aubrey Fawcett	tbc
	Scheduled end of Riverside Inverclyde	Review Council's annual contribution and future delivery of Economic Regeneration function.	£0.6 million already earmarked for Depot and Gourock one way system from 2016/17.	Aubrey Fawcett	2015
	Closure of major local employer	Could further increase rate of depopulation and would significantly impact of areas regeneration efforts.	Regular review of the Economic Strategy and how it will be delivered.	Aubrey Fawcett	As required
Education & Communities	Waterfront Leisure Complex	By 2017 the Waterfront Leisure Complex will be 20 years old and significant investment will be required.	Prepare options for Members with sufficient lead in time.	Albert Henderson / Andrew Gerrard	2015

Inverclyde council

Current Profile

Appendix 4

Riverside Inverclyde
Funding Profile
2006/7 → 2016/17

Year	Revenue £000	Capital £000	Other £000	Total £000
To 31/03/08	1,772	700	1,878	4,350
2008/9	1,840	85	1,112	3,037
2009/10	1,513	-	-	1,513
2010/11	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**

In addition to the £24 million the Council will provide an additional £3.1 million towards the two major projects at Gourock (£2.6 million) and Port Glasgow Town Centre (£0.5 million) over 2012/15.

AP/LA
12/06/2012

Jun-12

Updated Version

Inverclyde council

School Estate - Earmarked Reserves

Appendix 5

	2009/10 £000	2010/11 £000	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000	2028/29 £000	2029/30 £000
Earmarked Reserve b/fwd	1,786	3,994	1,964	1,609	2,555	1,748	1,835	1,886	1,994	2,053	2,006	1,991	1,918	1,824	1,644	1,675	1,528	1,385	1,542	1,804	2,067
Available Savings added (a)	1,880	2,493	3,301	4,167	4,450	4,631	4,724	4,724	4,724	4,724	4,724	4,724	4,789	4,789	4,789	4,789	4,789	4,789	4,789	4,789	4,789
Extra Financing (b)	3,250	3,250	3,260	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	-2,036	-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	-8,143	-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	-238	-490	-753	-1,025	-1,309	-1,604	-1,910	-2,229	-2,561	-2,906	-3,265	-3,638	-4,026	-4,430	-4,850	-5,286	-5,740	-6,212
Unitary Charge Funding from Inflation Contingency	0	0	60	238	490	753	1,025	1,309	1,604	1,910	2,229	2,561	2,906	3,265	3,638	4,026	4,430	4,850	5,286	5,740	6,212
One Off Costs (g)	-204	-475	-1,083	-283	-993	-224	-323	-269	-305	-397	-352	-396	-468	-537	-314	-476	-456	-96	0	0	0
Extra Revenue Repairs (h)	-273	-344	-48	-474	-366	-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	-76	-39	-16	0	0	0	0	0	0	-2	0	0	0	-45	-20	0	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	-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	1,609	2,555	1,748	1,835	1,886	1,994	2,053	2,006	1,991	1,918	1,824	1,644	1,675	1,528	1,385	1,542	1,804	2,067	2,313

(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 and £30k removal for PPP Refuse Collection costs.
(b) Per 2008/9 budget and £1 million for Shared Campus approved Feb 2009 plus £160k for St Laurences refurbishment and compensating loan charges for receipts transferred to the Capital Fund. Saving of £100k from 2012/13 & further £340k from 2014/15.
(c) Inverclyde Academy , Newark Primary,Shared Campus and St Laurences refurbishment are Prudentially funded.
(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 2012 RPI. Assumes 2.7% annual inflation (4% RPI discounted by factor of 1.5)
(g) After 2026/27 one-off costs cease. Includes £27k for IT Technician in 2013/14.
(h) Increased Revenue Repairs. £500k added for Primary School Repairs - £250k in 2012/13 and £250k in 2013/14.
(i) Assumes 2.0% 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.
(j) £1.0 million write back to General Reserves advanced from 2012/13 to 2011/12.

Appendix 6

Finance Strategy

Leisure Strategy

Leisure Strategy - Financial Implications

Capital	2009/10 £'000	2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000	Total £'000
Ravenscraig Stadium	104	28	1,357	180	87	0	1,756
Parklea Pavillion & Stadium	278	1,220	3,239	628	100	0	5,465
Rankin Park Sports Centre	110	158	94	597	729	2,300	3,988
Nelson St Sports Centre Refurbishment	0	0	42	508	50	0	600
South West Library Refurbishment	0	0	138	162	15	0	315
Wellington Communtiy Facility	0	0	0	50	600	50	700
Gourock Park Amphitheatre & DDA Works	217	99	3	4	0	0	323
Broomhill/George Road Pitches	960	50	2	0	0	0	1,012
Broomhill Park	0	187	10	2	0	0	199
Gourock Swimming Pool	37	137	1,070	656	59	0	1,959
Birkmyre Drainage	0	0	0	130	10	0	140
Indoor Bowling Refurbishment	0	0	142	10	0	0	152
Waterfront Ice Rink	0	0	0	0	100	0	100
Unallocated Balance	0	0	0	0	125	0	125
Total	1,706	1,879	6,097	2,927	1,875	2,350	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, (£0.5m, 2011/12, £0.5m, 2013/14)
   Inverclyde Leisure Contribution, £2.25m, 2014/15

Inverclyde council

Appendix 7

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

		2012/13 £000	2013/14 £000	2014/15 £000
1/	Starting Balance	8,897	4,200	4,200
2/	Budgeted Contribution to Reserves	4553	0	0
3/	Planned Use of Reserves (Note 2)	(12,450)	0	0
4/	Write Back to Reserves (Note 3)	3,200	0	0
5/	Projected Surplus(Deficit)	0	0	0
		4,200	4,200	4,200

Notes:

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

2/ Represents decisions taken as part of the 2012/13 Budget.

3/ Represents a £3.2 million write back from Landfill Tax Penalties Reserve. To be formally confirmed by the Government.

A Puckrin
12/6/12

Appendix 8

Finance Strategy
Capital Fund

		2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Balance B/fwd		(1,723)	(1,733)	(1,750)	(1,385)	(1,173)	(2,082)	(4,015)	(3,855)	(3,692)
Additions (Estimate)	a	0	0	0	(400)	(4,525)	(2,531)	0	0	0
Interest (Estimate)		(10)	(17)	(35)	(28)	(24)	(42)	(80)	(77)	(74)
Principal Repayments	b	0	0	400	640	640	640	240 c	240	240
Other Payments	d	0	0	0	0	3,000	0	0	0	0
Balance at Year End		**(1,733)**	**(1,750)**	**(1,385)**	**(1,173)**	**(2,082)**	**(4,015)**	**(3,855)**	**(3,692)**	**(3,526)**

Notes

a Estimated Receipts:
- 2014/15 Kempock, £0.4m
- 2015/16 SEMP Receipts, includes Barmoss Nursery, Ravenscraig, Highlanders, Kings Glen, Lilybank & St Gabrielas Primaries & St Stephens High School
- 2016/17 SEMP Receipts, Greenock Academy
- 2016/17 Recovery of Scottish Enterprise Clawback, £0.731m

b £400k per Depot AMP from 2013/14, £240k SEMPfrom 2014/15

c From 2017/18 it was agreed that the £400k for Depot would be met from Riverside Inverclyde funding.

d Other Payments:
- 2015/16 £3.0m payment to fund Loan Charges, subsequent saving in Loan Charges will fund Voluntary Severence Trawl Earmarked Reserve.

Fundamental review of value/timing of receipts to take place over the summer of 2012.

Appendix 9

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)	(626)	(582)	(544)	(505)	(465)	(425)
Additions:								
None - see note a								
Maintenance Payments:								
Greenock Cut	0	13	14	14	14	14	14	14
Gallaghers/Port Glasgow Development	36	36	36	36	36	36	36	36
Interest								
Greenock Cut	(2)	(2)	(3)	(6)	(6)	(6)	(6)	(5)
Gallaghers/Port Glasgow Development	(2)	(2)	(3)	(6)	(5)	(4)	(4)	(3)
Balance:								
Greenock Cut	(322)	(311)	(300)	(292)	(284)	(276)	(268)	(259)
Gallaghers/Port Glasgow Development	(349)	(315)	(282)	(252)	(221)	(189)	(157)	(124)
Balance at Year End	**(671)**	**(626)**	**(582)**	**(544)**	**(505)**	**(465)**	**(425)**	**(383)**

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 footbride at Inverkip Station. On receipt this will be added to the Repairs & Renewals Fund.

Appendix 10a

Finance Strategy
Asset Management Plan - Offices

Earmarked Reserve 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 b/fwd	0	852	1,149	1,247	960	1,000	1,182	1,464
Additional Funding (Note d)	1,000	815	800	800	800	800	800	800
Available Savings/(Cost) Added (Note a)	0	(110)	(259)	(514)	36	228	328	328
Loan Charges (Note b)	(11)	(64)	(200)	(468)	(796)	(846)	(846)	(846)
Further One Off Costs (Note c)	(137)	(344)	(243)	(105)	0	0	0	0
Net Saving/(cost) for year	852	297	98	(287)	40	182	282	282
Earmarked Reserve c/fwd	852	1,149	1,247	960	1,000	1,182	1,464	1,746

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 rental of storage area.
d £200k Workstream Savings applied against original £1m allocated funding from 2011/12.

Appendix 10b

Finance Strategy
Asset Management Plan - Depots

Earmarked Reserve 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 b/fwd	0	155	330	686	1,157	1,139	1,116	1,093
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	(6)	(73)	(401)	(932)	(1,047)	(1,047)	(1,047)
Further One Off Costs (Note c)	(45)	(19)	(64)	(2)	0	0	0	0
Net Saving/(cost) for year	155	175	356	471	(18)	(23)	(23)	(23)
Earmarked Reserve c/fwd	155	330	686	1,157	1,139	1,116	1,093	1,070

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 byt £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