
Report To:	The Inverclyde Council	Date:	1 December 2022
Report By:	Interim Director, Finance & Corporate Governance	Report No:	FIN/73/22/AP/22
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Subject:	2022/32 Financial Strategy - Update		

1.0 PURPOSE AND SUMMARY

1.1 For Decision For Information/Noting

1.2 The purpose of this report is to present the updated Financial Strategy to the Council for review and approval.

1.3 The report reflects the Office for Budget Responsibility's assessment of the impact of the Chancellor's Autumn Statement of 17 November. The key messages are ones of higher taxation and constrained public sector spending in the medium term in order to address the fiscal deficit and reverse the increases in inflation/interest rates.

1.4 All funding models and appendices have been updated and reviewed in line with the request of the June, 2022 Council. With the School Estate Management Plan (SEMP) model now at an end with the completion of Gourock Primary School, this is no longer included as a specific appendix and on-going costs are now reflected in core budgets.

1.5 After many years of low interest rates the recent increases will have a significant impact on the Loans Charges model contained in Appendix 9. These are outlined in more detail in the body of the report.

1.6 The Strategy clearly sets out the considerable financial challenges facing the Council in the short, medium and longer term. The first of these challenges being to approve a balanced 2023/24 Revenue Budget and 2023/26 Capital Programme by early March, 2023.

2.0 RECOMMENDATIONS

2.1 It is recommended that the Council approve the latest update to the Council's Financial Strategy and the continued significant impact of the global and UK economic position.

2.2 It is recommended that the Council note the mid-range estimated 2023/26 funding gap of £20.6 million set out in table 4a in the Financial Strategy.

2.3 It is recommended that the Council agree that the following are built into the 2023/25 Budget:
1. The £1million contribution to the 2022/25 Capital Programme from the Capital Fund is deferred until 2023/24.

2. £500,000 from the Insurance Fund is used to reduce service Insurance Fund contributions by £100,000/ year between 2023/24 and 2027/28.
3. That the recurring City Deal Funding Model contribution is reduced by £100,000/ year from 2023/24.
4. That a one off sum of £1.2million is earmarked to be added to the Loans Charge Funding Model in 2023/24 to keep the underlying position of the Funding Model in surplus.
5. That in relation to 4 above, the Internal Resources Income budget is increased by £300,000 from 2023/24 due to the medium term continued increase in interest rates, and that the projected time limited surplus Internal Resources Interest over 2023/26 totalling £4.6million is factored in to the consideration of the use of Reserves as part of the current Budget exercise.

Alan Puckrin
Interim Director, Finance & Corporate Governance

3.0 BACKGROUND AND CONTEXT

- 3.1 The latest six monthly review of the Financial Strategy takes into account the approved 2022/23 Budget, the Scottish Government's Resource Spending Review issued on 31 May and the impact of the current levels of inflation and interest rates. The report reflect the impact of the Chancellor's Autumn Statement of 17 November.
- 3.2 It can be seen from table 3 in paragraph 7.7 that the 2022/25 estimated funding gap is £16.2 million before any decision on whether to increase Council Tax over 2023/25. This table factors in the "flat cash" settlement for Local Government for the period 2022/26 announced by the Scottish Government as part of the Resource Spending Review.
- 3.3 Table 4a confirms that based on this latest information and the local assessment of certain figures by the Section 95 Officer, the mid-range scenario shows that the Council faces a net potential funding gap of £20.6 million over the 2023/26 period part of which relates to eliminating the use of Reserves to help balance the budget by 2025/26. In line with Best Practice, Tables 4b and 4c illustrate scenarios for the 2023/26 Revenue funding gap based on different assumptions around Government Grant, income, inflation and budget pressures. These Tables show potential funding shortfalls of £11.6 million to £28.0 million.
- 3.4 Table 5 in paragraph 7.12 shows that, overall the 2022/25 Capital Programme has a £2.7 million funding shortfall which is within the 5% over commitment limit set by the Council. As the Scottish Government has also confirmed a "flat cash" settlement for capital until 2026 at least, the Council will need to consider any investment on new projects very carefully and also review existing assets to ensure those remaining can be adequately maintained.
- 3.5 Greater clarity on the medium term financial position for the Council from both the UK and Scottish Governments is expected before Christmas and this will be reflected in Budget reports and the next update of the Financial Strategy.
- 3.6 All funding models and appendices have been updated and reviewed in line with the request of the June, 2022 Council. With the School Estate Management Plan (SEMP) model now at an end with the completion of Gourock Primary School, this is no longer included as a specific appendix and on-going costs are now reflected in core budgets.

4.0 PROPOSALS

- 4.1 The estimated 2023/26 funding gap shown in Table 4a has increased by £1.4million since the June update despite the approval of a further £2.2million of adjustments / savings and is due to increase in pay/non-pay inflation over 2022/24. The assumptions underpinning this estimate will be kept under close review. In respect of appendices 4-9, the proposals are as follows:
- 4.2 Appendix 4 - General Fund Reserves - It can be seen that the Free Reserve is projected to be £3.435million by 31 March, 2023 which is £0.565million less than the recommended minimum. It is expected that this matter will be addressed via a combination of further in year underspends and decisions regarding the use of reserves as part of the 2023/25 Budget.
- 4.3 Appendix 5 - Capital Fund - It was agreed as part of the 2022/23 Budget to allocate £1.0million from the Capital Fund to support Capital Programme. However, due to slippage in two large capital receipts it is now intended to delay this contribution to 2023/24.

- 4.4 Appendix 6 - Repairs & Renewal Fund - This Fund contains a number of long term funding commitments and will reduce overtime. Following an earlier decision to reduce a funding source for the replacement/refurbishment of all weather football parks it is expected that in the medium term funding demands on this aspect of the Fund will increase.
- 4.5 Appendix 7 - Insurance Fund - The most recent annual position was reported to Policy & Resources Committee in November. The Fund balance was assessed by an independent actuary in 2022 and it is proposed to reduce the Fund balance by £500,000 by reducing service contributions to the Fund by £100,000 over the 5 year period 2023/24-2027/28. It can be seen that the Fund balance is projected to reduce considerably over the next 10 years.
- 4.6 Appendix 8 - City Deal - Following the latest review of project costs/interest rates it is proposed to reduce the recurring allocation to this model by £100,000 to £220,000 from 2023/24.
- 4.7 Appendix 9 - Loans Charges - The recent increase in internal borrowing interest rates and the transfer of the School Estate Loans Charges into this model have resulted in a time limited deficit of around £1.0million. In order to address this it is proposed to allocate £1.2million from Reserves as part of the 2023/25 Budget as a one off sum to keep the underlying Funding Model in surplus.

The recent significant increases in interest rates have resulted in higher investment returns (thus benefiting loans charges) and higher internal resources interest which is a cost to the Loans Charges Model. The net impact on loans charges is outlined above but there is a projected recurring benefit to the Council of £300,000 per year in the medium term and a one-off time limited benefit over 2022/26 estimated to be £4.6million.

Members need to appreciate that these figures are best estimates and could change quickly in the event of global/UK events and decisions. This underscores the benefit of 6 monthly reviews of the Financial Strategy and the regular reports to Members on Treasury Management matters.

5.0 IMPLICATIONS

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

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

5.2 Finance

One off Costs

Cost Centre	Budget Heading	Budget Years	Proposed Spend this Report	Virement From	Other Comments
Loans Charges	Other payments	2023/24	£1.2million		Funded from the review of Reserves as part of the 2023/25 Budget

General Fund Reserves	Unallocated Reserves	Over 2022/26	(£4.6million)		Time limited estimate of surplus Internal Resources Income due to current balances and interest rates
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Annually Recurring Costs/ (Savings)

Cost Centre	Budget Heading	With Effect from	Annual Net Impact	Virement From (If Applicable)	Other Comments
Insurance Fund contributions	Various	2023/24	(£100,000)		Payment reduction over 2023/28
City Deal	Other payments	2023/24	(£100,000)		
Internal Resources Interest	Income	2023/24	(£300,000)		Increases budget from £200k- £500k from 2023/24

5.3 Legal/Risk

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

5.4 Human Resources

There are no HR implications.

5.5 Strategic

The Financial Strategy is a key strategic document and forms part of the Council's Performance Management Framework feeding into the development of Corporate Directorate Management Plans.

6.0 CONSULTATION

6.1 The contents of the Strategy and associated appendices have been endorsed by the Corporate Management Team.

7.0 BACKGROUND PAPERS

7.1 None.



Financial Strategy

2022/23 – 2031/32

December 2022

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1.1 Foreword

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

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

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

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

- **the Council has a comprehensive, sustainable, balanced budget;**
- **the Council reviews the level of Council Tax annually in the context of the Financial Strategy, to determine an appropriate level in the best interests of the people of Inverclyde;**
- **resources are allocated and deployed to facilitate delivery of the outcomes in the Corporate Plan/Local Outcome Improvement Plan and Corporate Directorate Improvement Plans;**
- **all key strategic decisions on the allocation and deployment of resources are made within the appropriate financial context;**
- **Members can take full account of the impact of decisions on the overall financial resources of the Council in the short, medium and long term;**
- **there is a high level of confidence in the financial management of the Council;**
- **the Council has flexibility to address new policy requirements, or significant changes to existing policies, within overall available financial resources;**
- **resources are invested effectively, efficiently and on a sustainable basis;**
- **there is continued improvement in the delivery of major projects;**
- **there remains a focus on securing efficiencies across the organisation;**
- **the Council continues to invest in improving service quality, delivering new infrastructure, enhancing service levels and upgrading existing assets;**
- **there is an increased level of understanding on behalf of the wider community with regard to the finances of the Council.**

The primary financial challenge facing the Council over the coming period, given the continued pressure on public sector budgets, will be to stay within the approved revenue budget and deliver a capital programme that continues to maintain the required level of investment in key infrastructure whilst contributing to the Net Carbon Zero targets and support the needs of the local community.

The recent Scottish Government Resource Spending Review has confirmed a very challenging core settlement for Local Government over the 2022/27 period. One of the main challenges faced by the Council is therefore forward planning, preparatory investment and a sufficient lead in period prior to implementation of both savings and investment for the period beyond the current budget.

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

The Council has also approved corporate policies to charging and income generation – including maximising external funding to supplement existing resources and support service delivery. The Council increased the level of income generated by charging as part of previous Budgets but the need to further increase charges will need to be reviewed in coming months/years.

We also need to ensure that the Financial Strategy continues to support the Corporate Plan directly, the Local Outcome Improvement Plan and effectively link this Strategy to our Corporate Directorate Improvement Plans.

The Financial Strategy is a dynamic document and will be monitored on an ongoing basis by the Corporate Management Team and it will continue to be formally reviewed by the Council twice yearly, in June and in December.

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

Councillor Stephen McCabe
Leader of the Council

Louise Long
Chief Executive

2.0 Why have a Financial Strategy?

- 2.1 The purpose of our Financial Strategy is to provide clear direction, supported by a practical framework and explicitly defined parameters, on how the Council will structure and manage financial resources in the medium to long term to ensure they are deployed effectively to achieve corporate objectives.
- 2.2 This is not just another financial process – the Financial Strategy is integral to our Strategic Planning and Performance Management Framework which underpins the achievement of the outcomes identified in the Corporate Plan, and is an integral part of the Corporate Directorate Improvement Plans.
- 2.3 The requirement to develop a medium to long term financial strategy covering the next three to ten years (and in some areas longer) is a vital component of decision making.
- 2.4 The Council has taken into account guidance from CIPFA when developing the Financial Strategy as well as best practice from other local authorities.
- 2.5 Our ambition is to maintain a single, coherent Financial Strategy that brings together the corporate objectives of the Council along with all the relevant financial information in a clear, accessible document.
- 2.6 The value of such a Strategy is that it enables the Council to develop a better understanding of the wider policy and financial environment within which it operates, identify and respond flexibly to opportunities and threats, manage and mitigate risks and ensure that financial resources are contributing to achieving corporate objectives.
- 2.7 The Strategy will also provide information to a range of stakeholders:

Table 1 – Stakeholder Information

For the Council and Elected Members	to decide how available financial resources will be used
For Chief Officers, managers and employees	To help optimise the available resources and reinforce their roles in financial management arrangements
For residents	to show how the Council's Financial Strategy impacts upon service provision
For Council Tax payers	to demonstrate how the Council looks after public resources
For partners	to share the Council's vision and help identify opportunities for joint working and resource deployment.

- 2.8 Inevitably some of the information of the Financial Strategy will be based on forecasts and these will change over time - the Strategy is reviewed regularly so that the Council can respond proactively to any such changes.
- 2.9 The inclusion of information in the Financial Strategy does not infer approval and all financial projections and issues will have to be subject to approval through the budget process.
- 2.10 The Strategic Planning and Performance Management Framework continues to develop links between the strategic planning and budgeting processes. This allows services to plan ahead, taking into account the resources available and proactively identify opportunities to achieve efficiencies or secure alternative funding sources. This process also encourages the development of joint resourcing opportunities within the Inverclyde Alliance.

3.0 Financial Summary

- 3.1 On 24 February 2022 the Council agreed the 2022/23 Revenue Budget. The Council also took strategic decisions on the use of Reserves and also agreed the 2022/25 Capital Programme which took into account the latest Government Grant settlement information.

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

	2022/23 £million
<u>General Fund Revenue Budget</u>	220.372
<u>Financed by</u>	
Government Grant (Including NDR)	(185.285)
Council Tax	(32.945)
Approved Contribution from General Reserve	(2.142)
	0
<u>Capital Programme (2022/23)</u>	
Approved Spend (At November 2022)	19.70
<u>Financed by</u>	
Government Grants	8.27
Capital Receipts	0.07
Other Grants/CFCR	5.87
Prudential Borrowing	0.13
Resources Carried Forward from prior year	14.79
Surplus in Resources in 2022/23	9.43

4.0 Overall Economic Position

UK Context

- 4.1 The Covid pandemic elicited a fiscal response from the UK Government which was without precedent in peace time. The UK Government borrowed large sums of funding to support the economy, households and frontline services battling against the virus and to help protect as many jobs as possible as part of the recovery. The Autumn Budget in October 2021 set out the plans to bring the UK Budget back into some form of balance as part of the 2022/25 Spending Review.
- 4.2 The Spring Statement in March 2022 reported a much changed position due to the emergence of higher and more persistent inflation, some linked to the anticipated impact of the war in Ukraine. This necessitated a change of thinking on tax and spend with higher inflation, lower growth and higher interest levels forecast for the 2022-2025 period.
- 4.3 Since the Spring statement the UK Government has been through unprecedented change with two Prime Ministers, four Chancellors and a Financial Statement in September which caused significant turbulence in the Financial Markets. The UK Government acted to “steady the ship” with a new Prime Minister, a new Chancellor of the Exchequer and a key Budget Statement on 17 November supported by appropriate OBR analysis.
- 4.4 The Autumn Statement was characterised by increases in tax for both energy companies and individuals plus increasing payments to those on benefits and in receipt of pensions. The bulk of the downward pressure on Departmental budgets was deferred until after the next election.
- 4.5 Forward estimates show inflation peaking around now and then dropping sharply over the next 12-18 months and moving into a negative position in 2025/26. Interest rates are expected to peak next year and then begin to reduce.
- 4.6 The Office of Budget Responsibility (OBR) November forecasts are shown in the table below.

	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>
GDP (real) annual % change	4.2	(1.4)	1.3	2.6	2.7
Inflation (CPI) annual % change	9.1	7.4	0.6	(0.8)	0.2
Unemployment Rate	3.6	4.1	4.9	4.7	4.3
Public Sector Borrowing	177	140	84	77	80
Debt as a % of GDP	90	96	97	98	98
Interest Rates %	2.5	4.8	4.5	4.1	3.8

Scottish Context

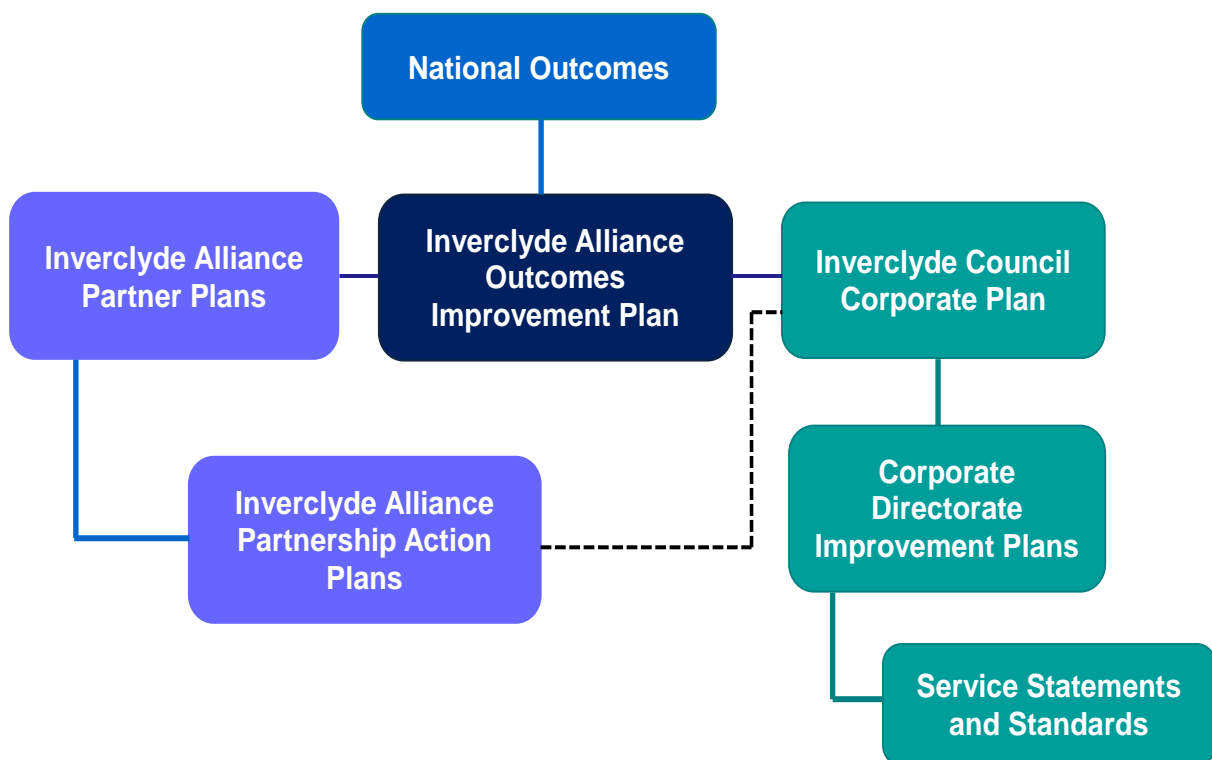
- 4.7 After requests from Cosla for several years for greater medium term funding certainty, the Scottish Government issued the Resource Spending Review (RSR) on 31 May 2022. The RSR covered the 5 year period 2022/23 – 2026/27 from a Resource/Revenue perspective. The RSR was balanced on its “central” assumption ie: Income/Taxes matched Expenditure plans.
- 4.8 Local Government are due to receive challenging core revenue settlements over the period with Grant/NDR being the same in cash terms in 2025/26 as it is in 2022/23. The Fraser of Allander Institute reported that this represents a 7% real terms cut using the GDP deflator. If a CPI deflator was used, then the real terms cut is significantly higher.
- 4.9 There was little indication in the RSR, that there will be a significant reduction in ring fencing or input mandating. Without this flexibility then the Council faces having to implement significant

budget cuts focussed on only a part of the overall Budget. However, a recent letter from Mr John Swinney indicates that some flexibility may be possible. Detail around this is awaited.

- 4.10 The Autumn Statement identified £1.5billion in consequential for Scotland over 2023/25. The hope for Local Government is that some of this will be received by Councils to offset existing pressures. Additionally, the Scottish Government has the scope to increase taxes in order to fund the various policy initiatives already announced.
- 4.11 The RSR confirmed that the 2021 announcement of “flat cash” Capital Grant settlements to 2025/26 remains the case. This makes funding for the maintenance of the existing estate challenging before considering how investment within town centres or in net zero projects will be financed.
- 4.12 Councils expect to receive their detailed grant settlement in December 2022 although latest indications are that this will cover one year only.

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. The Framework includes the Local Outcome Improvement Plan, the Corporate Plan, Corporate Directorate Improvement Plans and the Financial Strategy.
- 5.3 The Strategic Planning and Performance Management Framework is shown in the Diagram below.



- **National Outcomes** are set by the Scottish Government and sit within a National Performance Framework. These 11 outcomes are an overarching guide for the local community planning partnership document, the Inverclyde Outcomes Improvement Plan.
- The **Inverclyde Alliance Outcomes Improvement Plan (OIP)** is a high level strategic partnership document setting out the vision and direction for the Inverclyde area, as agreed by all the Inverclyde Alliance partner organisations and communities. The outcomes are based on evidence of the key issues and challenges for the Inverclyde area and through community engagement. They set out what we want to achieve for all the communities of Inverclyde.
- The **Partnership Action Plans** set out the Partnership actions and projects which will contribute to the achievement of the OIP priorities and are expressed through the wellbeing indicators (see below in 5.4) to help better understand their impact on a crosscutting basis.
- The **Corporate Plan 2018/23** is a public facing document and sets out the ways in which Inverclyde Council hopes to deliver better outcomes for the people of Inverclyde through the delivery of 10 organisational priorities. The Plan reflects the wellbeing outcomes from the Outcomes Improvement Plan and sets out, at a high level, what the Council will do to help deliver

the partnership priorities. The Plan also contains high level budget information for key services.

- **Corporate Directorate Improvement Plans (CDIPs)** set out the vision for each Directorate. The current CDIPs cover the period 2019/23 and are reviewed on an annual basis to ensure that the improvement actions remain up-to-date and reflect the local and national environment in which the council operates. The Plan covers two broad areas, the first being corporate cross cutting improvement actions and the second Directorate Improvement actions. These improvement actions are based on robust self-evaluation and are mapped to the Corporate Plan organisational priorities. In addition the HSCP has developed a Strategic Plan 2019/24 which supports the Inverclyde Integration Joint Board.
- **Service Statement and Standards** set out what services do on a day to day basis and will not change significantly year on year, but will be refreshed to reflect any structural or legislative changes. It is a public facing document which also sets out a summary of the financial and employee resources allocated to run the service. Service standards are also reflected in the Service Statements, setting out what quality standards the service follows and what customers can expect.

5.4 At its meeting on 14th September 2021, the Policy and Resources Committee approved the extension of the Corporate Plan and CDIPs to 31 March 2023. The extension to the planning term for a further year ensured that all key stakeholders (current and future) were provided with an opportunity to be consulted on their views on what the Council and Alliance's new priorities should be. Consultation on the Council and Partnership priorities ended in September 2022.

5.5

Outcomes for Inverclyde

The focus of the Strategic Planning and Performance Management Framework is on addressing the main challenges facing the area. The Inverclyde Outcomes Improvement Plan builds on the achievements of the SOA and initially contained three strategic priorities to be delivered in partnership, however following review of the plan in 2020, an additional strategic priority related to Economy was added:

- **Population:** Inverclyde's population will be stable and sustainable with an appropriate balance of socio-economic groups that is conducive to local economic prosperity and longer term population growth
- **Inequalities:** There will be low levels of poverty and deprivation and the gap between the richest and poorest members of our communities will be reduced
- **Environment Culture and Heritage:** Inverclyde's environment, culture and heritage will be protected and enhanced to create a better place for all Inverclyde residents and an attractive place in which to live, work and visit
- **The Local Economy:** Inverclyde has a thriving and diverse local economy, economic activity is increased and skills development enables both those in work and those furthest from the labour market to realise their full potential

5.6 The OIP continues to focus on the delivery of the **wellbeing outcomes**, which the Inverclyde Alliance, including the Council, has adopted. These wellbeing outcomes have been adapted and expanded from 'Getting it Right for Every Child', to help us work towards a Nurturing Inverclyde, 'Getting it Right for Every Child, Citizen and Community'. The wellbeing outcomes cover the core areas of Safe, Healthy, Achieving, Nurtured, Active, Respected, Responsible and Included.

5.7 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 and priorities identified in the Inverclyde Outcomes Improvement Plan.

5.8 Demographics and Population

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 in the Inverclyde

Outcomes Improvement Plan and the Council's Corporate Plan.

- 5.9 The fundamental issue for the Council is that at some point if the decline in population continues then the area could become no longer sustainable as a unit of administration which would have an associated impact on other services such as health, police and fire. In recent years, the population decline in Inverclyde has been largely attributable to more deaths than births in the area. This continued to be case between mid-2020 and mid-2021, although the gap between the two decreased slightly compared to the previous year. Work around repopulation is led by the Inverclyde Alliance Population Partnership which has responsibility for the implementation of the Repopulation Strategy and Action Plan, which was approved by the Inverclyde Alliance Board on 18 March 2019.
- 5.10 In the 2011 Census the population for Inverclyde was 81,485, a decrease of 3.2% from 84,200 in the 2001 census. The most recent population estimates place Inverclyde's population in mid-2021 at 76,700, a decrease of -0.5% from 77,060 in 2020. The population of Inverclyde accounts for 1.4% of the total population of Scotland. Population estimates from the Census 2022 results will be published until 2023, however the local response rate for Inverclyde was 84.2%, which is a cause for concern.
- 5.11 The latest mid-year population estimates (2021) show that 16% of Inverclyde's population is aged between 0 – 15 years, which is slightly less than the percentage for Scotland, 17%. 62% of the population is aged 16 – 64 years, compared to 64% in Scotland. 22% of Inverclyde's population is aged 65 years and older compared to 20% in Scotland.
- 5.12 Since 1985, Inverclyde's total population has fallen overall whilst Scotland's population has risen over this period.
- 5.13 Official population projections continue to forecast a long term decline in Inverclyde's population. By 2043 the population of Inverclyde is projected to be 65,517, a decrease of -16.2% compared to the population in 2018. The population of Scotland is projected to increase by 2.5% per cent between 2018 and 2043. It should be noted that the 2018 based population projections were produced prior to the pandemic.
- 5.14 Over the 25 year period the age group that is projected to increase the most in size in Inverclyde is the pensionable and over age group with a 9.9% increase. In Scotland, it is estimated that there will be a projected 23.2% increase in the pensionable age population by 2043.
- 5.15 The population aged under 16 in Inverclyde is projected to decline by 25.6% over the 25 year period, compared to a 10.5% decrease nationally.
- 5.16 Between SIMD 2016 and SIMD 2020, the number of Inverclyde data zones in the 5% most deprived in Scotland increased from 11 to 21. This equates to 18.4% of all 114 Inverclyde data zones in the 5% most deprived category and is the second highest local share in Scotland. Inverclyde also has the second highest local share of data zones in the 20% most deprived in Scotland, with Glasgow having the highest.
- 5.17 Demographic change will have significant impact on services as funding allocated from the Scottish Government is partly based on the population of an area. Even with additional allocations to take account of deprivation the budget is expected to reduce in real terms over the next five years.
- 5.18 In terms of indicators of deprivation the profile for Inverclyde differs from the national picture, these include:
- 3.9% of working age benefit claimants are claiming unemployment benefits. Of this, a higher proportion of 18 – 24 year olds (6.2%) are claiming than 25 – 49 year olds (4.7%) or 50+ year olds (2.4%). (As at September 2022).
 - Economic inactivity rates in Inverclyde are slightly lower than the national rate 22.5% compared to 22.9% (July 2021 – June 2022). The economic inactivity rate in Inverclyde has been lower than the Scottish average since October 2020.

- The percentage of workless households in Inverclyde is 22.1% compared to 18.1% in Scotland (January – December 2020)
- Approximately 81.8% of working age adults in Inverclyde have NVQ1 and above, or other formal qualifications. 86.4% of the Scottish population have NVQ1 and above or other formal qualifications (January 2021 – Dec 2021).
- Median earnings for full time workers living in the area (Gross Weekly Pay) increased between 2020 and 2021 from £560.90 to £570.10. The Scottish average was £622.00.
- Working age people account for 62% of all people in Inverclyde (2021 mid-year population estimates). This is 2% lower than for Scotland as a whole.

5.19 The projected population changes will have an impact on all service areas, particularly Education and Social Care, where there will be a need to actively manage the transition from current service delivery arrangements to new models that are built around the needs of the future population.

5.20 The deprivation profile will have major implications for services as research indicates that those most vulnerable to poverty are more likely to require greater interventions and experience greater levels of health inequalities and a targeted focus to move individuals out of poverty will come at a significant cost to public agencies.

5.21 The predicted demographic changes also have other implications. A decline in younger economically active people and a growth in the older, more vulnerable age group can mean there will be fewer informal carers which could result in a higher dependency on the services provided by the Health & Social Care Partnership.

The public sector landscape in Inverclyde

5.22 The public sector landscape in Inverclyde has changed significantly over the last 10-15 years. The development of this mixed economy of public service provision presents new challenges for the Council as it seeks to ensure that outcomes are achieved and that resources are being deployed effectively and efficiently. This is particularly relevant in the context of the LOIP 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.

5.23 Whilst the Council has to tackle the problems associated with poverty, health inequalities and deprivation now, it also has to look to the future, and ensure that effective intervention is put into place now, to prevent further problems from developing, which will ultimately require expensive interventions. Investment in the lives of our children and young people early on in their lives will result in a better outcomes and quality of life for them as they grow up in the Inverclyde area.

5.24 The Community Empowerment (Scotland) Bill places new duties on the Council and its partners to provide new rights for community bodies. The Act came into effect in July 2016 and the council and its partners are responding to this in a number of ways including the development of locality planning; introduction of participatory budgeting and asset transfer.

5.25 *Riverside Inverclyde*

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

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

5.26 *River Clyde Homes*

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

The transfer to River Clyde Homes of all the Council housing stock was based on significantly more money being available to invest in homes and neighbourhoods and give tenants a real say in the decisions that are made about their housing, with tenants on the Board influencing policies and investment decisions. The Council and RCH plus other agencies continue to work together to address the challenges brought on by low demand stock, increased investment needs and a declining population.

5.27 *Inverclyde Leisure*

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

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

The Council's Community Facilities transferred to Inverclyde Leisure in April 2010 and the transfer of the management of Outdoor Leisure Facilities to Inverclyde Leisure took place in April 2015. Members agreed in November 2019 to the transfer of Whinhill Golf Course to Inverclyde Leisure from 2020/21 Season. Inverclyde Leisure has revised its Business Planning process and a new Business Plan is reviewed annually by the Council. The Council's percentage contribution to the Leisure Trust had reduced considerably but the recent increases in utility costs and reductions in income due to Covid are likely to require a significant increase in funding.

5.28 *Inverclyde Health and Social Care Partnership (HSCP)*

The Council and Greater Glasgow and Clyde Health Board established an integrated Community Health and Care Partnership (CHCP) in October 2010. This resulted in greater partnership working and efficiencies in line with the Government's stated objective of integrating aspects of Health & Social Care.

The Public Bodies (Joint Working) Act 2014 resulted in the creation of a HSCP Integrated Joint Board (IJB) during 2015/16 and required a revised Governance and Financial framework. The IJB is a separate legal entity and receives resources from and delegate resources to the Council and Health Board.

The financial integration became live in April 2016 at a time of continued increasing demands on Council Budgets as the Partnership focuses on building community resources to support the delivery of health and social care services, including the acute sector. To date this arrangement has proven successful with the finances of the IJB being well managed with reserves increased in order to meet the demographic demands.

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

6.0 Financial Management

Corporate Governance

- 6.1 The Council positively promotes the principles of sound corporate governance within all aspects of its activities. From a financial management perspective the Council adheres to the CIPFA Financial Management Code. Formal adoption of the code by the Council is scheduled early 2023.
- 6.2 Corporate governance is about the structures and processes for decision-making, accountability, controls and behaviour throughout the Council. It is based around key principles of openness, equality, integrity and accountability.
- 6.3 The fundamental principles of corporate governance should be reflected in the various dimensions of Council business, including;
- Ensuring a community focus underpins the Council's vision and priorities;
 - Ensuring the effective delivery of local services on a sustainable basis;
 - Establishing effective management structures and processes which include clearly defined roles and responsibilities for officers;
 - Developing and maintaining effective risk management systems that form part of the Council's strategic decision making process;
 - Ensuring high standards of propriety and probity in the stewardship of the Council's funds and the management of the Council's affairs;
 - A commitment to openness in the Council's affairs and the provision of full, accurate and clear information to all stakeholders.
- 6.4 The Chief Financial Officer has been designated as "the proper officer" and is responsible for advising the Council on all financial matters.
- 6.5 The Financial Regulations were refreshed and approved in February 2022 and are an essential component of the corporate governance of the Council.
- 6.6 The Financial Regulations are designed to facilitate the smooth running of the Council, protect its interests and the interests of members and officers, and ensure the proper administration of all the Council's financial affairs, including, Partnerships, The Common Good and Sundry Accounts.
- 6.7 Head Teachers must also comply with the Financial Regulations, with the exception of virement which is defined in the Devolved Management of Resources Scheme.

Roles and Responsibilities

- 6.8 It is important to set out clearly the roles and responsibilities of the key parties involved in the Financial Strategy and the management of overall financial resources of the Council.

Elected Members

- 6.9 Elected Members, through full Council and Committees are responsible for considering and approving budgets and the Financial Strategy for the Council. Approved budgets must be financially balanced and demonstrate value for money and sustainability.

- 6.10 Throughout the year Committees receive reports which allow progress against approved budgets to be scrutinised. All members receive appropriate training in the areas of Financial Strategy, Local Government Finance and key specialist areas such as Treasury and Risk Management.

Corporate Management Team

- 6.11 The Chief Executive, Directors (including the Section 95 Officer), Monitoring Officer and Head of Organisational Development, Policy and Communications form the CMT, chaired by the Chief Executive, who are responsible, individually and collectively, for ensuring effective financial management across the organisation.
- 6.12 As Budget Holders the Directors are responsible for the budgets delegated to deliver the services within their Directorate in line with the priorities of the Council. Whilst they may delegate this responsibility within their Directorate they remain accountable in exercising overall financial control.
- 6.13 The CMT set aside time each reporting cycle to consider corporate financial matters including employee costs, key budget lines, earmarked reserves and savings delivery progress.

Section 95 Officer

- 6.14 The Section 95 Officer has a statutory role to ensure appropriate arrangements are in place for the proper administration of the financial affairs of the Council. He has the authority to comment and advise CMT, Chief Executive and Elected Members on all financial matters.

Heads of Service

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

Budget Managers

- 6.16 Responsibility for budgetary control lies with the Directors and as delegated budget holders, their Heads of Service and Service Managers. In recognition of the need to ensure budget holders are appropriately supported and trained, Finance Services delivers training to all Heads of Service and Managers on Financial Governance and budgetary control issues.

Financial Support to Services

- 6.17 Each Directorate has a dedicated Finance Manager and Principal Accountant who prepare and monitor the Directorate budget as well as providing a full range of financial advice to the Directorate.

Internal Audit

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

External Audit

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

Managing the Budget

- 6.20 Committees receive five budget monitoring reports throughout the year. These are jointly prepared by the Section 95 Officer and the relevant Director.
- 6.21 The Corporate Management Team receive and discuss a budget overview every budget monitoring cycle covering key budget lines, employee costs, earmarked reserves, progress on the approved savings and key projects with financial implications.
- 6.22 All Services receive detailed budget information five times per year and in addition are sent system generated budget reports in intervening months plus having access to real time information held on the Council's Finance Management System.
- 6.23 The Council operates a risk based approach to budget monitoring ensuring that focus is given to larger and more volatile budgets. The identification of key budgets is agreed annually between Directorates and Finance.

7.0 Financial Outlook

- 7.1 Key financial issues are known or anticipated events and activities that have to be addressed within overall financial resources in the short-term (within 2 years), medium-term (within 4 years) or longer (over 4 years).
- 7.2 Events and activities include efficiencies, planned savings, changes to service priorities and delivery, and known potential pressures. The financial impact of an event or activity may be one-off, recurring or time-limited.
- 7.3 The 2022/23 Budget was based on the Council receiving Revenue Grant/Non-Domestic Rates Income of £ 185.285m.
- 7.4 When the Council's own projection of Council Tax Income based on 97.0% collection rate (£32.945m) and the use of reserves is added then the income for the Council in 2022/23 is projected to be £220.372m.
- 7.5 The Financial Strategy covers the period 2022/32 in terms of identifying potential issues, but the revenue forecasts are limited to the period which can be reasonably forecast. A new requirement from 2019/20 was the production and approval of a Capital Strategy which covers a period of 10 years plus. This examines a number of long term issues including the sustainability and affordability of borrowing and investment decisions.
- 7.6 The Council has agreed a Reserve Strategy which requires a minimum unallocated General Fund Reserve of approximately 2% of turnover. Based on the 2022/23 Budget this equates to £4.0 million. The overall position of the Reserves shown in Appendix 5 and has been updated to reflect the latest projections. The Reserve Strategy was reviewed and approved by the Policy & Resources Committee in September 2019. Earmarked Reserves and the level of unallocated reserves are reviewed annual as part of the budget process.
- 7.7 The projected budget position in the short to medium term, is set out in the following tables and notes for both revenue and capital. Details of the short, medium and long-term issues identified in consultation with Services are contained at Appendices 1, 2 and 3.

Table 3

Finance Strategy - December 2022

	<u>2022/23</u>	<u>2023/24</u>	<u>2024/25</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Base Budget for Prior Year	202.040	218.230	222.328
<u>UPLIFTS FROM PRIOR YEAR</u>			
<u>Inflation (Note 1)</u>			
Pay Inflation	3.000	6.740	2.600
Other Inflation	1.200	4.400	1.000
Income	-0.130	0.000	0.000
	<u>4.070</u>	<u>11.140</u>	<u>3.600</u>
<u>Budget Increases (Note 2)</u>			
General Pressures	0.400	1.960	0.100
New Pressures P&R Nov 21	0.934	0.000	0.000
	<u>1.334</u>	<u>1.960</u>	<u>0.100</u>
<u>Adjustments (Note 3)</u>			
Other Adjustments Applied	0.054	0.000	0.000
New Funding Per SG Settlement	14.313	0.000	0.000
Contribution from Reserves	-1.093	2.000	2.000
Net Revenue Budget Before Savings	<u>220.718</u>	<u>233.330</u>	<u>228.028</u>
<u>Funded by: (Note 4)</u>			
Revenue Grant/NDR Income	185.285	189.083	188.083
Council Tax Income (Net of CTR)	32.945	33.245	33.245
	<u>218.230</u>	<u>222.328</u>	<u>221.328</u>
Annual Budget Before Savings (Surplus)/Deficit	<u>2.488</u>	<u>11.002</u>	<u>6.700</u>
Cumulative Budget Gap before Savings	<u>2.488</u>	<u>13.490</u>	<u>20.190</u>
<u>Savings Applied (Cumulative)</u>			
Adjustments Approved September 2017	-0.300	-0.300	-0.300
Adjustments Approved September 2019	-0.040	-0.040	-0.040
Adjustments Approved November 2019	-0.019	-0.019	-0.019
Savings Approved November 2020 P&R	-0.012	-0.012	-0.012
Savings Approved December 2020 Full Council	-0.490	-0.517	-0.517
Savings Approved February 2021	-0.037	-0.037	-0.037
Savings Approved March 2021	-0.190	-0.190	-0.190
Savings Approved September 2021	-0.200	-0.200	-0.200
Savings Approved November 2021	-0.380	-0.380	-0.380
Savings Approved December 2021	-0.132	-0.162	-0.162
Savings Approved February 2022	-0.397	-0.397	-0.397
Savings Approved February 2022 Full Council	-0.291	-0.375	-0.375
Adjustments Approved August 2022 P&R	0.000	-0.135	-0.135
Savings Approved September 2022 P&R	0.000	-0.608	-0.608
Savings Approved November 2022 P&R	0.000	-0.610	-0.635
Approved Budget (Surplus)/Deficit	<u>0.000</u>	<u>9.508</u>	<u>16.183</u>

Finance Strategy Notes – December 2022

Note 1 Inflation

- a) Pay – The allowance for pay inflation is an allowance available over the 3 year period to fund all pay related pressures including the annual pay award, impacts of living wage, increases in employers national insurance/pension costs, and movement in service bottom up employee budgets. Figures for 2023/25 reflect proposals identified in the 2022/23 budget set February 2022, excluding the Social Work estimated pay award for 2023/24 onwards, and reflects recent information resulting from the negotiated pay award. As a result, an allowance of 6% is included for 2023/25.
- b) Other Inflation – Inflation had been at a low rate in recent times and as such the allowances have been greatly reduced. However, there has been a significant increase in inflation over the last 6 months and the allowance is now exceeded leading to an additional £2.4m allocated for 2023/24 as approved in the Budget Update Report Policy & Resources Committee November 2022.
- c) Income – Reflects an annual increase of 3% on fees & charges income up to 2022/23 as part of the budget decisions approved November 2019. No increase has been applied from 2023/24 budget position.

Note 2 Budget Increases

- a) General Pressures – Reflects allowance identified in the 2022/23 budget set February 2022, rephased as approved in the Budget update report Policy & Resources Committee November 2022. The Committee approved a further allowance of £0.9m for 2023/24.
- b) New Pressures – Reflects decisions taken at the November 2021 Policy & Resources Committee.

Note 3 Adjustments

- a) Other Adjustments – Reflects Scottish Government funding for minor projects.
- b) New Funding – Reflects new funding received as part of the Settlement March 2022. The majority of the funding relates to new funding for Health & Social Care Partnership and new teachers.
- c) Contribution from Reserves – As part of the 2021/22 budget process, the Council approved use of reserves to fund the 2021/23 budget. The 2022/23 budget approved February 2022 increased the use of reserves by £2.951m to balance the budget resulting in £4m of reserves utilised to balance the budget. Offsetting this, the Council received £1.858m one off share of £120 million from the Scottish Government. This was used to reduce the contribution from reserves funding the 2022/23 budget. The Council agreed to allocate £2m from reserves towards the 2023/24 budget and 2024/25.

Note 4 Funded By

- a) Reflects 2022/23 Finance Settlement included in Scottish Government Circular 1/2022. The 2022/24 figures are estimated based on continuing grant loss due to Depopulation. The Scottish Government Resource Spending Review confirmed that the £120 million one off funding will now be mainlined into the recurring General Revenue Grant. Figures reflect the Council share £1.858 million on a recurring basis. 2023/25 figures are estimated in line with the Scottish Government Resources Spending Review and includes a share of Government Grant towards the 2022/23 pay award of £2.94m.
- b) Council Tax Income is shown net of Council Tax Reduction (CTR) Scheme. Grant is included within Council General Revenue Grant for CTR. Figures reflect decision to increase Council Tax by 1.95%

on 24 February 2022. No uplift has been assumed for years 2023/25. Policy & Resources Committee approved an adjustment to Council Tax Income budget of £0.3m due to an increase in the Council Tax Base.

Other Short to Medium Term Revenue Issues

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

7.8 Long Term Revenue Issues

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

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

Post 2025/26 the main issues impacting on the revenue budget will be:

- **Funding will be impacted by future population change/demographic shifts and any changes to the way local government in Scotland is funded.**
- **Decisions of the Scottish Government regarding any protection afforded to Local Government or other parts of the Budget plus the use that is made available tax raising powers including the future of non-domestic rates.**
- **The current global UK and Scottish economic situation and the resultant speed with which inflation will return to pre-covid/Brexit levels.**
- **The current “cost of living crisis” will continue to impact on Council Services from both a demand and funding perspective.**
- **Health and Social Care integration is due to undergo further changes but the fundamental fact is that there is not enough money in current budgets to meet increasing demand.**
- **Pension costs influenced by the impact of auto-enrolment, the changes to LGPS and Teachers Pensions, plus costs associated with the Council resizing its workforce in order to balance its budgets and potential changes to Pension Tax Relief.**
- **Costs associated with sustainability including waste disposal and recycling, energy and fuel costs and general procurement inflation due to increased global demand for raw materials.**

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

7.10 Table 4 shows the high level estimate of the 2023/26 budget gap based on the above. In line with good practice tables 4b and 4c provide two further scenarios based on different assumptions. Table 4b represents an “optimistic” scenario and Table 4c representing a “pessimistic” scenario. These figures are heavily caveated due to the major uncertainty caused by Covid and the changing position in the short/medium term impact of inflation, the economy and funding for the Public Sector.

Table 4a**2023/26 Budget Gap - Mid-Range Scenario**

	2023/24	2024/25	2025/26	2023/26
	£m	£m	£m	£m
Block Grant Increase	(1.8)	0.0	0.0	(1.8)
Continuing Impact of Depopulation	1.0	1.0	0.7	2.7
Inflation - Pay	2.4	2.6	2.0	7.0
- Non-Pay	3.4	1.0	1.0	5.4
Pressures				
- General Pressures	2.0	0.1	0.6	2.7
Savings Approved to Nov,2022	(2.4)	0.0	0.0	(2.4)
Inflation Shortfall 2022/23	3.0	0.0	0.0	3.0
Reduced Use of Reserves	2.0	2.0	0.0	4.0
Funding Gap	9.6	6.7	4.3	20.6

a/ £4.0m from Reserves used in 2022/23 is reduced by £2.0m/year over 2023/25.

b/ 2023/24 Grant figures include £1.8million one off grant from 2022/23 now mainlined

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

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

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

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

Key Assumptions	2023/24	2024/25	2025/26
	%	%	%
GRG/NDRI Cash Movement	0.0	0.0	0.0
Pay Inflation	3.0	3.0	2.0

Table 4b**2023/26 Budget Gap - Optimistic Scenario**

	2023/24	2024/25	2025/26	2023/26
	£m	£m	£m	£m
Block Grant Increase	(3.6)	(1.8)	(1.8)	(7.2)
Continuing Impact of Depopulation	0.5	0.5	0.5	1.5
Inflation - Pay	2.4	2.0	1.5	5.9
- Non-Pay	3.0	0.8	0.5	4.3
Pressures				
- General Pressures	2.0	0.1	0.4	2.5
Savings Approved to Nov,2022	(2.4)	0.0	0.0	(2.4)
Inflation Shortfall 2022/23	3.0	0.0	0.0	3.0
Reduced Use of Reserves	2.0	2.0	0.0	4.0
Funding Gap	6.9	3.6	1.1	11.6

a/ £4.0m from Reserves used in 2022/23 is reduced by £2.0m/year over 2023/25.

b/ 2023/24 Grant figures include £1.8million one off grant from 2022/23 now mainlined

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

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

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

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

	2023/24	2024/25	2025/26
Key Assumptions	%	%	%
GRG/NDRI	1.0	1.0	1.0
Pay Inflation	3.0	2.5	1.5

Table 4c**2023/26 Budget Gap - Pessimistic Scenario**

	2023/24	2024/25	2025/26	2023/26
	£m	£m	£m	£m
Block Grant Decrease	(1.8)	1.8	1.8	1.8
Continuing Impact of Depopulation	1.0	1.0	1.0	3.0
Inflation - Pay	3.2	3.2	2.0	8.4
- Non-Pay	4.0	2.0	1.0	7.0
Pressures				
- General Pressures	2.0	0.6	0.6	3.2
Savings Approved to Nov,2022	(2.4)	0.0	0.0	(2.4)
Inflation Shortfall 2022/23	3.0	0.0	0.0	3.0
Reduced Use of Reserves	2.0	2.0	0.0	4.0
Funding Gap	11.0	10.6	6.4	28.0

a/ £4.0m from Reserves used in 2022/23 is reduced by £2.0m/year over 2023/25.

b/ 2023/24 Grant figures include £1.8million one off grant from 2022/23 now mainlined

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

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

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

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

	2023/24	2024/25	2025/26
Key Assumptions	%	%	%
GRG/NDRI Cash Movement	0.0	-1.0	-1.0
Pay Inflation	4.0	4.0	2.0

7.11 Short to Medium Term Capital Projections

The Council agreed a 3 year Capital Programme covering 2022/25 in February 2022. A 5% overprovision was built in to allow for increased resources/project cost reductions.

7.12 Long-Term Capital Projections

There is greater certainty around capital spend for the post 2022/23 period due to the fact that asset management plans will continue to utilise nearly all available funding i.e. Schools, Operational Properties, Roads, Lighting, Vehicles, Open Spaces and ICT, whilst the 5 year Scottish Government Capital Funding Plan indicates that in the period to 2026, core Local Government Capital Grant will be frozen at 2021/22 levels. This will leave the Council £3 million/year short against the core investment requirements.

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

Even were Local Government Capital Grants to increase in the longer term, given the major revenue financial pressures the Council needs to seriously consider using any increase in grant to reduce prudential borrowing/use of reserves rather than identifying new projects.

Table 5 - Capital Programme 2022/2025 (Medium Term Capital Projections)

Table 5

<u>Expenditure/Projects by Committee</u>	<u>2022/23</u> <u>£m</u>	<u>2023/24</u> <u>£m</u>	<u>2024/25</u> <u>£m</u>	<u>Totals</u> <u>£m</u>
Policy & Resources	0.74	0.90	0.59	2.23
Environment & Regeneration	14.76	19.45	6.99	41.20
School Estate	1.86	5.09	3.00	9.95
Education & Communities (Exc School Estate)	1.78	2.11	0.17	4.06
CHCP	0.56	3.12	6.20	9.88
	19.70	30.67	16.95	67.32
<u>Financed By</u>				
Government Grant	8.27	6.00	6.00	20.27
Sales/Contributions	0.07	0.89	0.32	1.28
Other Income	4.38	3.09	0.00	7.47
Revenue	1.49	1.82	2.75	6.06
Prudential Borrowing	0.13	8.00	6.62	14.75
Resources Carried Forward	14.79	0.00	0.00	14.79
	29.13	19.80	15.69	64.62
				2.70
Shortfall in Resources				

Notes

1 As per November 2022 P&R Committee

8.0 Treasury Management

- 8.1 Inverclyde Council has adopted the CIPFA “Treasury Management in the Public Services – Code of Practice” which sets out good practice for treasury management governance. The Council complies with legal and regulatory requirements in relation to its Treasury Management activities and has appointed consultants to provide advice on Treasury Management issues, including technical issues and the formulation of views on interest rates.
- 8.2 In complying with the Code of Practice, the Council produces a Treasury Management Practices document which sets out how the Council will manage and control its Treasury Management activities. This document is submitted to Committee for approval every three years with approval also being sought for any amendments in the intervening period.
- 8.3 The requirements for Treasury Management reporting following the implementation of the revised CIPFA Treasury Management Code of Practice has resulted in the following:
- An annual Treasury Management Strategy submitted at the start of the financial year and which includes the Council’s Prudential Indicators and covers issues such as the economic situation, the prospects for interest rates, and the Council’s borrowing and investment strategy for the coming year.
 - A mid-year review of the Strategy which include details of the Council’s debt and investment position, activity undertaken during the quarter, and performance to date against the Council’s Prudential Indicators and agreed policy limits.
 - An Annual Report for Treasury Management which is submitted to Members before the end of September each year and which advises Members of the Treasury Management activities during the previous financial year.
 - Since 2018/19 there is the requirement to produce a Capital Strategy which is also reviewed annually.

It should be noted that whilst all the above reports will go to the Policy & Resources Committee for initial scrutiny, all now require to go before the Full Council for approval.

- 8.4 Table 6 below shows the Council’s debt and investments position as at 31/10/22.

Table 6 – Council’s Debt and Investment Position – 31/10/22

The Council’s treasury portfolio position at 31/10/22 comprised:

		Principal		Average Rate
		<u>£000</u>	<u>£000</u>	
Fixed rate funding	PWLB	81,985		3.58%
	Market	40,000	121,985	
Variable rate funding	PWLB	0		4.89%
	Market	59,748	59,748	
TOTAL DEBT			181,733	4.01%
TOTAL INVESTMENTS			43,508	2.52%

9.0 Reserves

9.1 A key aspect of the consideration of the Financial Strategy is the position of the General Fund Reserves. The Reserves Strategy was last reviewed and approved by Council in September 2019.

9.2 Reserves can be held for three main purposes:-

- A working balance to help cushion the impact of uneven cash flows - this forms part of General Reserves.
- A contingency to cushion the impact of unexpected events or emergencies which also forms part of General Reserves.
- A means of building up funds, often referred to as earmarked reserves, to meet known or predicted liabilities.

9.3 The Reserves Strategy is based on the core General Fund Reserve being maintained at a level of 2% of turnover. A turnover of just over £200 million results in a core General Fund Reserve of £4.0 million. In the event that the Reserves are projected to fall below this level then Members must have a clear route for bringing Reserves back up to the level over the subsequent three financial years.

9.4 The Reserves Strategy also assumes the continued use of earmarked reserves. In this way, earmarked reserves can be separated from the core General Fund Reserve which should allow Members to more transparently track the underlying reserves position. Earmarked Reserves are reviewed annually as part of the budget process.

9.5 Within Inverclyde Council the main Reserves/Funds comprise; General Fund Reserve, Insurance Fund, Capital Fund and Repairs & Renewals Fund. The latest projected position is shown below.

9.6 (a) General Fund "Free" Reserves – This Reserve represents the Council's contingency for unforeseen/unquantifiable events. The level of the Reserve is determined by the Reserve Strategy whilst the projected balance is reported to each Policy and Resources Committee. See Appendix 5.

Balance 31/03/22 = £3.719 million

(b) Insurance Fund – The Insurance Fund balance is required to meet Insurance Liabilities not covered by external Insurance Policies. The balance on the Fund is reviewed every 3 years by an independent actuary who comments upon not only the balance of the Fund but also the on-going internal contributions to the Fund. See Appendix 8.

Balance 31/03/22 = £4.633million

(c) Capital Fund – The Capital Fund is a Fund into which Capital Receipt income can be paid and used to fund either capital investment or repay the Principal element of debt repayments. The balance and planned usage of the Capital Fund is incorporated into the Financial Strategy. See Appendix 6.

Projected Balance 31/03/23 = £(0.049) million

(d) Repairs & Renewals Fund – The Repairs & Renewals Fund consists of sums received from external parties or allocated directly from Council resources which are thereafter released on a phased basis to maintain specific assets. Use of specific allocations to the Fund are agreed by Policy & Resources Committee and the overall position will be reported as part of the Financial Strategy. See Appendix 7.

Projected Balance 31/03/230. = £2.988 million

10.0 Monitoring, Reporting and Review Processes

- 10.1 The Financial Strategy should be a dynamic, relevant document and will be monitored on an ongoing basis by Finance - it will also be formally reviewed twice yearly, in May and then in November.
- 10.2 The formal review of the Financial Strategy will be reported to CMT and Full Council on a six monthly basis – there will also be capacity to review the Strategy as and when required, particularly when a new issue arises or the impact of major policy or initiative becomes clearer.
- 10.3 The Financial Strategy will only be revised if there are material changes to estimates, projections or policy which will have a financial impact however issues which may impact will be flagged up in the regular General Fund Budget reports to Policy & Resources Committee.
- 10.4 The deminimus level for a major impact requiring immediate review is 50% of the core General Fund reserves, £2.0 million, subject to the opinion of the Section 95 Officer.
- 10.5 The financial management principles and expectations have been communicated and are understood by all Chief Officers and budget holders.
- 10.6 The Financial Strategy has been drawn up with the full involvement of the CMT and, will be communicated throughout the organisation.

11.0 Risk Management

- 11.1 The Council has developed a Corporate Risk Register, Directorate Risk Registers and individual service risk registers where appropriate.
- 11.2 Further work has also been undertaken to develop a Risk Register for the Financial Strategy and the required actions to mitigate risks – these are set out in the table below.
- 11.3 The risk assessment below considers the risks to our financial position arising out of matters considered in this Financial Strategy and utilises the same methodology used for the Corporate, Directorate and Service Risk Registers.

Risk	Management of Risk
<p>The Financial Strategy does not reflect in financial terms the objectives set out in other strategic plans of the Council.</p>	<p>The Financial Strategy provides a high level overview of the various strategic plans the Council has signed up to – it acknowledges that there will inevitably be financial implications arising from the Corporate Plan but it is not possible to quantify all of these at present.</p> <p>The Financial Strategy is updated as further information becomes available regarding these strategic plans.</p>
<p>The 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 Corporate Directorate Improvement Plans (CDIP) should reflect the resources allocated – the need for additional resources to achieve a particular priority should be specifically identified via the Financial Strategy prior to the preparation of the CDIP.</p>
<p>Forecasts within the Financial Strategy are not accurately determined or reviewed on a regular basis.</p>	<p>The Budget and Financial Strategy set out the expected levels of expenditure and income for the future. The forecasts are arrived at through careful consideration of historic trends and actual expenditure levels and any factors which may have an impact in the future.</p> <p>Three scenarios are included in the Strategy based on Pessimistic, Mid-Range and Optimistic. This provided a broad range of potential outcomes.</p> <p>Throughout the financial year, the Council regularly monitors its financial performance against its budgets and will revise them where necessary, subject to remaining within the agreed overall budget for the Council.</p>
<p>There is a continuing need to deliver significant cuts and efficiencies over the medium to long term. Robust and detailed plans will be required on an operational level to ensure that this risk is mitigated and savings are duly delivered.</p>	<p>The risks relating to the delivery of savings will be mitigated by robust monitoring and financial control through the budget monitoring process, with action plans being required to find compensating savings for any overspends identified.</p> <p>Individual savings are reviewed by Change Boards and lead officers on a regular basis with material issues reported to the CMT and if required, Committee.</p>

<p>Income budgets not achieved or become unsustainable.</p>	<p>Chief Officers are consulted on proposed increases in income budgets/fees and charges and have the opportunity determine the levels of individual charges to achieve the budgeted income target.</p> <p>Equally, income budgets are monitored throughout the financial year and where a shortfall in income is anticipated, this is highlighted in reports to Committee.</p> <p>Proposals to increase fees and charges are reviewed in line with the Council's Charging Policy prior to reporting to Committee.</p>
<p>The Council has insufficient capital resources to sustain capital commitments.</p>	<p>The Council has already identified through the Financial Strategy a reduced reliance on capital receipts and Government Grants in the medium term.</p> <p>The combination of reduced funding and the economic position mean that the Council has to focus on maintaining key infrastructure whilst utilising prudential borrowing for specific capital projects.</p> <p>The Council has Asset Management Plans for all its assets with all the above issues captured within the Financial Strategy.</p> <p>The Council produces a Capital Strategy which looks at the longer term need, funding & sustainability of the capital programme.</p>
<p>Bankruptcy of a major supplier or customer which could result in the Council having to pay twice for the same service or see artificially inflated prices if a replacement service needs to be obtained at very short notice.</p>	<p>The Council has reviewed its procurement process and a procurement manual has been developed which includes supplier financial appraisal at PQQ stage. This will ensure that the financial position of new contractors is vetted prior to ITT stage and entering into any large contracts.</p> <p>The Council only pays in advance for Services by exception.</p> <p>Regular reviews of financial position are undertaken for key suppliers on an ongoing basis.</p>
<p>Legislative changes are not anticipated and the financial impact is not addressed through the budget process of Financial Strategy.</p>	<p>Chief Officers are required to highlight the impact of legislative changes through the strategic planning and budgeting process and the likely resource requirement.</p> <p>In addition COSLA has a key role in assessing the financial impact of changes in legislation and lobbying for Councils to be funded appropriately.</p>

<p>Interest rates on borrowing may be higher than forecast.</p>	<p>Regular review of treasury management decisions. Prudent assumptions on likely interest rates have been incorporated into Financial Strategy. Borrowing is spread to reduce impact of short-term changes.</p>
<p>Reserves are required to cashflow unanticipated budget shortfalls and fall below minimum recommended level.</p>	<p>Reserve Strategy is in place which clearly states that there must be a clear route to bring reserves back up to the minimum level over the subsequent 3 financial years.</p>
<p>Revenue implications of capital programme/projects are not fully anticipated.</p>	<p>All capital projects identify revenue implications and link into Council priorities. All capital projects are subject to a robust approval process which includes a review of revenue implications.</p>
<p>The current significant deterioration in the economic outlook and the impact this has on the local community has an unsustainable impact on Council budgets.</p>	<p>There is regular reporting to Members on the budget position and forecasts. Cosla continues to lobby Scottish and UK Governments for funding. Directors of Finance share common information and assumptions.</p>

Short-Term Issues (2022/24)

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

<u>Service</u>	<u>Issues Identified</u>	<u>Issues & Potential Impacts</u>	<u>Action Taken</u>	<u>Responsible Officer</u>	<u>Timescale to report back</u>
Corporate	Funding gap inherited by the New Council in May 22.	The use of reserves in 2022/23 and ongoing funding pressures will require quick and decisive action from the new Council which will have a significant impact on certain services.	Policy & Resources Committee agreed to address the £4m use of Reserves in 2022/23 by December 2022.	Alan Puckrin/CMT	December 2022
	Inflation	Uncertainty over the length of inflation pressures are not fully clear over the period.	Inflation allowances are regularly reviewed. Regular monitoring and reporting to CMT/Members.	Alan Puckrin	Ongoing
	Pay & Grading	If the “bottom loading” of pay settlements continues then it is likely the Council will require to revisit the Pay & Grading model.	2022/23 Pay Award is known and action needed at this time.	Steven McNab	Ongoing issue.
Social Care	Relationship with Service Providers.	Managing provider expectations whilst in a period of uncertainty over the future of the National Care Home Contract along with expectations from those providers out with this contract to fund inflation/impact of pensions/living wage.	Monitor development and report as required.	Kate Rocks	Ongoing

	Children's Services	Significant demand in the system will lead to increased costs.	Strategy put in place as part of the 2022/23 Budget. Monitor and report as required.	Kate Rocks	From April 2022
Education & Communities	Inverclyde Leisure – Reduction in Income and increased Utility costs.	A major source of income for IL comes from its fitness gyms. Competitors have moved into the area and this plus Covid legacy and current exceptional increases in utility costs could lead to an increase in Council funding.	Estimated 2023/24 shortfall of £1.4million reported. Options developed to address this matter.	Ruth Binks	January 2023 Consultation. March 2023 Decision.

Medium-Term Issues (2024/26)

Appendix 2

<u>Service</u>	<u>Issues Identified</u>	<u>Issues & Potential Impacts</u>	<u>Action to be Taken</u>	<u>Responsible Officer</u>	<u>Timescale to report back</u>
Corporate	Reductions in other public sector partner's funding streams	As Public Sector funding reductions continue, partners are reducing their contributions to key Council priorities.	Continue dialogue with partners.	All Directors	Ongoing
	Removal of key services from Council control.	Scottish Government could review Public Sector landscape which could result in loss of large parts of the Council remit and resultant impact on corporate viability.	Keep track of developments and report to Committee as required.	Louise Long	Ongoing
	Increased cost for externally provided contracts and services due to the Living Wage.	There is a clear desire to ensure suppliers of Council Services pay the Living Wage. This could add significant costs to the Council if passed on by suppliers.	Monitor developments and report to Committee when required.	Corporate Management Team	Ongoing
	Potential changes to funding of Local Government	Scottish Government to review Council Tax and will potentially review NDR.	Monitor National developments and report as required.	Alan Puckrin	Ongoing
	Further increase in Pension Costs	Potential changes to Pension Tax Relief would add costs to both to Council and employees.	Monitor development and report to Committee when required.	Steven McNab	Ongoing
	Equal Pay	No provision for outstanding claims.	Offers issued and payments made to address the vast majority of outstanding claims. Provision will continue to be monitored and reviewed taking account of relevant legal judgements and advice from the Council's legal advisors.	Steven McNab	On Going

<u>Service</u>	<u>Issues Identified</u>	<u>Issues & Potential Impacts</u>	<u>Action to be Taken</u>	<u>Responsible Officer</u>	<u>Timescale to report back</u>
Social Care	Review of future of Adult Social Care	Potential major impacts on IJB and Council Budgets if not appropriately funded.	Member's developments, contribute to relevant forums and report as required.	Kate Rocks	March 2023
	Impact of inclusion of elements of the Acute Health Services within the IJB Budget.	Potential for the Council to have to meet a proportion of any overspend caused by increasing pressure on Health Budgets.	Regular monitoring of the IJB Strategic Plan and financial projections added to supporting robust financial scrutiny by the IJB.	Kate Rocks	On Going
	Childrens Services Funding Pressures.	Covid has had a considerable impact on demand for support within Children & Families. Identified one off funding will only address the short term pressure. A fundamental review of service delivery is needed.	Develop proposals to change service delivery and report back via CMT to Council and IJB.	Kate Rocks	? 2022 ?
Environment & Regeneration	Biodegradable Waste diversion from Landfill.	From January 2025 all biodegradable waste is to be diverted from landfill. The financial implications could be significant.	Monitor and develop options and report to Committee via CMT.	Stuart Jamieson	June 2023

Long-Term Issues (Post 2026)

<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 loss of grant income, over provision of infrastructure. Viability of area under threat.	Population/Demographic trends to be monitored and reported to the Council and Alliance on a regular basis.	Steven McNab	Ongoing
Social Care	Impact of National Care Service	Cost, disruption and impact on rest of the Council.	Monitor and report to Council/IJB.	Louise Long/Kate Rocks	Ongoing
Education & Community	School Estate.	Plans will be required for recommencement of a new School Estate Plan from the late 2020's. This will have significant financial and policy challenges.	Commence consideration at the appropriate time and factor into any investment plans.	Ruth Binks/Stuart Jamieson	Ongoing.
Environment & Regeneration	Regeneration of Greenock and Port Glasgow Town Centres.	Reports to Committee have identified significant investment needs within the Greenock and Port Glasgow Town Centre areas. Whilst contributions will be sought from Partners and the Private Sector the Council will require to provide a large amount of the funding.	Develop a funding model with clear outputs and funding sources.	Stuart Jamieson	Ongoing
	Net Zero Carbon Strategy	To achieve the required targets will require significant capital investment not currently included in financial plans.	Prepare detailed delivery plan and obtain funding approval for delivery.	Stuart Jamieson	November 2022 (Action Plan)
	Closure of major local employer	Could further increase rate of depopulation and would significantly impact of areas regeneration efforts.	Work with all partners to identify areas of risk and mitigating actions.	Stuart Jamieson	As required

Finance Strategy
General Fund "Free" Reserves
December 2022

	£000
Reserves Balance at 31st March 2022	3,719
Budgeted Contribution to Reserves: Note 1	
2021/22 Outturn Earmarked for 2022/23	16,925
	<u>0</u>
	16,925
Planned Use of Reserves 2022/25 Note 2	(17,065)
Projected Surplus (Deficit) 2022/23 Note 3	(144)
Projected Free Reserves Balance 31st March 2023	3,435

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

Notes:

- 1/ 2022/23 figures reflect £2.951m use of reserves to fund the revenue budget as approved at 2022/23 budget setting process.
- 2/ Represents decisions taken between March 2018 and March 2022 and based on latest phasings.

<u>Approved Use of Reserves</u>	2022/23 £'000	2023/24 £'000	2024/25 £'000	Total £000
March 2018 - £8.858m	(191)	(17)	0	(208)
March 2019 - £4m	(30)	0	0	(30)
March 2020 - £8.207m	(303)	(291)	0	(594)
March 2021 - Use of Reserves	(7,918)	0	0	(7,918)
February 2022 - £9.175m	(6,175)	(1,000)	(1,000)	(8,175)
March 2022 - £0.140m	(140)	0	0	(140)
	<u>(14,757)</u>	<u>(1,308)</u>	<u>(1,000)</u>	<u>(17,065)</u>

- 3/ Figure reflects projected deficit reported to Policy & Resources Committee November 2022 (Period 6) and Budget Current Position Policy & Resources Committee November 2022 :

	2022/23 £000	2023/24 £000	2024/25 £000	Total £000
Projected Surplus / (Deficit) (Period 6)	(2,026)	0	0	(2,026)
Scottish Government £120m One off Payment	1858	0	0	1,858
Proposed Write back of Covid EMR (Jun 22)	24	0	0	24
	<u>(144)</u>	<u>0</u>	<u>0</u>	<u>(144)</u>

AP/AE
01/11/22

Finance Strategy
Capital Fund

		2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	2029/30 £'000
Balance B/fwd		(157)	49	(1,179)	(1,374)	(1,408)	(1,443)	(1,479)	(1,516)
Additions (Estimate)	a	(791)	(1,230)	(165)	0	0	0	0	0
Interest (Estimate)		(3)	2	(30)	(34)	(35)	(36)	(37)	(38)
Principal Repayments		0	0	0	0	0	0	0	0
Other Payments	b	1,000	0	0	0	0	0	0	0
Balance at Year End		49	(1,179)	(1,374)	(1,408)	(1,443)	(1,479)	(1,516)	(1,554)

- Notes
- a
- 2022/23 SEMP Receipts, £1.062 remainder of Greenock Academy
AMP Receipts, £0.050m, Glenbrae
Other Receipts, £0.189m, Kempock Place, Leperstone Avenue & minor receipts
Other Receipts, return of £0.510m, Land at Upper Bow
 - 2023/24 SEMP Receipts, £1.140 Sacred Heart, Holy Cross
Other Receipts, £0.090m, Leperstone Avenue
 - 2024/25 Other Receipts, £0.165m, former Garvel Centre, Crescent St
- b Other Payments:
- 2022/23 £1m payment to fund Capital Programme (approved March 2021)

Finance Strategy
Repairs & Renewals Fund

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	2029/30 £'000
Balance B/fwd	(3,369)	(2,988)	(2,762)	(2,745)	(2,778)	(2,812)	(2,848)	(2,883)
Additions:								
Leisure Strategy	a (134)							
Affordable Housing Fund								
Energy Efficiency Fund	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Maintenance Payments:								
Environmental Maintenance	36	41	36	36	36	36	37	75
Leisure Strategy	b 414	241						
Former Housing Repairs & Renewals Fund	c 90							
Affordable Housing Fund	d 50	50	50					
Energy Efficiency Fund								
Interest								
Environmental Maintenance	(12)	(18)	(12)	(12)	(11)	(11)	(10)	(9)
Leisure Strategy	(29)	(38)	(22)	(22)	(23)	(24)	(24)	(25)
Former Housing Repairs & Renewals Fund	(27)	(40)	(29)	(30)	(31)	(32)	(33)	(33)
Affordable Housing Fund	(4)	(5)	(2)	(1)	(1)	(1)	(1)	(1)
Energy Efficiency Fund	(2)	(4)	(3)	(3)	(3)	(3)	(3)	(4)
Balance:								
Environmental Maintenance	e (518)	(495)	(471)	(447)	(422)	(397)	(370)	(304)
Leisure Strategy	(1,075)	(872)	(894)	(916)	(939)	(963)	(987)	(1,012)
Former Housing Repairs & Renewals Fund	(1,139)	(1,179)	(1,208)	(1,238)	(1,269)	(1,301)	(1,334)	(1,367)
Affordable Housing Fund	(142)	(97)	(49)	(50)	(51)	(52)	(53)	(54)
Energy Efficiency Fund	(114)	(119)	(123)	(127)	(131)	(135)	(139)	(144)
Balance at Year End	(2,988)	(2,762)	(2,745)	(2,778)	(2,812)	(2,848)	(2,883)	(2,881)

Finance Strategy
Repairs & Renewals Fund

Notes

- a Future contribution to Leisure Strategy subject to confirmation of available funds.
- b Leisure Strategy commitments:
Pitches/MUGA's Lifecycle costs
- c Allocations for Local Housing Condition Survey £90k
- d Contribution towards Acquisitions of Affordable Housing, £150k total allocation (agreed E&R Committee October 2021)
- e Environmental Maintenance is a combined fund used for ongoing maintenance of Greenock Cut, Gallaghers (Port Glasgow) Development and Inverkip Footbridge.

Updated: MT, 9th Nov 2022

Insurance Fund

	<u>2022/23</u>	<u>2023/24</u>	<u>2024/25</u>	<u>2025/26</u>	<u>2026/27</u>	<u>2027/28</u>	<u>2028/29</u>	<u>2029/30</u>	<u>2030/31</u>	<u>2031/32</u>	<u>2032/33</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Opening Balance	4.633	3.933	3.715	3.477	3.219	2.941	2.643	2.425	2.177	1.999	1.788
Contribution to Fund (a)	0.450	0.350	0.350	0.350	0.350	0.350	0.450	0.450	0.550	0.550	0.550
Payments Made From Fund (b)	(0.390)	(0.410)	(0.430)	(0.450)	(0.470)	(0.490)	(0.510)	(0.540)	(0.570)	(0.600)	(0.630)
MMI Clawback (c)	-	-	-	-	-	-	-	-	-	-	-
Other (d)	(0.075)	(0.158)	(0.158)	(0.158)	(0.158)	(0.158)	(0.158)	(0.158)	(0.158)	(0.161)	-
	4.618	3.715	3.477	3.219	2.941	2.643	2.425	2.177	1.999	1.788	1.708
Estimated Outstanding Charges at 31 October 2022 (e)	(0.685)										
Balance for Future Claims	3.933	3.715	3.477	3.219	2.941	2.643	2.425	2.177	1.999	1.788	1.708

Notes

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

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

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

(c) Movement on allowance for Council contribution to legacy MMI claims (to be reviewed at the year-end). The total allowance at 31 March 2022 was £0.271 million.

(d) Estimated Council contribution of £1.5 million to Scottish Child Abuse Redress Scheme (payments to be made over 10 year period).

(e) Estimated cost to Fund of outstanding claims as at 31 October 2022.

City Deal - As at 31.10.22

Capital	<u>£m</u> <u>15/22</u>	<u>£m</u> <u>22/23</u>	<u>£m</u> <u>23/24</u>	<u>£m</u> <u>24/25</u>	<u>£m</u> <u>25/26</u>	<u>£m</u> <u>26/27</u>	<u>£m</u> <u>27/28</u>	<u>£m</u> <u>28/29</u>	<u>£m</u> <u>Total</u>
Overall Grant	275	80	15	30	60	60	60	60	640
Inverclyde's Grant Received/ Estimated	6.250	5.082	1.000	1.000	0.000	0.000	0.000	1.000	14.332
Project Spend									
Ocean Terminal	6.966	2.624	0.503	0	0	0	0	0	10.093
Inverkip	0.018	0.232	2.800	0.200	0	0	0	0	3.250
Inchgreen	0.087	5.842	3.200	0.298	0	0	0	0	9.427
Council Contribution - Inchgreen	0	0	(1,400)	0	0	0	0	0	(1,400)
Grant Eligible Costs	7.071	8.698	5.103	0.498	0	0	0	0	21.370
Annual Grant (Shortfall)/Surplus	-0.821	-3.616	-4.103	0.502	0.000	0.000	0.000	1.000	-7.038
Cumulative (Shortfall)/Surplus	-0.821	-4.437	-8.540	-8.038	-8.038	-8.038	-8.038	-7.038	
Revenue									
	<u>£m</u> <u>15/22</u>	<u>£m</u> <u>22/23</u>	<u>£m</u> <u>23/24</u>	<u>£m</u> <u>24/25</u>	<u>£m</u> <u>25/26</u>	<u>£m</u> <u>26/27</u>	<u>£m</u> <u>27/28</u>	<u>£m</u> <u>28/29</u>	
Revenue Budget	1481	320	220	220	220	220	220	220	
PMO Central Team Costs	0	(58)	(62)	(66)	(70)	(74)	(78)	(81)	
Interest Charge	0	(90)	(220)	(220)	(170)	(150)	(130)	(120)	
Contribution to Inchgreen	0	(1,400)	0	0	0	0	0	0	
Planned Write Back to Reserves	0	0	0	0	0	0	0	0	
Balance at Year End	1,481	253	191	125	105	101	113	132	

Notes

- 1/ Project spend profiles reflect the latest reported figures to the Cabinet. Costs to be firmed up as part of detailed Business preparation for Inverkip. Figures exclude partner contributions. Ocean Terminal cost approval increased by £400k in 2022
- 2/ The Council initially set aside up to £400,000 per year but approved saving an £80k saving in Sept 2019. From 2023/24 it reflects a proposed further £100,000 savings. A £1.4million contribution to the Inchgreen Project is to come from the cumulative balance in 2022/23.
- 3/ Assumes that the City Deal will pass the 2nd milestone in 2024 and as such the UK and Scottish Government will honour their grant commitments.
- 4/ Regional projects have first call on the grant hence why from 2025/26 the Council's level of grant falls. Estimates only at this time as Regional projects are under review. Grant phasing for 2023/24 and beyond is therefore indicative at this stage.
- 5/ The Interest Charge is based on the investment return foregone by the Council on the assumption the capital investment will be funded from cash balances and fully repaid by 2035. Interest rates used , 22/23(2.5%) and 23/25 (2.0%), 2025/26 onwards (1.5%)

Finance Strategy
Loan Charges

		2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	2029/30 £'000	2030/31 £'000	2031/32 £'000	2032/33 £'000
Balance B/fwd		337	393	(202)	(688)	(972)	(921)	(588)	(340)	271	1,128	1,970
Projected Loan Charges	a	12,036	17,497	17,488	17,386	17,151	16,969	17,154	16,891	16,745	16,860	16,702
Available Budget	b	12,092	16,902	17,002	17,102	17,202	17,302	17,402	17,502	17,602	17,702	17,802
Loan Charge Surplus/(Deficit)		56	(595)	(486)	(284)	51	333	248	611	857	842	1,100
Other Adjustments:												
None		0	0	0	0	0	0	0	0	0	0	0
		0	0	0	0	0	0	0	0	0	0	0
Balance at Year End		393	(202)	(688)	(972)	(921)	(588)	(340)	271	1,128	1,970	3,070
Interest Rate (Assumed):		3.84%	4.02%	3.75%	3.67%	3.71%	3.67%	3.73%	3.76%	3.81%	3.99%	4.11%

Notes

Revised projections as at Nov 2022 and excludes Loan Charges relating to funded models (City Deal, Birkmyre Trust and, for 2022/23, SEMP). From 2018/19 onwards, general capital grant is applied to core allocations only and not to individually funded models.

- a Includes loan charges for new LD Centre based on spend between 2021/22, 2022/23, 2023/24 and 2024/25.
£100k annual cost increase from 2023/24 to reflect prudential borrowing of £1.5m.
Projected principal repayments on new projects are calculated on annuity basis.
- b Adjustments to Available Budget:
For 2022/23
Budget from 2018/19 onwards reduced by £300k annually to 2022/23 to reflect reduction in Scottish Government grant support resulting from repayment of historic debt.
£400k reduction in budget.
Budget increased by £1,130k due to budget and projected VRP loan charges now included above and not separately budgeted for.
Budget adjusted for £60k reduction in loan charges agreed in February 2022 and for Food Waste Collection saving (£14k reduced).
For 2023/24
Budget increased by £4,715k due to budget and projected SEMP loan charges now included above and not separately budgeted for.
Budget from 2023/24 onwards increased by £100k annually for annual Prudential Borrowing.
Budget adjusted for £5k reduction in loan charges for Food Waste Collection saving.