Inverclyde council

AGENDA ITEM NO: 6

Report To:	**Inverclyde Council**	**Date:**	**1st December 2016**
Report By:	**Chief Financial Officer**	**Report No:**	**FIN/111/16/AP/LA**
Contact Officer:	**Alan Puckrin**	**Contact No:**	**01475 712223**
Subject:	**Financial Strategy 2016/2024 - Update**		

1.0 PURPOSE

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

2.0 SUMMARY

2.1 The six month review of the Financial Strategy has been undertaken and takes into account the approved 2016/18 Budget, a review of all funding models included in the Appendix and the latest information from UK and Scottish Government including matters included in the new Scottish Government's programme.

2.2 It can be seen from table 3 in paragraph 7.8 that the Council has a revenue funding gap over 2016/18 of £2.805 million. It has been agreed as part of the 2017/19 Budget Strategy to close this gap by a combination of a Council Tax increase and reserves.

2.3 In line with Best Practice, Section 7 also includes 3 different scenarios for the 2017/20 Revenue funding gap based on different assumptions around Government Grant, income, inflation and budget pressures. This gives a range in funding shortfalls of between £13.1 million to £37.4 million. Informal indications are that the 2017/18 grant settlement could be worse than even the pessimistic scenario.

2.4 Table 5 in paragraph 7.13 shows that overall the Council has a £0.84 million deficit on the 2016/18 Capital Programme. A new 2017/20 Capital Programme is being developed for Members to consider as part of the February 2017 Budget.

2.5 All the other appendices and tables have been updated as follows:

Appendix 4 – Riverside Inverclyde – this reflects the Single Operating Plan.

Appendix 5 – School Estate Management Plan – this reflects the latest phasings and decisions taken as part of the budget. It remains financially balanced based on the assumptions made.

Appendix 6 – General Fund Reserves – this reflects the decisions taken as part of the 2016/18 budget and the latest Policy & Resources information.

Appendix 7 – Capital Fund – this reflects the latest review of receipts and £3.0 million allocated for Loans Charges.

Appendix 8 – Repairs and Renewals Fund – this reflects the position including the latest projections.

Appendix 9 – AMP – this reflects the latest projected figures taken into account latest information and decisions including a review of the timing of loan charges and the application of savings agreed by the Council.

Appendix 10 – Vehicle Replacement Programme – reflects latest information and budget savings including savings from Vehicle Tracking.

Appendix 11 – RAMP – shows the five year planned investment of £29 million ending in 2017/18. Proposals for the next phase are due to be considered as part of the February 2017 Budget.

Appendix 12 – This Appendix illustrates how the Council intends to address a significant loans charges funding pressure between 2016/17 and 2021/22. In addition the figures reflect the £2.0 million saving in Loans Charges agreed by Policy & Resources as part of the 2016/18 budget and a further £650,000 allocated for the SEMP acceleration.

Appendix 13 – This Appendix provides a medium/longer term initial projection of the City Deal programme from both a revenue and capital perspective.

2.6 Section 11 reflects the identified risks to the Financial Strategy and mitigating actions whilst Appendices 1 to 3 highlights the major short / medium / long term issues the Council needs to be aware of which could materially impact on the figures presented.

2.7 Overall the Financial Strategy confirms the significant challenges facing the Council in coming years but that all models remain affordable, based on the latest information.

2.8 The Corporate Management Team have contributed to and approved the content of the revised Financial Strategy.

3.0 RECOMMENDATIONS

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

Alan Puckrin
Chief Financial Officer

4.0 BACKGROUND

4.1 The Financial Strategy requires to be reviewed twice per year and reported to the Full Council. This is done in June and December each year.

5.0 CURRENT POSITION

5.1 The Strategy has been updated to reflect latest information as detailed in Section 2 of this report and confirms that the Council has a current recurring funding gap of £2.8 million by 31st March 2018 but took decisions in March 2016 to manage this for 2017/18.

5.2 All models in the Appendices have been reviewed and all remain affordable.

5.3 Appendices 1-3 outline the short, medium and long term challenges which the Council requires to consider when agreeing future budgets.

5.4 The Strategy has taken account of the latest information from the new Scottish Government with a key announcement being the expected 2017/18 Budget on 15th December 2016.

5.5 Whilst there is no official line from the Government indications via Cosla are that 2017/18 could be at least no better than last year with cash cuts in excess of 3.5%. The current mid-range funding scenario assumes a reduction of around 1.7%.

6.0 IMPLICATIONS

Finance

6.1 The Financial Strategy is the key document for the Council's financial planning and links into other strategic strategies and plans. Given the financial challenges which lie ahead then the importance of regular reviews of the document increases.

<u>Financial Implications:</u>

One off Costs

Cost Centre	Budget Heading	Budget Years	Proposed Spend this Report £000	Virement From	Other Comments
N/A					

Annually Recurring Costs/ (Savings)

Cost Centre	Budget Heading	With Effect from	Annual Net Impact £000	Virement From (If Applicable)	Other Comments
N/A					

Legal

6.2 There are no specific Legal issues arising from the report.

Human Resources

6.3 There are no specific Human Resources issues arising from the report

Equalities

6.4 There are no specific equalities issues arising from the report

Repopulation

6.5 Having medium term financial plans which realistically reflect the pressures and opportunities faced by the Council and the communities it serves will help build confidence in the area and contribute to the Repopulation agenda.

7.0 CONSULTATIONS

7.1 The Financial Strategy has been produced after consultation with and input from the CMT and other relevant Officers.

8.0 LIST OF BACKGROUND PAPERS

8.1 None.

Inverclyde council

Financial Strategy

2016/17– 2023/24

December 2016

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1.0 Foreword

This latest revision of the Council's Financial Strategy has been undertaken at a time of continued financial austerity, political uncertainty and constitutional change.

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

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

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

- **the Council has a comprehensive, coherent, balanced budget;**
- **the Council reviews the level of Council Tax annually in the context of the Financial Strategy, to determine an appropriate level in the best interests of the people of Inverclyde;**
- **resources are allocated and deployed to facilitate delivery of the outcomes in the Corporate Statement and Single Outcome Agreement 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;**
- **a significant proportion of efficiencies secured are invested in improving service quality, delivering new infrastructure, enhancing service levels and upgrading existing assets;**
- **there is an increased level of understanding on behalf of the wider community with regard to the finances of the Council.**

The primary financial challenge facing the Council over the 2016/18 period, given the impact of the economic downturn on public sector expenditure, will be to stay within the approved revenue budget and deliver a capital programme that continues to maintain a high level of investment in key infrastructure.

There is no doubt that setting the 2016/18 budget generated options required difficult decisions. This position is expected to be magnified over the period 2018/20. 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 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 from sources such as the various Lottery Funds to supplement existing resources and support service delivery. The Council's approach to charging will require to be reviewed as part of the overall 2018/20 Budget.

The Financial Strategy also ensures that strategic initiatives which require long term revenue and capital commitments such as The City Deal, Asset Management Strategy and the School Estates Management Plan are locked down.

We also need to ensure that the Financial Strategy continues to support the Corporate Statement directly, the Single Outcome Agreement for Inverclyde, 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 the Policy & Resources Committee. It will continue to be formally reviewed by the Council twice yearly, in June and in December.

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

Councillor Stephen McCabe **Leader of the Council**	**Aubrey Fawcett** **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 Single Outcome Agreement, Corporate Statement, 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 eight 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 The Strategy covers the period 2016/18 in detail and also identifies issues that will impact in the longer term, so that the Council can plan ahead. It includes expenditure forecasts and projected funding, where known for key priorities.

2.9 Inevitably some of the information of the Financial Strategy will be based on forecasts and these will change over time - the Strategy is reviewed regularly so that the Council can respond proactively to any such changes.

2.10 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.

2.11 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 10 March 2016 the Council agreed the 2016/18 Revenue Budget which included the temporary use of up to £2.81 million from Reserves to balance the 2017/18 Budget. The requirement to use this level of reserves in 2017/18 will be reviewed in February 2017 once details of the 2017/18 Settlement are known. The Council has agreed however that reserves will be used to close any funding gap in 2017/18 to allow the new Council, due to be elected in May 2017, to shape future years policies and priorities.

3.2 The same meeting also reaffirmed the 2015/18 Capital Programme which took into account the latest Government Grant settlement information.

Table 2 – Short Term Summary – Approved Revenue and Capital Budgets (March 2016)

	2016/17 £million
General Fund Revenue Budget	190.348
Financed by	
Government Grant (Including NDR)	(163.552)
Council Tax	(26.796)
Approved Contribution to General Reserve	-
Capital Programme (2016/17)	
Approved Spend	28.72
Financed by	
Government Grants	8.48
Capital Receipts	0.69
Other Grants/CFCR etc	0.98
Prudential Borrowing	18.12
Resources Carried Forward from prior year	5.05
Surplus in Resources in 2016/17	3.55

4.0 Overall Economic Position

UK Context

4.1 The UK Government Spending Review (SR) was announced in November 2015 and covered the period to 2020/21. The Autumn statement for 2016 is due from the Chancellor on 23rd November. This will provide a crucial indication of the medium term strategy the Government intends to adopt post the vote to leave the EU.

4.2 The SR estimated real GDP growth of between 2.3% and 2.5% over each of the next 5 years. In addition it reflected a gradual increase in CPI and Interest Rates to 2% by 2020/21. These figures are expected to be revised by the Chancellor post the Brexit vote with almost monthly revisions to growth, inflation and interest rates forecasts from the Bank of England, National Institute for Economic & Social Research (NIESR), IFS etc.

4.3 The High Court ruling on Article 50 on 3rd November is expected to cause further delay and uncertainty and as such it is important that the Council continues to plan for a range of financial scenarios as outlined in Section 7.

4.4 Despite the fluid situation and different predictions one thing that is common is the fact that there is no indication of material rises in tax rates and as such considerable pressure will remain on the Public Finances.

The Scottish Context

4.5 In December 2015 the Scottish Government announced a one year Budget covering 2016/17 with the expectation that the new Scottish Government will announce a 1 year (2017/18) Budget on 15th December 2016.

4.6 The SNP manifesto contained a number of commitments which are expected to impact on Local Government finances in the next few years. The main areas are as follows:

- NHS Budget to increase by £500m more than inflation by the end of the Parliament
- Additional £1.3 billion in Health & Social Care Partnerships
- To almost double the free early years provision by 2021
- Increase Scottish Attainment Fund by £750 million with more allocated to Head Teachers
- Extend payment of the Living Wage to all Social Care Workers by October 2016
- Abolish the "Bedroom Tax"
- Council Tax increases to be capped at +3%
- Assignation of some income tax to Councils
- Reform of Council Tax

Progress has been made on a number of these commitments with the imminent Scottish Budget announcement expected to provide further clarity.

4.7 In addition a number of other points which will impact on Local Government were included as follows:

- A review of the roles and responsibilities of local authorities and between local authorities and health boards

- Introduction of a Bill that will decentralise local authority functions, budgets and democratic oversight to local communities

- 1% of local authority budgets to be allocated to local communities under Community Choice arrangements

- Consideration of a system of penalties for local authorities which have not settled equal pay claims

4.8 The following table shows the projected movement in the Scottish Budget over the period 2016/20 based on information received from John McLaren in May 2016. These figures will be revised post the Scottish Government Spending Review announcement in December.

	2016/17 %	2017/18 %	2018/19 %	2019/20 %	Cumulative
Scottish DEL - Cash	+0.7	+1.0	+0.7	+1.0	+3.4%
Scottish DEL - Real	-1.0	-0.7	-1.4	-1.1	-4.2%

For Councils, based on no increase in Council Tax and NDR, the average annual cash terms reduction is nearer 1.6%.

4.9 In addition the Fiscal Framework Principles have been agreed between UK and Scottish Government. The main areas are as follows:

- Barnett Formula is retained
- Scottish Rate Income Tax (SRIT) implemented from April 2016
- Welfare changes commencement date to be agreed
- 10p of VAT receipts (standard) and 2.5p (reduced) to be assigned to the Scottish Government by 2019/20
- Borrowing –

    Capital –
    - Up to £3bn cap over a 10 year period with a £450m annual cap. (Over and above capital block grant).

    Revenue –
    - Up to £600m/year but limit is £1.75bn

    Reserves –
    - To manage spend and tax volatility with a £700m aggregate cap. Annual limit is £250m revenue, £100m capital

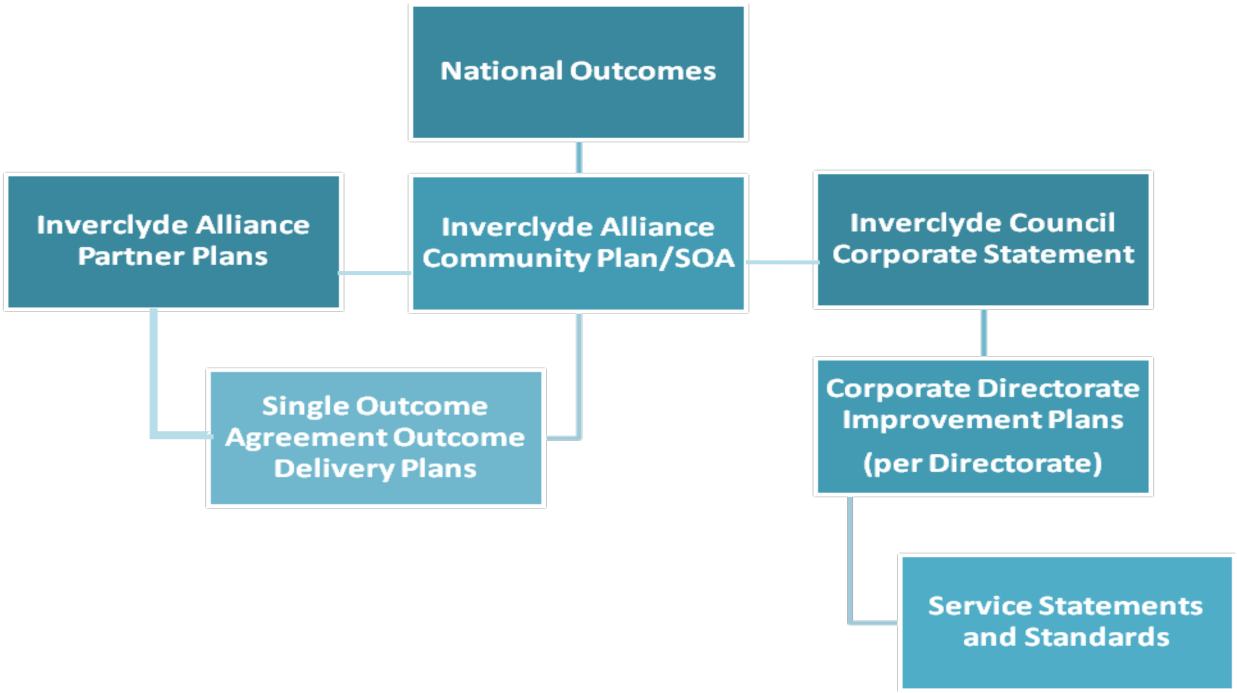
4.10 Based on the above it is clear that Local Government faces a continued squeeze on resources for the foreseeable future which will require clear prioritisation and inevitably a review of some of the universal service provision policies at both a national and local level.

5.0 Local Context

5.1 The local environment within which the Council operates has changed significantly in recent years and will alter further in future years due to the impact of national legislation and policy, further economic turbulence, societal changes and developing customer expectations.

5.2 The overall strategic framework within which the Council operates is outlined in the Strategic Planning and Performance Management Framework. The Framework includes the Single Outcome Agreement, the Corporate Statement, Corporate Directorate Improvement Plans and the Financial Strategy.

5.3 The Strategic Planning and Performance Management Framework is shown in the Diagram below.



- The **National Outcomes** are set by the Scottish Government and sit within a National Performance Framework. These outcomes are an overarching guide for the local community planning partnership document, the Single Outcome Agreement.

  The Council has agreed that the **Single Outcome Agreement** will act as the **Community Plan** for the Inverclyde area. The current SOA will run from 2012 to 2017 and was subject to a minor review in 2013 to match guidance released by the Scottish Government, following the Review of Community Planning and SOAs. The SOA is the high level strategic partnership document setting out the vision and direction for the Inverclyde area, as agreed by all the Inverclyde Alliance partner organisations. 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 **SOA Outcome Delivery Plans** set out the Partnership actions and projects which will contribute to the achievement of the SOA outcomes and are expressed through the wellbeing indicators (as set out in the SOA, see below in 5.5) to help better understand their impact on a crosscutting basis.

- The **Corporate Statement** is a public facing, focused statement setting out the Council's vision. The Corporate Statement also reflects the eight local outcomes and the wellbeing indicators from the SOA and sets out, at a high level, what the Council will do to deliver on the eight local outcomes. It also sets out the high level budget by key services.

- **Corporate Directorate Improvement Plans** set out the vision for each Directorate. 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 referenced to community outcomes and wellbeing indicators.

- **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.

Outcomes for Inverclyde

5.4 The focus of the Strategic Planning and Performance Management Framework is on addressing the main challenges facing the area, and the eight outcomes set out in the SOA are the agreed priority areas for all partners to work together on, covering the areas of:

- Repopulation
- Successful Communities
- Economic Regeneration and Employability
- Health Inequalities
- Alcohol Misuse
- Best Start in Life for children and young people
- Environment
- Continuously improving, best value services

5.5 There are also a series of **wellbeing outcomes**, which the Inverclyde Alliance, including the Council, has adopted, which have been adapted and expanded from 'Getting it Right for Every Child' , to help us work towards '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.

5.6 A key challenge for the Inverclyde Alliance, and the public agencies, operating in Inverclyde, over the next five years will be to ensure better alignment between available resources, across all agencies, and the outcomes identified in the SOA.

5.7 There are a number of improvement actions which have been developed from the Quality Assurance of the SOA including the need to develop a process to identify how partners are shifting planning and resources to early intervention and measuring success on reducing demand, costs and releasing savings. The Council is working to establish a picture of resource deployment in the context of the SOA and will work with partners to try to capture the picture across all involved agencies.

Demographics and Population

5.8 The most significant challenge facing Inverclyde is depopulation and associated demographic change – this has been recognised by the Council and our Partners as a priority and is reflected in the Corporate Statement and Single Outcome Agreement.

5.9 The fundamental issue for the Council is that at some point if the decline in population continues at the current pace then the area could become no longer sustainable as a unit of administration which would have an associated impact on other services such as health, police and fire.

5.10 In 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 set out Inverclyde's population for 2015 at 79,500, a decrease of 1.0% from 80,310 in 2013. The population of Inverclyde accounts for 1.5% of the total population of Scotland.

5.11 In Inverclyde 13,301 (16.7%) of the population are aged 16 to 29 years. This is smaller than Scotland where 18.3% are aged 16 to 29 years. Persons aged 60 and over make up 25.9% of Inverclyde. This is larger than Scotland where 24% are aged 60 and over.

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

5.13 By 2039 the population of Inverclyde is projected to be 70,271, a decrease of 12 per cent compared to the population in 2014. The population of Scotland is projected to increase by 7 per cent between 2014 and 2039.

5.14 Over the 25 year period the age group that is projected to increase the most in size in Inverclyde is the pensionable age and over age group. This is the same for Scotland as a whole.

5.15 The population aged under 16 in Inverclyde is projected to decline by 16 per cent over the 25 year period.

5.16 In the SIMD 2004, Inverclyde, locally, had 32.7% of data zones in the most deprived 15% of all data zones, however by 2006, this had increased to 38.2%. In 2009, the percentage of datazones in the most deprived 15% remained static at 38.2%, increased in the 2012 SIMD release to 40.0% and reduced to 36% in 2016. The number of Inverclyde datazones in the 5% most deprived in Scotland has fallen by 3 from 14 to 11. This equates to 9.6% of all 114 Inverclyde datazones in the 5% most deprived category.

Inverclyde has the second highest concentration of deprivation in Scotland, sitting behind Glasgow.

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 will reduce in real terms over the next five years.

5.18 In terms of indicators of deprivation the profile for Inverclyde differs significantly from the national picture, these include[1]:

- Of the 9,890 working age key benefit claimants in Inverclyde 5,950 (11.7% of the working age population) are claiming Employment Support Allowance and Incapacity Benefits. This is higher than the Scottish figure of 7.9%.
- 2.3% (1,180) of working age benefit claimants are claiming Job Seekers Allowance. Of this, a higher proportion of 18 – 24 year olds (5.3%) are claiming than 25 – 49 year olds (3.1 %) or 50 – 64 year olds (2.0%).
- 19.4% of the working age (16-64yrs) population of Inverclyde areout-of-work benefit claimants, compared to 13.7% of the Scottish population as a whole.
- Approximately 86.5% of working age adults in Inverclyde have NVQ1 and above, or other formal qualifications. 91% of the Scottish population have NVQ1 and above or other formal qualifications (2015 figures).
- Median earnings for full time workers (Gross Weekly Pay) in 2015 in Inverclyde were £518.9 which has increased from the 2007 rate of £383 per week. This is approximately 1.53% lower than those for Scotland as a whole (£527), with the gap decreasing from 13%.
- Working age people account for 63.6% of all people in Inverclyde (2015). This is 1% 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 a targeted focus to move out of poverty and this 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 changing public sector landscape in Inverclyde

5.22 The public sector landscape has changed significantly over the last decade in Inverclyde with the creation of Riverside Inverclyde, River Clyde Homes and the Health & Social Care Care Partnership – these organisations join Inverclyde Leisure and the wider voluntary sector as part of a mixed economy of public service provision.

5.23 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 SOA where there will need to be a robust appraisal of whether existing service delivery arrangements across all partner agencies can effectively deliver on the agreed outcomes.

5.24 The Christie commission report set out the future of public service reform, with a major emphasis on preventative spend and early intervention. Whilst the Council has to tackle the problems associated with poverty 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.

5.25 The Community Empowerment (Scotland) Bill was passed on 17 June 2015 and received royal assent on 24 July 2015. The Act 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 different parts of the Act are likely to have different start times from then. Statutory guidance is currently being prepared to support the implementation of the Act. This Act will potentially have a significant impact on the way the Council interacts with the Community.

5.26 *Riverside Inverclyde*

Riverside Inverclyde is a joint initiative between the Council and Scottish Enterprise to regenerate 330 acres of the Clyde Waterfront scheduled to run from 2006/7 until 2017/18.

The Council's contribution towards Riverside Inverclyde was originally to be £24 million over the ten year period. In addition the Council has made contributions in kind by transferring specific assets to the Urban Regeneration Company which will count towards the £24 million contribution and a further £5.7 million financial support to specific major Regeneration projects led by Riverside Inverclyde.

Following the mid-term review in 2013 a new Single Operating Plan covering the period 2014/17 was approved. The Single Operating Plan reviewed objectives, outcomes and financing. A further review in 2015/16 resulted in a decision to extend Riverside Inverclyde to March 2019.

5.27 *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.

River Clyde Homes prepared a Business Plan which gives tenants a clear understanding of what they can expect from the new organisation on key issues like improvements, repairs and rent levels. Government cuts have impacted on progress against the original Business Plan.

5.28 *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. Inverclyde Leisure has revised its Business Planning process and a new Business Plan was presented to the Council in March 2014 and is reviewed annually.

The Councils percentage contribution to the Leisure Trust has reduced considerably and is currently under 30% of the Leisure Trust turnover.

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

The Council and Greater Glasgow and Clyde Health Board established an integrated Community Health and Care Partnership in October 2010. This has 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 will receive resources from and delegate resources to the Council and Health Board. The Council is well placed to meet this challenge given the 4 successful years of CHCP operation.

The financial integration became live in April 2016. The Council expects increased pressure on Council Budgets as the impact of pressures in the Acute side of Health work their way through the IJB Finances.

6.0 Financial Management

Corporate Governance

6.1 The Council positively promotes the principles of sound corporate governance within all aspects of its activities.

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 September 2016 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 and Corporate Directors form the CMT, chaired by the Chief Executive, who are responsible, individually and collectively, for ensuring effective financial management across the organisation.

6.12 As Budget Holders the CMT 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 have a specific meeting each reporting cycle to consider corporate financial matters including employee costs, key budget lines, earmarked reserves and savings delivery progress.

Chief Financial Officer

6.14 The Chief Financial Officer has a statutory role to ensure appropriate arrangements are in place for the proper administration of the financial affairs of the Council. He has the authority to comment 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 Corporate 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 The Council agreed in November 2009 to a “Hub and Spoke” model for the delivery of financial support to Services. This means each Directorate has a dedicated Finance Manager and Principal Accountant who to 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 Chief Financial Officer and the relevant Corporate 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 FMS 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 3 years), medium-term (within 5 years) or long-term (over 5 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 Council is due to receive Revenue Grant/Non-Domestic Rates Income of £163.552m in 2016/17.

7.4 When the Council's own projection of Council Tax Income based on 96.8% collection rate is added (£26.796m) then the income for the Council in 2016/17 is projected to be £190.348.

7.5 The Financial Strategy runs up to 2023/24 and beyond in terms of identifying potential issues, but the revenue forecasts are limited to the period which can be reasonably forecast.

7.6 The level of resources available to the authority to fund its revenue expenditure is also dependent on Council Tax and the approved budget shows no increase over 2016/17 although the Council has the option to increase Council Tax by up to 3.0% in 2017/18.

7.7 The Council has agreed a Reserve Strategy which requires a minimum unallocated General Fund Reserve of 2% of turnover. Based on the 2016/17 Budget this now equates to £3.8 million. The overall position of the Reserves shown in Appendix 6 and has been updated to reflect the latest projections. The Reserve Strategy was reviewed and approved by the Policy & Resources Committee in September 2016.

7.8 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 2016

	2016/17 £m	2017/18 £m
Base Budget for Prior Year	195.855	190.348
UPLIFTS FROM PRIOR YEAR		
Inflation (Note1)		
Pay Inflation	2.110	1.745
Other Inflation	0.500	1.000
Income	-0.110	-0.110
	2.500	2.635
Budget Increases (Note 2)		
Unavoidable Pressures	2.090	0.400
Loan Charges	0.400	0.400
New Pressures - P&R November 2014	0.471	-
New Pressures - Inverclyde Council March 2016	1.390	-
Further Social Care Pressures - 2016/17	1.291	
	5.642	0.800
Adjustments (Note 3)		
Reduce Inflation Allowance	-2.900	-
2015/16 Budgeted Surplus	-2.587	-
Other Adjustments Applied	0.301	0.020
Funding from IJB (£250 million Share)	-2.560	-
Net Revenue Budget Before Savings	196.251	193.803
Funded by: (Note 4)		
Revenue Grant/NDR Income	163.552	160.525
Council Tax Income (Net of CTR)	26.796	26.796
	190.348	187.321
Annual Budget Before Savings (Surplus)/Deficit	5.903	6.482
Cumulative Budget Gap before Savings	5.903	12.385
Savings Applied (Cumulative)		
Savings Applied February 2015	-3.277	-3.277
Budget Topslice 2016/17	-0.820	-0.820
Efficiencies & Adjustments Nov 2015 / Feb 2016	-1.322	-1.687
Loans Charges Savings - September 2015	-	-2.220
Use of Reserves 2017/18	-	-
Savings Agreed February 2016	-0.484	-0.976
Savings Target Approved March 2016	-	-0.600
Approved Budget (Surplus)/Deficit	0.000	2.805

Finance Strategy Notes – June 2016

Note 1 Inflation

a) Pay – The allowance for pay inflation is an allowance available over the 2 year period to fund all pay related pressures including the annual pay award, impacts of living wage, equal pay etc, increases in employers national insurance/pension costs and movement in service bottom up employee budgets.

   A two year pay award was agreed for 2015/16 and 2016/17. The approved 1% increase for 2016/17 cost approximately £350,000 for teachers and £700,000 for non-teachers.

b) Other Inflation – Inflation has been at an unprecedented low rate in recent times and as such the allowances have been greatly reduced. Indications are that pressures are building on both construction and workforce related costs and as such the allowance has been increased to £1 million from 2017/18.

c) Income – A review of the income lines for 2016/18 has resulted in anticipated income inflation of £110k for both years (2%).

Note 2 Budget Increases

a) Unavoidable Pressures – Reflects approvals for Auto Enrolment, Teachers pension increase from August 2015 and abolition of National Insurance contracting out rebates from 2016/17.

b) Loan Charges Movement – Figures reflect anticipated increase due to capital investment and further investment for RAMP/AMP in 2017/18

c) New Pressures – P&R November 2014 – Reflects pressures approved during Budget setting February 2015.

d) New Pressures – Inverclyde Council March 2016 – Reflects pressure approved during Budget setting March 2016.

Note 3 Adjustments

a) Reduce Inflation Allowance – Reflects decisions taken during Budget setting February 2016.

b) Funding from IJB Share £250 million – Reflects Councils share of £4.45 million allocated to Integrated Joint Boards used to alleviated pressures within Council Social Care Budget.

c) Other Adjustments – Figure reflects decisions taken at September 2015 Policy and Resources Committee and Budget setting March 2016. The main adjustments relate to realigning School transport, increasing turnover target to 15% and increasing Internal Resources Income budget.

Note 4 Funded By

a) Reflects 2016/17 Finance Settlement included in Scottish Government Circular 1/2016. The 2017/18 figures are estimated based on continuing grant loss due to Depopulation and estimated cash reductions per 2016 Autumn Statement.

b) Council Tax Income is shown net of Council Tax Reduction (CTR) Scheme. Grant is included within Council General Revenue Grant for CTR.

7.9 *Other Short Term Revenue Issues*

The main remaining risks associated with the 2016/18 budget position will be around Pay Awards, non-pay inflation allowances and the 2017/18 Grant settlement. Regular reporting to Committee will ensure officers report any significant variances at the earliest opportunity.

7.10 *Medium to Long Term Revenue Issues*

Looking beyond 2017/18 becomes increasingly difficult with uncertainty around the level of funding likely to be available, the impact of the Scotland Act and the use the Scottish Government will make of its new powers.

The incremental impact of current major initiatives including Riverside Inverclyde, Schools Estate Strategy, and Asset Management Plans will have been fully incorporated the overall Budget.

Post 2017/18 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 new 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.**

- **Welfare Reform changes and associated budget cuts will impact on DWP/Government grants to the Council, Service demands on the Council and employee numbers in certain Council Services.**

- **Health/Social Care integration will become embedded and 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.**

- **As Loans Charges become a larger proportion of the Revenue Budget due to funding reductions and the Council's ambitious Capital Investment Programme then the impact of increases in interest rates will become greater.**

- **Overall global economic situation and in particular the recent Brexit vote resulting in uncertainty around investment returns, inflation levels and further reductions in public sector funding.**

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

7.11 Table 4 shows the high level estimate of the 2017/20 budget gap based on the above.

Table 4a

2017/20 Budget Gap - High Level Estimate

		2017/18 £m	2018/19 £m	2019/20 £m	Cumulative £m
1/	Estimated Block Grant Reduction	1.8	3.7	2.9	8.4
2/	Continuing cash cut due to Depopulation	1.0	1.0	1.0	3.0
3/	Inflation - Pay	1.2	1.8	2.4	5.4
	- Non-Pay (As present)	1.0	1.5	2.0	4.5
4/	Pressures (Known)				
	- Auto-enrolement (75% take up -Oct 2017)	0.4	0.6	-	1.0
	- RAMP/AMP	0.4	0.4	0.4	1.2
	- General Pressures	0.3	1.0	1.0	2.3
	- Apprenticeship Levy	0.5	-	-	0.5
5/	Savings Identified to Date	(3.8)	-	-	(3.8)
		2.8	10.0	9.7	22.5

a/ This excludes a general allowance for demographic pressures coming through HSCP from 2017/18.

b/ Allows for £4.6 million per year Prudential Borrowing for RAMP and £1.0 million per year for AMP.

c/ Assumes no Council Tax increase. (3% annual increase would raise £0.81 million per year towards the gap).

d/ 2018/19 Pressures includes £0.15 million increased funding for the Beacon Arts Centre.

e/	Key Assumptions	2017/18 %	2018/19 %	2019/20 %
	GRG/NDRI	-1.0	-2.1	-1.7
	Pay Inflation	1.0	1.5	2

In line with good practice tables 4b and 4c provide two further scenarios based on different assumptions. Table 4b represents an “optimistic” scenario with a 2017/20 funding gap of £13.1 million before any Council Tax increase and Table 4c respresenting a “pessimistic” scenario with a pre-Council Tax increase funding gap of £37.4 million.

Table 4b

2017/20 Budget Gap - Optimistic Scenario

	2017/18 £m	2018/19 £m	2019/20 £m	2017/20 £m
Block Grant Reduction	0.0	1.9	1.2	3.1
Continuing Impact of Depopulation	1.0	1.0	1.0	3.0
Inflation - Pay	1.2	1.2	1.2	3.6
- Non-Pay	1.0	1.0	1.5	3.5
Known Pressues - Auto Enrolement	0.4	0.6	-	1.0
- RAMP/AMP	0.4	0.4	0.4	1.2
- General Pressures	0.0	0.5	0.5	1.0
- Apprenticeship Levy	0.5	-	-	0.5
Savings Identified	(3.8)	-	-	(3.8)
Funding Gap	0.7	6.6	5.8	13.1

Table 4c

2017/20 Budget Gap - Pessimistic Scenario

	2017/18 £m	2018/19 £m	2019/20 £m	2017/20 £m
Block Grant Reduction	4.5	6.3	5.5	16.3
Continuing Impact of Depopulation	1.0	1.0	1.0	3.0
Inflation - Pay	2.4	3.0	3.6	9.0
- Non-Pay	1.5	2.0	2.7	6.2
Known Pressues - Auto Enrolement	0.4	0.6	-	1.0
- RAMP/AMP	0.4	0.4	0.4	1.2
- General Pressures	1.0	1.5	1.5	4.0
- Apprenticeship Levy	0.5	-	-	0.5
Savings Identified	(3.8)	-	-	(3.8)
Funding Gap	7.9	14.8	14.7	37.4

The clear message from these three tables is that the new Council post May 2017 will require to make large cost savings unless there is a significant improvement in the funding of Local Government in the forthcoming Spending Review.

7.12 Short to Medium Term Capital Projections

The Council agreed a 2 year Capital Programme covering 2016/18 in March 2016 which included significant extra investment in roads infrastructure and increased investment in Property Assets and an acceleration of the Schools Estate Management Plan.

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

A 2017/20 Capital Programme will be developed over 2016 for member's consideration.

The Council has agreed an asset disposal strategy on the premise that assets are not sold whilst the market continues to be depressed unless the Council is clear it can demonstrate Best Value is being achieved.

7.13 Long-Term Capital Projections

There is greater certainty around capital spend for the post 2017/18 period due to the fact that the School Estate Strategy will use around 50% of projected capital grant in the medium term.

This will leave a limited amount for other projects which will be required to maintain the Council's existing infrastructure asset base i.e. Operational Properties, Roads, Lighting, Open Spaces and ICT.

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, as well as delivering efficiencies which will secure ongoing revenue savings.

Indications are that Local Government Capital Grants will increase in the medium 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 2016/2018 (Medium Term Capital Projections)

Table 5

Expenditure/Projects by Committee	2016/17 £m	2017/18 £m	Totals £m
Policy & Resources	0.25	0.76	1.01
Environment & Regeneration	16.59	20.06	36.65
Education & Communities (Exc School Estate	2.91	4.1	7.01
School Estate	7.56	21.9	29.46
CHCP	1.41	2.16	3.57
	28.72	48.98	77.7
Financed By			
Government Grant	8.48	9.25	17.73
Sales/Contributions	0.69	0.44	1.13
Other Income	0.98	0.07	1.05
Revenue	0.45	4.38	4.83
Prudential Borrowing	18.12	21.04	39.16
Resources Carried Forward	5.05		5.05
	33.77	35.18	68.95
Shortfall in Resources			8.75
Planned Cashflow funding - SEMP			(8.57)
Actual Funding Gap			0.18

Notes

1 As per November 2016 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 Some significant changes were made to the requirements for Treasury Management reporting following the implementation of the revised CIPFA Treasury Management Code of Practice in April 2010. This has resulted in the following:

(a) An annual Treasury Management Strategy submitted at the start of the financial year and which includes the Council's Prudential Indicators and covers issues such as the economic situation, the prospects for interest rates, and the Council's borrowing and investment strategy for the coming year.

(b) A mid-year review of the Strategy which include details of the Council's debt and investment position, activity undertaken during the quarter, and performance to date against the Council's Prudential Indicators and agreed policy limits.

(c) An Annual Report for Treasury Management which is submitted to Members before the end of September each year and which advises Members of the Treasury Management activities during the previous financial year.

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

8.4 Table 6 below shows the Council's debt and investments position as at 30/9/16.

Table 6 – Council's Debt and Investment Position – 30/9/16

The Council's treasury portfolio position at 31/3/16 comprised:

		Principal		**Average Rate**
		£000	£000	
Fixed rate funding	PWLB	105,245		
	Market	55,000	160,245	3.98%
Variable rate funding	PWLB	0		
	Market	47,960	47,960	4.86%
TOTAL DEBT			**208,205**	**4.18%**
TOTAL INVESTMENTS			**43,726**	**0.67%**

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 2016.

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 approximately £190 million results in a core General Fund Reserve of £3.8 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.

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) <u>General Fund "Free" Reserves</u> – 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 6.

<u>Projected Balance 31/3/17 = £4.25 million</u>

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

<u>Balance 31/3/16 = £3.815 million</u>

(c) <u>Capital Fund</u> – The Capital Fund is a Fund into which Capital Receipt income can be paid and used to fund either capital investment or repay the Principal element of debt repayments. The balance and planned usage of the Capital Fund is incorporated into the Financial Strategy. See Appendix 7.

<u>Balance 31/3/16 = £2.318 million</u>

(d) <u>Repairs & Renewals Fund</u> – The Repairs & Renewals Fund consists of sums received from external parties or allocated directly from Council resources which are thereafter released on a phased basis to maintain specific assets. Use of specific allocations to the Fund are agreed by Policy & Resources Committee and the overall position will be reported as part of the Financial Strategy. See Appendix 8.

<u>Balance 31/3/16 = £3.184 million</u>

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, £1.9 million, subject to the opinion of the Chief Financial 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
The Financial Strategy does not reflect in financial terms the objectives set out in other strategic plans of the Council.	The Financial Strategy provides a high level overview of the various strategic plans the Council has signed up to – it acknowledges that there will inevitably be financial implications arising from the SOA and Corporate Statement but it is not possible to quantify all of these at present. The Financial Strategy is updated as further information becomes available regarding these strategic plans.
The directorate planning process will identify a range of additional budget pressures over and above those currently considered in this Financial Strategy.	The Directorate Planning Guidance identifies that 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.
Forecasts within the Financial Strategy are not accurately determined or reviewed on a regular basis.	The Budget and Financial Strategy set out the expected levels of expenditure and income for the future. The forecasts are arrived at through careful consideration of historic trends and actual expenditure levels and any factors which may have an impact in the future. Three scenarios are included in the Strategy based on Pessimistic, Mid-Range and Optimistic. This provided a broad range of potential outcomes. 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.
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.	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. Individual savings are reviewed by lead officers on a regular basis and material issues reported to the CMT and if required, Committee.
Income budgets not achieved or become unsustainable.	Chief Officers are consulted on proposed increases in income budgets/fees and charges and have the opportunity determine the levels of individual charges to achieve the budgeted income target. Equally, income budgets are monitored throughout the financial year and where a shortfall in income is anticipated, this is highlighted in reports to Committee.

	Proposals to increase fees and charges are reviewed in line with the Council's Charging Policy prior to reporting to Committee.
The Council has insufficient capital resources to sustain capital commitments.	The Council has already identified through the Financial Strategy a reduced reliance on capital receipts and Government Grants in the medium term. The combination of 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. The Council has identified the need to complete Asset Management Plans for all it's assets with the Open Space AMP due for completion in the near future.
Bankruptcy of a major supplier or customer which could result in the Council having to pay twice for the same service or see artificially inflated prices if a replacement service needs to be obtained at very short notice.	The Council has reviewed its procurement process and a procurement manual has been developed which includes supplier financial appraisal at PQQ stage. This will ensure that the financial position of new contractors is vetted prior to ITT stage and entering into any large contracts. Regular reviews of financial position are undertaken for key suppliers on an ongoing basis.
Legislative changes are not anticipated and the financial impact is not addressed through the budget process of Financial Strategy.	Chief Officers are required to highlight the impact of legislative changes through the strategic planning and budgeting process and the likely resource requirement. In addition COSLA has a key role in assessing the financial impact of changes in legislation and lobbying for Councils to be funded appropriately.
Interest rates on borrowing may be higher than forecast.	Regular review of treasury management decisions. Prudent assumptions on likely interest rates have been incorporated into Financial Strategy. Borrowing is spread to reduce impact of short-term changes.
Reserves are required to cash flow unanticipated budget shortfalls and fall below minimum recommended level.	Reserve Strategy is in place which clearly states that these must be a clear route to bring reserves back up to the minimum level over the subsequent 3 financial years.
Large contracts are due to be re-tendered where costs are likely to be higher due to the current economic climate.	Assumptions have been built into the budget for increase in price of goods and services.
Revenue implications of capital programme/projects are not fully anticipated.	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.
The recent decision to leave the European Union will provide impacts which are not fully reflected in the Financial Strategy.	There is currently little hard information regarding impacts and their timing however, regular monitoring of the situation and the use of scenario planning will help manage the uncertainty.

Appendix 1

Short-Term Issues (2016/18)

The tables in Appendices 1, 2 and 3 have been developed through ongoing consultation with the CMT by the Chief Financial Officer to develop detailed knowledge of the issues to inform the Financial Strategy and future budget setting.

Service	Issues Identified	Issues & Potential Impacts	Action Taken	Responsible Officer	Timescale to report back
Corporate	Equal Pay	Provision for outstanding claims may not be sufficient and new groups may claim.	Offers are being issued 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	Ongoing
	Inflation	Uncertainty over pay awards and other inflation pressures are not fully clear over the 2017/18 period.	Inflation allowances are regularly reviewed. Regular monitoring and reporting to CMT/Members.	Alan Puckrin	Ongoing
	Welfare Reform	Impact of Welfare Reform and increase in demand for Services can only be estimated. Longer term funding for Council Tax reduction scheme to be clarified.	Extra funding agreed Update reports going to Committee each cycle.	Alan Puckrin	Ongoing
	Auto-enrolment	Amount set aside for auto-enrolment is an estimate and full cost may be greater than estimated.	Close monitoring of impact from October 2017.	Steven McNab	From December 2017
Social Care	Health/Social Care Integration	Impacts on Governance/Funding could be significant	Monitor developments, report to relevant Committees. Increased Government Funding will help offset some pressures.	Brian Moore	Ongoing

	Self Directed Support Relationship with Service Providers.	Implement robust Resource Allocation System, possible pressure from new clients, who may otherwise not engage with Service. 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.	As above As above	Brian Moore Brian Moore	On Going Ongoing
Education & Communities	Children & Young Persons Act Teacher Numbers	Current funding is not sufficient to meet all the requirements in the legislation. The Government threat of sanctions if teacher numbers are reduced limits options to balance the budget.	SEMP reviewed January 2016 with Early Years investment agreed. Continue to lobby for flexibility and monitor developments.	Wilma Bain Wilma Bain	Ongoing Ongoing
Environment & Regeneration	Waste Strategy	Significant cost increases expected in treating residual waste from 2017/18.	Monitor Waste Strategy and report to CMT/Committee at appropriate time.	Robert Graham	December 2016

Appendix 2

Medium-Term Issues (2018/21)

Service	Issues Identified	Issues & Potential Impacts	Action to be Taken	Responsible Officer	Timescale to report back
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 such as Riverside Inverclyde, HSCP, River Clyde Homes etc.	Continue dialogue with partners.	Corporate Directors	Ongoing
	Reduction in Council Funding	Funding over 2017/20 likely to be further reduced in line with UK Fiscal Policy and Scottish Government priorities.	Await next Scottish Government Spending Review figures and factor into revised Financial Strategy.	Alan Puckrin	December 2017
	Government needs to reduce Public Sector Borrowing	Prudential Borrowing Capping would require revision of capital plans.	Rolling 3 Year Capital Programme developed annually and longer term loan charges projections undertaken.	Alan Puckrin	On Going
	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.	Aubrey Fawcett	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	New Scottish Government has undertaken to review and cap Council Tax. In addition assigning income tax to Councils has the potential to have a major impact on funding of Councils.	Monitor National developments and report as required.	Aubrey Fawcett/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

Service	Issues Identified	Issues & Potential Impacts	Action to be Taken	Responsible Officer	Timescale to report back
	Impact of Living Wage on the Pay & Grading Model.	The implementation of the Living Wage may require a significant review of the Pay & Grading Model with resultant cost implications.	Monitor developments at a National Level and report to Committee.	Steven McNab	November 2017
Social Care	Ongoing Demographic demand pressures across many Social Care areas and ongoing drive towards Self-Directed Support and Independent Living	Continuing increased demand will put considerable pressure on "flat cash" budgets.	Extra funding approved as part of the 2016/18 budget. Await IJB Strategic Plan/Budget for 2017/18.	Brian Moore	March 2017
	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.	Brian Moore	On Going
Environment & Regeneration	Roads Asset Management Plan	Current RAMP funding ends 2017/18. Funding for continued investment to be identified.	Funding for 2018/19 onwards to be factored into the 2017 Budget proposals	Robert Graham/Alan Puckrin	January 2017
Education & Communities	School Estate Management Plan	Reduced Capital resources and corporate cost pressures may make current timescales for delivery of SEMP unachievable.	Six monthly review off all aspects of SEMP to continue. Recent review reflects approved acceleration programme which is still affordable in line with plan for completion but resources getting tighter.	Wilma Bain/ Alan Puckrin	Ongoing

Appendix 3

Long-Term Issues (Post 2021)

Service	Issues Identified	Issues & Potential Impacts	Action to be Taken	Responsible Officer	Timescale to report back
Corporate	Depopulation and Change of Demographics	Continued loss of grant income, over provision of infrastructure. Viability of area under threat.	Population/Demographic trends to be monitored and reported to SOA/Alliance on a regular basis.	Wilma Bain	Ongoing
Social Care	Increase in number of Elderly and Adults with Learning Difficulties and resource implications of policy direction of Independent Living and Self Directed Support.	Significant costs associated with reshaping, expanding delivery models.	Develop as part of HSCP Strategic Plan..	Brian Moore	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.	Scott Allan	Ongoing
	Global Warming/Climate Change leading to rising sea levels	Significant impact on Council area with increased flooding and expenditure on sea defenses.	6 year SEPA Flood Plan includes funding for a number of Council projects to be approved by Summer 2016.	Scott Allan	Ongoing
	Closure of major local employer	Could further increase rate of depopulation and would significantly impact of areas regeneration efforts.	Regular review of the approved rI/Council Joint Operating Plan.	Scott Allan/Stuart Jamieson	As required

Current Profile

Appendix 4

Riverside Inverclyde
Funding Profile
2006/7 → 2017/18

Year	Revenue £000	Capital £000	Other £000	Total £000
To 31/03/08	1,772	700	1,878	4,350
2008/9	1,840	85	1,112	3,037
2009/10	1,513	-	-	1,513
2010/11	2,100	-	-	2,100
2011/12	2,100	-	-	2,100
2012/13	1,900	-	-	1,900
2013/14	1,600	-	-	1,600
2014/15	1,500	-	-	1,500
2015/16	1,300	-	-	1,300
2016/17	1,175	-	-	1,175
2017/18	298	-	-	298
2018/19	77	-	-	77
Gourock Redevelopment	-	-	1,100	1,100
PG Town Centre	-	-	500	500
Gourock - 1 way system	-	-	1,000	1,000
Area Renewal Fund	-	-	200	200
Reserves Substitute Funding	-	-	250	250
	17,175	**785**	**6,040**	**24,000**

a In addition to the £24 million the Council has provided an additional £4.05 million towards the two major projects at Gourock (£3.55 million) and Port Glasgow Town Centre (£0.5 million) over 2012/16.

b In January 2016 Environment & Regeneration Committee allocated the residual Regeneration funding for 2018/19 (£0.298m) to Riverside Inverclyde as part of the Single Operating Plan covering the period to March 2019, £0.077m of which is included in the table above.

c Further investments being delivered through Riverside Inverclyde include:

Gourock Municipal Buildings	£0.3m
Broomhill Regeneration	£0.86m
Lower Port Glasgow	£0.5m
Bakers Brae Re-alignement	£1m
Kilmacolm Self Build	£0.25m
Tourism	£0.15m

d Reduction between 2016/17 & 2017/18 is £400,000 for Depot AMP and £400,000 for City Deal and £77,000 rephased to 2018/19.

Appendix 5

Jan 16 RPI Update & 15/16 Actuals

Inverclyde council

School Estate - Earmarked Reserves

	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000	2028/29 £000	2029/30 £000
Earmarked Reserve b/fwd	2,942	5,701	3,889	3,394	2,482	1,909	1,554	1,831	2,089	2,208	2,427	2,624	2,799	2,951	3,076
Available Savings added (a)	4,682	4,682	4,682	4,682	4,682	4,682	4,682	4,682	4,682	4,682	4,682	4,682	4,682	4,682	4,682
Extra Financing (b)	3,305	3,130	3,145	3,145	3,145	3,145	3,795	3,795	3,795	3,795	3,795	3,795	3,795	3,795	3,795
Prudential Schools Loan Charges (c)	-3,851	-4,166	-4,394	-5,011	-5,098	-5,106	-5,115	-5,124	-5,134	-5,144	-5,155	-5,167	-5,179	-5,192	-5,206
Unitary Charge Payment (d)	-8,942	-8,942	-8,942	-8,942	-8,942	-8,942	-8,942	-8,942	-8,942	-8,942	-8,942	-8,942	-8,942	-8,942	-8,942
Unitary Charge Inflation Element (e)	-481	-723	-996	-1,279	-1,573	-1,880	-2,198	-2,529	-2,874	-3,232	-3,605	-3,992	-4,395	-4,814	-5,250
Unitary Charge Funding from Inflation Contingency	522	723	996	1,279	1,573	1,880	2,198	2,529	2,874	3,232	3,605	3,992	4,395	4,814	5,250
One Off Costs (f)	-696	-1,416	-878	-669	-235	0	0	0	-120	0	0	0	0	0	0
Extra Revenue Repairs (g)	-276	-196	-204	-213	-221	-230	-239	-249	-258	-268	-279	-289	-300	-314	-326
Unitary Charge RSG	6,096	6,096	6,096	6,096	6,096	6,096	6,096	6,096	6,096	6,096	6,096	6,096	6,096	6,096	6,096
Written Back to / from General Reserves (h)	2,400	-1,000		0	0	0	0	0	0	0	0	0	0	0	0
Earmarked Reserve c/fwd	5,701	3,889	3,394	2,482	1,909	1,554	1,831	2,089	2,208	2,427	2,624	2,799	2,951	3,076	3,175

(a) £4,682k of savings have been achieved to date. Savings now complete as Sacred Heart building remains.
(b) Compensating loan charges for receipts transferred to the Capital Fund come in from 2015/16. Annual Saving of £175k applied 2016/17 and a further saving of £200k taken from 2017/18 onwards.
£45k per year funding for St Stephen's added 2015/16 & 2016/17. Additional £260k added from 2017/18 to 2020/21 increasing to £910k per year thereafter.
(c) Uses a pool fund rate of 3.95% for 2015/16 and 2016/17, 3.90% for 2017/18 and 2018/19 and 4.00% from 2019/20 onwards. £50k contingency added from 2016/17. £200k saving taken from 2017/18 onwards.
£260k additional costs added 2017/18 and £910k added per year there after.
(d) Based on Actual Unitary Charge at Jan 2011 RPI of £8.842 million plus £100k contingency from 2013/14.
(e) Base at Jan 2016 RPI. Assumes 2.7% annual inflation (4% RPI discounted by factor of 1.5)
(f) Includes cost of QIO for period April 2016 to June 2018, full NDR for St Stephen's decant building for 2015/16 to 2017/18, £45k per year rent in 2015/16 to 2017/18 for St Stephen's land,
£497k provision for St Stephen's demolition made in 2014/15. Elected Members have agreed to meet cost of PPP Contract Review from SEMP Model. After 2023/24 all one-off costs cease.
(g) Saving of £75k per year taken from 2016/17.
(h) £1.0m written back to General Reserves in 2016/17. £2.4m added 2017/18 per Inverclyde Council Budget approved 10/03/16.

Inverclyde council

Appendix 6

Finance Strategy
General Fund "Free" Reserves
2016/17 Balance Projection

		£000
Reserves Balance at 31st March 2016		8,773
Budgeted Contribution to Reserves: Note 1		
2015/16 Outturn Earmarked for 2016/17	10,688	
2016/17	0	10,688
Contribution to Reserves 2016/17 **Note 2**		2,260
Planned Use of Reserves 2015/17 **Note 3**		(17,968)
Projected Surplus (Defecit) **Note 4**		498
Free Reserves Balance 31st March 2017		4,251

GRG/NDR/Council Tax will be £190 million from 2016/17. Recommended minimum level of reserves is 2% / £3.8 million.

Notes:

1/ 2016/17 figures reflect a balanced budget set at the 2016/18 budget setting process.

2/ 2016/17 Figures represent decisions taken as part of the 2016/18 Budget process.

	2016/17 £000	2017/18 £000	2018/19 £000	Total £000
SEMP Loans Charges not requied until 2017/18	260	0	0	260
Reduction to Watt Museum/Library Project	2,000	0	0	2,000
	2,260	0	0	2,260

3/ Represents decisions taken as part of the 2013/16 Budget, February 2014, 2015/17 Budget, 2016/18 Budget and further decisions taken September 2016 and based on latest phasings:

Approved Use of Reserves	2016/17 £000	2017/18 £000	2018/19 £000	Total £000
February 2015 - £5.305m	(456)	(2,200)	(250)	(2,906)
February 2015 - £0.670m (MBWG Proposals)	(179)	(350)	0	(529)
February 2015 - Temp Use of Reserves £3.298m	0	0	0	0
September 2015 - £3.503m	(260)	(2,027)	0	(2,287)
November 2015 - Temp Use of Reserves £2m	0	(2,000)	0	(2,000)
November 2015 - Former Tied Houses	0	0	0	0
March 2016 - £4.966m	(1,106)	(2,305)	(1,555)	(4,966)
September 2016 - I-Zones to 31/03/18	0	(180)	0	(180)
September 2016 - Bridging Finance	0	(800)	(4,300)	(5,100)
	(2,001)	(9,862)	(6,105)	(17,968)

4/ Figure reflects projected surplus reported to Policy & Resources Committee November 2016:

	2016/17 £000	2017/18 £000	2018/19 £000	Total £000
Projected Surplus (Oct 2016 P&R)	313	0	0	313
Early Acievement of Planned Savings	185	0		185
	498	0	0	498

AP/AE
10/11/2016

Inverclyde council

Appendix 7

Finance Strategy
Capital Fund

		2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'002	2021/22 £'004
Balance B/fwd		(2,318)	(2,288)	(757)	(1,667)	(1,261)	(1,646)
Additions (Estimate)	a	(366)	308	(2,141)	(801)	(600)	
Interest (Estimate)		(12)	(17)	(9)	(33)	(25)	(33)
Principal Repayments	b	285	240	240	240	240	240
Other Payments	c	123	1,000	1,000	1,000		
Balance at Year End		**(2,288)**	**(757)**	**(1,667)**	**(1,261)**	**(1,646)**	**(1,439)**

Notes

a Estimated Receipts:

2016/17 SEMP Receipts, £0.1m, Highlanders & remainder of Kings Glen site.
SEMP Receipts, return of £0.198m, St Gabriels, dut to site abnormals.
Other Receipts, £0.464m, Former Kempock Hse (Initial payment), Coronation Park

2017/18 SEMP Receipts, £0.075m, Barmoss Nursery
SEMP Receipts, return of £0.750m, St Stephens, Kings Glen, due to site abnormals.
AMP receipts £0.13m, Strone Office & 9 William St.
Other Receipts, £0.237m, McLeans Yard & Cumberland Walk

2018/19 SEMP Receipts, £1.954m, Greenock Academy, Lilybank.
Other Receipts, £0.187m, Orchard, Hunters Place, Bay Hotel site.

2019/20 Other Receipts, £0.07m, Wateryetts Drive.
Recovery of Scottish Enterprise Clawback, £0.731m

2020/21 SEMP Receipts, £.0.600m, Sacred Heart

b £240k SEMP from 2015/16.
Further £45k SEMP 2015/16 & 2016/17 to fund lease back of St Stephen's.

c Other Payments:

2016/17 £0.013m purchase of solum, Trafalgar St.
2016/17 £0.11m clearance of Cumberland Walk.
2017/20 £3.0m payment to fund Loan Charges smoothing exercise.

d Former Wellington academy site transferred at nil receipt for site of new Health Centre

Inverclyde council

Appendix 8

Finance Strategy
Repairs & Renewals Fund

		2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Balance B/fwd		(3,184)	(3,075)	(3,096)	(3,144)	(3,152)	(3,163)
Additions:							
Leisure Strategy	a	(210)	(120)	(60)			
Central Energy Efficiency Fund		(5)	(9)	(9)	(9)	(9)	(9)
Maintenance Payments:							
Greenock Cut		14	14	14	14	14	14
Gallaghers/Port Glasgow Development	d	36	36	36	36	36	1
Inverkip Footbridge		2	6	2	2	2	37
Leisure Strategy	b	194	45		16	16	371
Contribution to Energy Efficiency Administration	c	94	30				
Interest							
Greenock Cut		(2)	(2)	(2)	(6)	(5)	(5)
Gallaghers/Port Glasgow Development		(1)	(1)	(1)	(1)	(1)	0
Inverkip Footbridge		(2)	(2)	(3)	(6)	(6)	(6)
Leisure Strategy		(5)	(7)	(11)	(26)	(29)	(33)
Former Housing Repairs & Renewals Fund		(5)	(9)	(12)	(24)	(25)	(25)
Affordable Housing Fund		0	(1)	(1)	(1)	(2)	(1)
Central Energy Efficiency Fund		(1)	(1)	(1)	(3)	(2)	(3)
Balance:							
Greenock Cut		(287)	(275)	(263)	(255)	(246)	(237)
Gallaghers/Port Glasgow Development		(141)	(106)	(71)	(36)	(1)	0
Inverkip Footbridge		(304)	(300)	(301)	(305)	(309)	(278)
Leisure Strategy		(978)	(1,060)	(1,131)	(1,141)	(1,154)	(816)
Former Housing Repairs & Renewals Fund		(1,181)	(1,190)	(1,202)	(1,226)	(1,251)	(1,276)
Affordable Housing Fund		(66)	(67)	(68)	(69)	(71)	(72)
Central Energy Efficiency Fund		(118)	(98)	(108)	(120)	(131)	(143)
Balance at Year End		**(3,075)**	**(3,096)**	**(3,144)**	**(3,152)**	**(3,163)**	**(2,822)**

Appendix 8

Finance Strategy
Repairs & Renewals Fund

Notes

a Future contribution to Leisure Strategy subject to confirmation of available funds.

b Leisure Strategy commitments:

2016/17	£160k Contribution to Inverkip Community Facility
2016-20	Pitches/MUGA's Lifecycle costs

c Central Energy Efficiency Fund commitments:

2015/16	Ardgowan Primary School
2016/17	LED Lighting, Inglseton MRF
2016/17	LED Lighting, Greenock Municipal Building
2016/18	£90k contribution to Spend to Save Earmarked Reserve

d Gallaghers/Port Glasgow Development fund fully utilised by 2021/22 creating Revenue budget pressure of £36k per annum.

Inverclyde council

Appendix 9a

Finance Strategy
Asset Management Plan - Offices

Earmarked Reserve Offices	**2016/17 £000's**	**2017/18 £000's**	**2018/19 £000's**	**2019/20 £000's**
Earmarked Reserve b/fwd	679	481	184	221
Additional Funding (Note d)	375	375	375	375
Available Savings/(Cost) Added (Note a)	285	327	326	386
Loan Charges (Note b)	(462)	(600)	(664)	(664)
Further One Off Costs (Note c)	(396)	(399)	0	0
Net Saving/(cost) for year	(198)	(297)	37	97
Earmarked Reserve c/fwd	481	184	221	318

Notes

a Net Revenue Savings & Costs Excluding Loan Charges
b Assumes an interest rate of 4%
c Further One Off costs relate to the temporary appointment of an Asset Manager and costs for various decants, demolitions and rental of storage area as well as an allowance for dilapidations of leased properties and a £300k contribution towards William St refurb.
d Additional funding consists of original funding allocation of £1m adjusted for:
  - £200k Workstream Saving from 2011/12
  - £30k Topslice saving from 2012/13
  - £60k Workstream Saving from 2013/14
  - £100k Workstream Saving from 2014/15
  - £45k BPRA scheme saving from 2015/16
  - £65k Revenue saving from 2015/16
  - £125k further Revenue saving from 2016/17

e In addition the Business Store has been declared surplus to requirements, financial implications of this have not been reflected at this stage.

Inverclyde council

Appendix 9b

Finance Strategy
Asset Management Plan - Depots

Earmarked Reserve Depots	**2016/17 £000's**	**2017/18 £000's**	**2018/19 £000's**	**2019/20 £000's**
Earmarked Reserve b/fwd	634	681	928	973
Additional Funding (Note d)	400	800	800	800
Available Savings/(Cost) Added (Note a)	131	174	97	97
Loan Charges (Note b)	(422)	(677)	(852)	(865)
Further One Off Costs (Note c)	(62)	(50)	0	0
Net Saving/(cost) for year	47	247	45	32
Earmarked Reserve c/fwd	681	928	973	1,005

Notes

a Net Revenue Savings & Costs Excluding Loan Charges
b Assumes an interest rate of 4%
c Further One Off costs relate to the temporary appointment of an Asset Manager
d Additional funding made up of:

Contribution from Zero Waste Fund	£200k	From 2010/11
Contribution from Revenue Budget	£300k	From 2012/13, original £500k allocation reduced by £200k Workstream Saving
One off reduction in EMR balances	£(500)k	2015/16
Reduction in funding	£(100)k	from 2016/17 & as a result of reduction in capital spend of £1.5m
Additional Contribution from Revenue	£400k	From 2017/18, diversion of Riverside Inverclyde budget.

Inverclyde council

Finance Strategy
Vehicle Replacement Programme

Appendix 10

Earmarked Reserve	**2016/17** £000's	**2017/18** £000's	**2018/19** £000's	**2019/20** £000's	**2020/21** £000's	**2021/22** £000's
Capital Requirements:						
Vehicle Purchases	775	2,179	582	1,442	2,140	667
Residual Value	(610)	(385)	(134)	(337)	(543)	(187)
Net Capital Requirement	165	1,794	448	1,105	1,597	480
Earmarked Reserve b/fwd	208	233	269	251	228	192
Loan Charges	(1,095)	(1,076)	(1,130)	(1,135)	(1,148)	(1,078)
Additional Revenue Costs, Tracking System	(28)	(28)	(28)	(28)	(28)	(28)
	(1,123)	(1,104)	(1,158)	(1,163)	(1,176)	(1,106)
Funding Available						
Loan Charges	1,129	1,140	1,140	1,140	1,140	1,140
Other Adjustments	19	0	0	0	0	0
Total Funding Available	1,148	1,140	1,140	1,140	1,140	1,140
Annual Funding Surplus/(Shortfall)	25	36	(18)	(23)	(36)	34
Earmarked Reserve c/fwd	233	269	251	228	192	226

It should be noted that the model:

a Assumes continuation of Food Waste collection and includes replacement of Food Waste Vehicles, 2017/18.
b Includes Low Carbon Vehicles, due for replacement 2016/17. The replacement of these vehicles has recently been approved by Environment & Regeneration Committee funded from a combination of Government grant and reductions in Service Revenue budgets.
c Includes Glass Recycling Vehicles purchased in 2014/15 using a combination of grants and prudential borrowing and assumes replacement in 2019/20.
Funding Available has been increased by £35k from 2015/16 to reflect the initial purchase.
d Other Adjustments:
From 2016/17 includes £20k additional funding vired from underspend in Fuel.

Inverclyde council

Appendix 11

Finance Strategy
Roads Asset Management Plan

		2012/13 Actual £000's	2013/14 Actual £000's	2014/15 Approved £000's	2015/16 Approved £000's	2016/17 Approved £000's	2017/18 Proposed £000's	2013/16 3 Year £000's	2013/18 5 Year £000's
Funding Available									
Core/Supported Borrowing	a		1,300	1,300	1,300	1,400	1,400	3,900	6,700
Prudential Borrowing				2,100	2,100	4,600	4,600	4,200	13,400
CFCR:									
Early Allocation (Feb 2012)	b	1,373	1,627					3,000	3,000
Further Allocation (Feb 2013)	c		1,100	2,400	2,400			5,900	5,900
Total Funding Available		1,373	4,027	5,800	5,800	6,000	6,000	17,000	29,000
Allocation of Expenditure									
Carraigeways		1,220	2,997	3,654	4,215	2,600	2,745	12,086	17,431
Footways		153	248	295	585	515	1,500	1,281	3,296
Lighting	d		113	266	896	994	1,910	1,275	4,179
Road Markings				50	50	50	50	100	200
Drainage				75	50	50	50	125	225
Structures			3	515	183	239	835	701	1,775
Fees & Staffing Costs			269	326	445	444	410	1,040	1,894
Total Allocation of Expenditure		1,373	3,630	5,181	6,424	4,892	7,500	16,608	29,000
Over/(Under) Allocation		0	(397)	(619)	624	(1,108)	1,500	(392)	0

Notes

a 2016/18 funding approved February 2015.

b Funds were set aside during February 2012 budget process prior to the formal approval of the RAMP model.

c CFCR part funded from underspends due to reduced requirement for Loan Charges in early years.

d Lighting programme has been delayed due to delays in carrying out the column surveys and development of the outline business case and strategy. It is now anticipated that the original intended programme will not be completed within the initial 3 year period but will be extended into 16/17 and 17/18.

Finance Strategy
Loan Charges

Appendix 12

		2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Balance B/fwd		2,152	5,169	5,161	3,428	1,460	(1,778)	(1,459)	(890)
Projected Loan Charges	a	14,276	15,274	15,457	15,662	15,902	11,695	11,445	11,301
Available Budget	b	14,293	12,766	12,724	12,694	12,664	12,014	12,014	12,014
Loan Charge Surplus/(Deficit)		17	(2,508)	(2,733)	(2,968)	(3,238)	319	569	713
Additional Funding:									
Contribution from Reserves	c	3,000	1,500						
Contribution from Capital Fund	d		1,000	1,000	1,000				
Balance at Year End		**5,169**	**5,161**	**3,428**	**1,460**	**(1,778)**	**(1,459)**	**(890)**	**(177)**

Notes

a Revised projections as at July 2015 and excludes Loan Charges relating to funded models (SEMP, AMP, VRP, City Deal, Birkmyre Trust).
Does not include the effect of decisions on SEMP acceleration taken in March 2016 except for the £650k annual budget transferred to SEMP from 2021/22.
From 2018/19 onwards, general capital grant is applied to core allocations only and not to individually funded models (e.g. VRP).
Includes £1 million per year from 2018/19 for increased core Property investment plus £4.5 million extra Prudential Borrowing in 2016/17.

b Adjustments to Available Budget:
For 2016/17
£400k added to ongoing budget for loan charges on Additional Capital Expenditure, as agreed November 2014
£30k removed for ICT saving agreed February 2015 (additional sum removed each year until last year 2020/21)
£12k removed for ICT saving agreed February 2013 (additional sum removed each year until last year 2018/19)
For 2017/18
Further £400k added to ongoing budget for loan charges on Additional Capital Expenditure, as agreed November 2014
£140k added to ongoing budget for loan charges on Children's Homes
Saving of £2.025m applied from 2017/18 in lieu of major saving from 2021/22. Deficit in 2020/24 to be funded from core Reserves
For 2021/22
£650k removed from ongoing budget and transferred to SEMP relating to SEMP acceleration, as agreed in March 2016

c Allocation of £4.5million over 2016/18 to address medium term Loan Charges funding issue.

d Allocation from Capital Fund. It should be noted that this contribution is dependent on receipts from property disposals and as such cannot be guaranteed.

Inverclyde council

Appendix 13

City Deal - Medium Term Financing

Capital	£m 15/16	£m 16/17	£m 17/18	£m 18/19	£m 19/20	£m 20/21	£m 21/22	£m 22/23	£m 23/24	£m 24/25	£m Total
Overall Grant	30	30	30	30	30	30	30	70	60	60	400
Regional Projects	0.32	1.3	2.68	3.22	4.85	31.42	13.55	34.1	45.32	33.94	170.7
Grant Available	29.5	28.7	27.32	26.78	25.15	0	15.03	35.9	14.68	26.06	229.3
Inverclyde's Grant Share	**0.856**	**0.832**	**0.792**	**0.777**	**0.729**	**0.000**	**0.436**	**1.041**	**0.426**	**0.756**	**6.644**
Project Spend											
Ocean Terminal	0.030	0.160	3.800	6.500	0.510	0	0	0	0	0	11.000
Inverkip	0.004	0.100	1.388	1.689	0.069	0	0	0	0	0	3.250
Inchgreen	0	0	0	0	0	0	4.714	4.713	0	0	9.427
Total Cost	**0.034**	**0.26**	**5.188**	**8.189**	**0.579**	**0**	**4.714**	**4.713**	**0**	**0**	**23.677**
Annual Grant Shortfall	0.822	0.572	-4.396	-7.412	0.150	0.000	-4.278	-3.672	0.426	0.756	-17.033
Cumulative Grant Shortfall	0.822	1.394	-3.002	-10.414	-10.264	-10.264	-14.542	-18.214	-17.788	-17.033	

Revenue	£m 15/16	£m 16/17	£m 17/18	£m 18/19	£m 19/20	£m 20/21	£m 21/22	£m 22/23	£m 23/24	£m 24/25
Revenue Budget	0	0	350	350	350	350	350	350	350	350
Interest Charge	0	0	(18)	(184)	(310)	(308)	(410)	(591)	(630)	(613)
Balance at Year End	**0**	**0**	**332**	**498**	**538**	**580**	**520**	**279**	**(1)**	**(264)**

Notes

1/ The project spend profiles are initial high level estimates and will be firmed up as part of the detailed Business Case preparation. Figures do not include any partner contributions and represent the worst case scenario.

2/ The Council will require to finance the interest costs associated with the grant shortfall and has set aside up to £400,000 per year for this purpose of which £50,000 is set aside for the Programme Management Office.

3/ Interest rates based on 7 day LIBOR rates projected for the year.

4/ Regional projects have first call on the grant and total £174.3million. Spend beyond 2024/25 is not shown above.