Appendix 1

West Dunbartonshire COUNCIL

LONG TERM FINANCIAL STRATEGY

November 2019

WEST DUNBARTONSHIRE COUNCIL

LONG TERM FINANCIAL STRATEGY

Sections **Page No.**

Annexes

1 Introduction

1.1 The purpose of the Financial Strategy is to allow Council to consider and plan for longer term financial issues by providing early sight of pressures arising from areas such as: Scottish government grant funding reductions; service demand changes; demographic change; etc. The Financial Strategy demonstrates that the Council is clear that the outcomes it plans to achieve for our communities link directly to the financial plans for the future and that any financial challenges identified which threaten the achievement of these outcomes are managed and prioritised in an orderly manner.

1.2 Since the last update of the strategy, in November 2018, the Scottish Government provided a single year settlement for 2019/20. To date the Council has not been provided with any information from the Scottish Government on anticipated grant funding for 2020/21 and beyond and indeed this information is not anticipated to be available later in the current financial year, and is most likely to be a single year settlement for 2020/21 only. The UK Government made funding announcements on 4 September 2019 which provided additional funding to a range of public sector spending areas including significantly: the NHS, Schools; and the Police. Central Government in the UK and at Scottish Government are currently reviewing departmentals spending plans. The funding announced at UK level in Septemebr 2019 has an estimated Barnett consequential value of around £1.2b for Scotland in 2020/21 – an increase of 2.1% from 2019/20. As stated in England this funding is directed a certain areas and traditionally the Scottish Government has followed suit – however the extent of any such remains unknown.

This clearly makes it difficult to predict the quantum of grant support on an ongoing basis, though it seems clear that the trend of reducing funding to Councils will continue on an ongoing basis. In 2019/20 the settlement from the Government to the Council was lower than the 2018/19 settlement, on a like for like cash basis. Recently political commentators have been talking about the UK economy as being in a state of "perma-austerity", this view being based on future predictions around the impact of Brexit and likely impact on the UK economy, though at UK level the UK Government seem to have implemented spend plans that reduces the impact of austerity.

1.3 Population projections for the Council in relation to a growing population for the rest of Scotland is likely to generate continuing reductions in Government funding for the Council on top of the impact of any level of ongoing austerity. The level of government grant support to the Council is difficult to predict as it depends significantly on the state of the UK economy, whether the recent austerity measures continue and for how long and how deep they will impact on the grant to the Scottish Government from Westminster, and then how the Scottish Government decides to manage any such funding reductions across the range of public sector services that are funded.

In general it is anticipated that the Council will face significant financial challenges over at least the next five years – though this position could change significantly depending on how the Scottish Government uses the Barmett consequential described above. It is therefore likely that difficult choices will continue to be required – this Strategy provides a practical framework within which choices will be identified, debated and approved.

1.4 To provide clear and consistent direction for the Council, the following objectives have been identified for the Financial Strategy – it will ensure that:

- the Council has a comprehensive, coherent balanced budget for both General Services and the Housing Revenue Account (HRA);
- resources are allocated and deployed to facilitate delivery of the outcomes set out in the Strategic plan, and Local Outcome Improvement Plan. This takes account of the functions and services provided by the Council which are of a statutory nature as well as those services provided due to local need;
- all key strategic decisions on the allocation and deployment of resources are made within the appropriate financial context, with due regard to levels of risk;
- members are able to take full account of the impact of decisions on the overall financial resources of the Council in the short, medium and long term;
- the Council has flexibility to address new policy requirements, or significant changes to existing policies, within overall available financial resources;
- resources are invested effectively, efficiently and on sustainable basis;
- there is an ongoing focus on securing efficiencies across the organisation;
- there is a clear strategic financial planning linkage between Council decisions on capital planning and the revenue budgets for both the General Fund and the HRA; and
- there is an increased level of understanding on behalf of the wider community with regard to the finances of the Council.

1.5 The primary financial challenges facing the Council over the period of this strategy will be delivering a coherent, balanced revenue budget year on year and the ongoing development of the capital programme, which maintains appropriate investment in our key infrastructure. In addition the HRA capital plan takes a longer-term approach to capital planning within the HRA.

1.6 To deliver a coherent, balanced revenue budget year on year, the Council will need to continuously review existing and revised service delivery arrangements to determine if they are effective, efficient and sustainable, consider alternative methods of service delivery where appropriate and proactively identify opportunities to secure efficiencies or reduce service provision.

1.7 There is no doubt that the information generated through this process will result in options that require hard choices – one of the main challenges for the Council over the next few years will be that, once chosen, these options will often require a lead-in period prior to implementation.

1.8 In order to ensure the link between the strategic future development of capital assets to the financial strategy, capital plans are considered alongside ongoing revenue planning. Capital plans for both General Services and HRA will continue to be approved at the same meeting of the Council that approves the subsequent revenue budgets, as both are intrinsically linked.

1.9 The level of ongoing government support for General Services capital expenditure is known for only the first year of this strategy, similar to the revenue funding position the longer term position is not known and may well come under further pressure depending on the UK policy direction. Similarly to the revenue position it is anticipated the funding for the period from 2020/21 onwards will not be known until mid-December 2019.

1.10 If the Financial Strategy is to be successful, and achieve the objectives outlined, it must be a dynamic, living document reviewed on a regular basis.

1.11 This Financial Strategy is about making sure we have sufficient resources in place when required to deliver the outcomes we want to achieve for the communities of West Dunbartonshire, as described in the Local Outcome Improvement Plan. The Financial Strategy and the other strategic plans will require to be evidenced in the development of the workforce plan.

1.12 The financial strategy undertakes some sensitivity analysis to provide a picture of best case, worst case and likely case in terms of financial projections. This allows Council to see the risk associated with the range of variables within the financial issues/pressures identified.

1.13 Recent Audit Scotland comments in relation to financial planning within Councils has suggests that longer term projections of future budget positions should be provided to allow Councils to consider making longer term decisions. This strategy therefore projects budgets 10 years into the future. It is clear that the further away from the current date that projections go the less certain the projections become, however they will allow Council to consider longer term views and options.

Councillor Jonathan McColl
Leader of the Council

Joyce White
Chief Executive

2. What is the point of a Financial Strategy?

2.1 The purpose of a Financial Strategy is to provide clear direction, supported by a practical framework and explicitly defined parameters, on how a Council will structure and manage its 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 Strategy forms an integral part of our Strategic Planning and Performance Management Framework which underpins the achievement of the vision and outcomes identified in the Strategic Plan and the Local Outcome Improvement Plan.

2.3 The Council has taken into account Guidance produced by the Institute of Public Finance (IPF) for local authorities in Scotland on developing a Financial Strategy as well as best practice from other local authorities.

2.4 The ambition of the Council is to produce a single, coherent Financial Strategy that brings together the corporate objectives of the organisation along with all the relevant financial information in a clear and accessible document covering a five to ten year period (and beyond where appropriate).

2.5 The value of such a Strategy is that it should enable the Council to understand 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.

2.6 The strategy will also provide information to a range of stakeholders:

Table 1 – Stakeholder Information

Stakeholder	Purpose of finance strategy
For the Council and Elected Members	to decide how available financial resources will be used and prioritised
For Chief Officers, managers and employees	to reinforce and support their roles in financial management arrangements
For residents	to show how the Council's Financial Strategy impacts upon service provision
For Council Tax and Rent 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

2.7 The Strategy identifies issues that will impact beyond the period of the strategy, so that the Council can plan ahead; it includes expenditure forecasts, and projected funding, where known.

2.8 Inevitably some of the information of the Financial Strategy will be based on assumptions and these will change over time - the Strategy will be reviewed and updated regularly so that the Council can respond proactively to any such changes. This is particularly the case the longer into the future the projections are taken.

2.9 The inclusion of information in the Financial Strategy, for example on a specific project in 2019/20 onwards, does not infer approval and all financial projections and issues will be subject to approval through the budget process and any appropriate Committee approvals.

2.10 The associated Strategic Planning and Budgeting framework will ensure there is a clear linkage between the strategic planning and budgeting processes.

2.11 This will also allow services to plan ahead, taking into account the resources available over the next three years to provide Members, management and residents information as to measures needing to be taken in year 1, detailed indicative figures for years 2 and 3 of the strategy, and less certain longer term projections out to year 10.

2.12 A key element of the strategy's development is to proactively identify opportunities to achieve efficiencies or secure alternative funding sources in assisting to fund the Council's priorities and objectives.

3. Financial Summary

General Services Revenue Budget

3.1 The budget process for 2019/20 was progressed through the Council in the normal manner and in order to balance the 2019/20 budget a range of approaches were agreed by Council in March 2019.

3.2 The budget balanced the 2019/20 budget and left target efficiencies to be determined for 2020/21 of £9.816m and a further £7.114m for 2021/22.

3.3 The detailed analysis has now been rolled-forward to 2022/23 and the reconciliation between the 2019/20 position and the 2022/23 position is provided at Annex 1. A projection to year 10 of the strategy has also been developed and is also shown at Annex 1.

3.4 A sensitivity analysis has been undertaken on the main areas of financial pressure to 2029/30 and this provides the range of anticipated outcomes in terms of future budget gaps based on a best case, worst case and likely case outcomes and for the next three years are shown as follows:

Table 2 – Outcome of sensitivity analysis – General Fund Revenue projections

The above illustrates that following the review of the financial position and under the "Likely" set of assumptions that the gaps for 2020/21 to 2022/23 has changed due to reviewed assumptions which are highlighted in Annex 2.

The expectation is that Council will plan on the likely case outcome above, however Members may consider a prudent approach and consider the worst case, or a position between these two projections.

GENERAL SERVICES: GAP ANALYSIS UNDER DIFFERENT SCENARIOS			
	2019/20 £000's	**2020/21 £000's**	**2021/22 £000's**
LIKELY PROJECTION	£5,644	£10,621	£16,871
BEST	£4,573	£8,998	£13,374
WORST	£7,150	£13,206	£19,234

Housing Revenue Account Budget

3.5 The HRA Budget for 2019/20 was agreed on 14 February 2019 with a 2% increase in rent for 2019/20. Draft forecasts for future years continue to indicate budget pressures in many areas: effects of the DWP Welfare Reform; the ongoing provision of housing which meet the Scottish Housing Quality Standards; and compliance with Energy Efficiency Standards. In setting the budget the expectation is that the HRA income will meet projected costs and therefore shows no funding gaps for 2020/21 to 2022/23.

3.6 A sensitivity analysis has been carried out for the HRA revenue account and shows the following range:

Table 3 – Outcome of sensitivity analysis – HRA Revenue projections

SCENARIOS	**2020/21 £m**	**2021/22 £m**	**2022/23 £m**
LIKELY	0	0	0
BEST	-0.006	-0.032	-0.036
WORST	0.283	0.807	1.632

Capital Budgets

3.7 A refresh of the General Services 10 year Capital Plan for 2016/17 to 2025/26 was agreed by Council on 24 February 2016 and updates were made and agreed at Council meetings on 22 February 2017, 5 March 2018 and 27 March 2019. The three years from 2019/20 to 2021/22 have been approved in detail with the remaining years being indicative at this stage.This long term capital plan takes into account revenue resource available to support capital investment into the future, however, as stated above a key element of the long term capital plan was to develop projects which generate funding (either capital receipts or revenue efficiencies) that can be used to fund the capital plan. Thus, the strategy considers any revenue implications to be funded to support the ongoing capital plan. The capital plan is due, based on approved policy, was reviewed for consideration at Council in March 2019, whilst in interim years updates will be undertaken to recognise changes in phasing, etc.

3.8 The 5-year Housing Capital Plan for 2019/20 to 2023/24 was agreed at Council on 14 February 2019.

3.9 Table 4 (below) provides a summary of the Council's projections for General Services and HRA Revenue and Capital for 2020/21 to 2022/23. At this point, Scottish Government Funding is unknown beyond 2019/20 and therefore assumptions have been made. Note these projections are based on the "likely" outcome from the sensitivity analysis identified at 3.4 and 3.6 above; together with a range of assumptions, as identified on Annexes 1 and 2.

Table 4 - Three Year Summary - Revenue and Capital

	2020/21 £000	2021/22 £000	2022/23 £000
General Services Revenue Budget	**230,848**	**235,966**	**241,864**
Funded by:			
Government Grant	(188,747)	(187,402)	(186,047)
Council Tax	(36,250)	(37,726)	(38,946)
Reserves	(217)	(217)	0
Cumulative Funding Gap	**5,644**	**10,622**	**16,871**
Housing Revenue Budget	**43,788**	**45,297**	**46,530**
Financing	(43,788)	(45,297)	(46,530)
Cumulative Funding Gap	**0**	**0**	**0**
General Services Capital Budget			
Anticipated Spend	**54,598**	**41,894**	**32,113**
Funded by:			
Prudential Borrowing	24,182	18,523	11,443
Capital Grant and Match Funding	21,173	18,903	16,312
Capital Receipts	9,243	4,468	4,358
Revenue Contributions	0	0	0
	54,598	**41,894**	**32,113**
Housing Capital Budget			
Anticipated Spend	**52,260**	**26,330**	**23,590**
Funded by:			
Prudential Borrowing	41,549	18,397	16,953
Capital Grant	4,594	2,360	2,360
Capital Receipts	0	0	0
Revenue Contributions	6,117	5,573	4,277
	52,260	**26,330**	**23,590**

4. National Context

The Financial Settlement

4.1 The Scottish Government has provided settlement figures for 2019/20 only at this stage. It is unclear at this stage whether the next settlement will cover only a single year – for 2020/21; or be a three year settlement – which is stated to be the hope of Minsters. Any three year settlement will likely need to be indicative due to unknown UK Government funding for future years.

The settlement for 2019/20 provided the Council with Revenue Grant/Non-Domestic Rates Income/Specific Grant of £187.063m.

4.2 When the Council's own projection of Council Tax Income based on a 97.25% collection rate is added (£34.797m) then the gross available resource for the Council in 2019/20 is budgeted at £221.860m.

4.3 For 2020/21 onwards there is no information available from the Scottish Government, however early indications from economic commentators suggest that for 2020/21 to 2022/23 it is very likely, based on recent UK Government spending announcements it wishes to provide additional funding in 202021. This strategy anticipates that this is likely to result in additional funding being made available to the Scottish Parliament in 2020/21 of around £1.2b. It is not clear at this stage as to how this will be used by the Scottish Government, as much of the new funding – from Barnett consequentials linked to additional UK funding for NHS, Education and Police, may well also be earmarked for such protected spend areas within the Scottish settlement.

Given the increase in UK Government funding to the Scottish Government and the "end of austerity" rhetoric at political party national conferences and pre General Election in late 2019, it is anticipated that this the overall settlement for 2020/21 onwards will be a 0.75% reduction in cash terms. These projected reductions include the anticipated impacts of demographic change.

In agreeing the Scottish Government budget for 2019/20 the Scottish Government provided Councils with additional funding, which for the Council was around £1.576m. Due to the nature of this additional finding and how it arrived with councils this strategy expects that this funding continues as a permanent distribution.

On top of the above consideration in terms of the general direction of Scottish Government funding the methods of distribution of a number of GAE indicators and a number of former rin-fenced grants has been undertaken. A report to COSLA Leaders on 25 October 2019 was approved which changed a number of GAE indicators from being based on historic spend to being based on more realistic indicators of need. As a result of this it is anticipated that the redistributional effect will be positive for West Dunbartonshire Council by around £2.5m. This value was calculated based on the 2019/20 distribution statistics (as 2020/21 is not available yet) and the impact will be mitigated by the Floor Calculation. The floor has not yet been set by the Scottish Government for 2020/21 and at this point it is estimated that this would mitigate the increase by £1.000m to £1.500m.

For 2018/19 to 2021/22 the anticipated Scottish Government funding is:

- 2019/20 £187.063m
- 2020/21 £188.747m;
- 2021/22 £187.402m; and
- 2022/23 £186.047m.

The above figures include £0.809m of new funding for full year effect of additional costs of teachers pension scheme is expected to be funded from Scottish Giovernment from 2020/21.

The level of funding from the Scottish Government anticipated in this strategy assumes Council will continue to meet the commitments required by the Scottish Government in future finance settlements.

Funding for Social Care

4.4 For the 2019/20 settlement new funding was provided through the Government to support Social Care. For 2020/21 onwards it is anticipated that the 2019/20 funding will continue to be provided by the Scottish Government. COSLA is pressing the Scottish Government to fully fund the implementation of the living wage and associated cost. Within this strategy it is assumed that there is further funding for living wage implementation from the Scottish Government.

4.5 The IJB manages the process to develop its budget taking account of the new funding from the Scottish Government alongside the funding reduction from the Council and this strategy which, via the likely scenario, expects that the Council will continue to provide funding to the IJB mirroring the anticipated funding reductions from the Scottish Government to the Council over the life of the strategy. This position will be considered by Council as the budget-setting process for 2020/21.

Council Tax Reform

4.6 During 2016/17 the Scottish Government announced that it plans to change the way that Council Tax operates in two ways:

1. Remove the freeze on Council Tax increases, allowing Councils to increase Council Tax by a maximum of 3%. However the funding previously provided to Council to support the freeze will no longer be provided.
2. If a Council decides not to increase its Council Tax by up to 3% then this will result in reduced funding – as the freeze support funding previously provided by the Scottish Government was worth around 3% of a Council Tax freeze. As a result, this strategy assumes that WDC will increase Council Tax by 3%; otherwise additional efficiencies will require to be identified and implemented.

However during the 2019/20 settlement process this was relaxed by the Government and an increase of up to 4.79% was allowed in setting the 2019/20 budget – which the Scottish Government described as being 3% which recognizes inflationary pressures. This Council decided not to utilize any of the available leeway and increased Council Tax by 3%.

Brexit

4.7 The ongoing Brexit negotiations between the UK Government and the European Union and the ongoing political discussion around Brexit wihin the UK present a risk to assumptions made on Scottish Government settlements. In recent UK Budget announcements the Chancellor of the Exchequer was clear that a “no deal” Brexit would be likely to require the Government to revisit Budget assumptions. It is anticipated that this would impact on the settlement to the Scottish Government and likely onto Councils. The extent of the risk around this is not quantifiable.

The UK Government has provided assurance that projects that are currently funded by EU funding would be funded by UK Government to 2021, if the projects are approved by EU prior to Brexit date.

5. Local Context

5.1 The environment within which the Council operates has changed significantly in recent years and is likely to alter further over the period of this strategy due to changes in legislation, policy and other national and local developments.

The Planning Context

5.2 The overall strategic framework within which the Council operates is outlined in the Strategic Planning and Budget Process which is published annually – this framework links the budgetary development process to the Strategic Plan, and Service Plans. The framework was revised to take account of the introduction of a Local Outcome Improvement Plan with the Council and its Community Planning partners.

5.3 The Council's draft Strategic Plan for 2017-22 sets out a clear vision:

'West Dunbartonshire Council will deliver high quality services, led by priorities identified by the communities of West Dunbartonshire, in an open and transparent way'

5.4 To achieve this vision for West Dunbartonshire, the Council will work with its key partners in the public, voluntary and community sectors, as well as the business community.

5.5 Members have acknowledged the overall challenge for the Council remains the expectation of ongoing funding reductions, balanced with the need to deliver sustainable services, encourage economic growth and develop long term management of our assets. The Strategic Priorities to 2017/22, agreed at Council on 25 October 2017, are:

- A strong local economy and improved employment opportunities;
- Supported individuals, families and carers living independently and with dignity;
- Meaningful community engagement with active, empowered and informed citizens who feel safe and engaged;
- Open, accountable and accessible local government; and
- Efficient and effective frontline services that improve the everyday lives of residents.

5.6 The Financial Strategy underpins the delivery of the vision, priorities and objectives identified in the Strategic Plan.

5.7 Community Planning West Dunbartonshire, (CPWD) is a partnership of agencies and groups from the public, third sector and community sector that are committed to working together to make a positive contribution to the development and well-being of the individuals and communities that reside in this area.

5.8 The Local Outcome Improvement Plan is a high level agreement between the CPWD and the Scottish Government. It identifies areas for improvement and sets out how the CPWD will deliver better outcomes for the people of West Dunbartonshire. This 10 year plan covers the period 2017-2027 and details the long term priorities for improving outcomes in West Dunbartonshire as agreed in September 2017.

5.9 The priorities agreed set the framework for the Council priorities as described in paragraph 5.5 above. The LOIP commits to reducing inequalities for our residents to deliver a West Dunbartonshire where:

- Our local economy is thriving;
- Our communities are safe;
- Our children and young people are nurtured;
- Our older residents are supported to remain independent; and
- Our residents are empowered.

Demographics

5.10 One of the most significant challenges facing West Dunbartonshire is depopulation and demographic change – this has been recognised as a priority by the Council.

5.11 The latest population statistics available (published April 2019) is the 2018 mid-year population which shows a population for West Dunbartonshire is 89,130; a small decrease of 0.53% from 89,610 in 2017. This represents a total population loss since the 2011 census (90,720) of 1.75% of the population. This continues the trend in population loss which began in the 1990's. In contrast the population of Scotland has risen by 2.7% since 2011 (5,295,403) to its current figure of 5,438,100. The population of Scotland increased by 0.24% in between 2017 and 2018 mid-year estimates.

5.12 Based on the 2018 mid-year population estimates, 17.6% of the population are under the age of 16 (16.9% for Scotland), with 65.1% of the population working age (65.4% for Scotland) and persons aged 65 and over making up the 17.3% of West Dunbartonshire's population (17.3% for Scotland). 14 Councils saw populations decrease over the year with 18 seeing an increase. West Dunbartonshire's reduction was joint third hihest in Scotland, the highest being Inverclyde with a reduction of 0.8%.

5.13 Even though the population has fallen slightly, the number of households is projected to grow. The structures of households and families will continue to be complex with a growing number of single adult households driven by the continuing high divorce rate, low rate of marriage, the rising numbers of children born to unmarried mothers and the ageing of the population.

5.14 The SIMD 2016 data shows that 40% of West Dunbartonshire's 121 data zones are in the most deprived 20% of all data zones in Scotland. West Dunbartonshire is one of five local authorities with the largest proportion of data zones in the 20% most deprived category.

5.15 In terms of economic context he Council area has:

- 19% of population in income deprivation versus the Scottish average of 13%;
- 24% of children in the area living in poverty versus the Scottish average of 17%; and
- 3.7% of working population claim JSA versus he Scottish average of 2.3%.

5.16 Scottish Government funding to Councils is linked to a number of indicators of need, which are known as the Primary Indicators used to generate the Grant Aided Expenditure (GAE) for all Councils in Scotland. In the 2019/20 GAE of the Primary indicators, 38% are linked directly to school pupil indicators and 23% are linked directly with population. In effect this means that 61% of all indicators are linked directly to demographics. If the West Dunbartonshire population (including school pupil numbers) falls, relative to the average position for the rest of Scotland, this is will have a direct impact on funding received from Scottish Government.

5.17 Even with additional GAE allocations and Secondary Indicators which aim to take account of deprivation Scottish Government funding is likely to reduce if population decline in West Dunbartonshire continues in comparison with the rest of Scotland. Based on current population projections for West Dunbartonshire (in comparison to Scotland) and the primary indicators used in the generation of the GAE (pupil numbers and general population) it is anticipated that West Dunbartonshire's share of government support will continue to reduce.

5.18 Based on the most recent (2018) national population projections for the next 10 years (to 2028) showed Scotland expected to increase its population by 1.7%). The most recent Council level projections showed, in 2016, West Dunbartonshire being projected as a 0.7% reduction. This is likely to changes as national projections have reduced significantly. A number of years ago the future reduction in projected population to 2037 is illustrated in Table 5 which shows the Council and Scottish population projections and the proportional change expected for West Dunbartonshire. This is significant as in other population analysis the current projection to 2039 of the Scottish population shows the percentage of the Scottish population which resides in West Dunbartonshire is expected to reduce from 1.7% in 2014 to 1.46% in 2039. This is due to an expected ongoing decline in West Dunbartonshire while the total for Scotland is anticipated to increase

Table 5 – Population projections 2012 to 2037

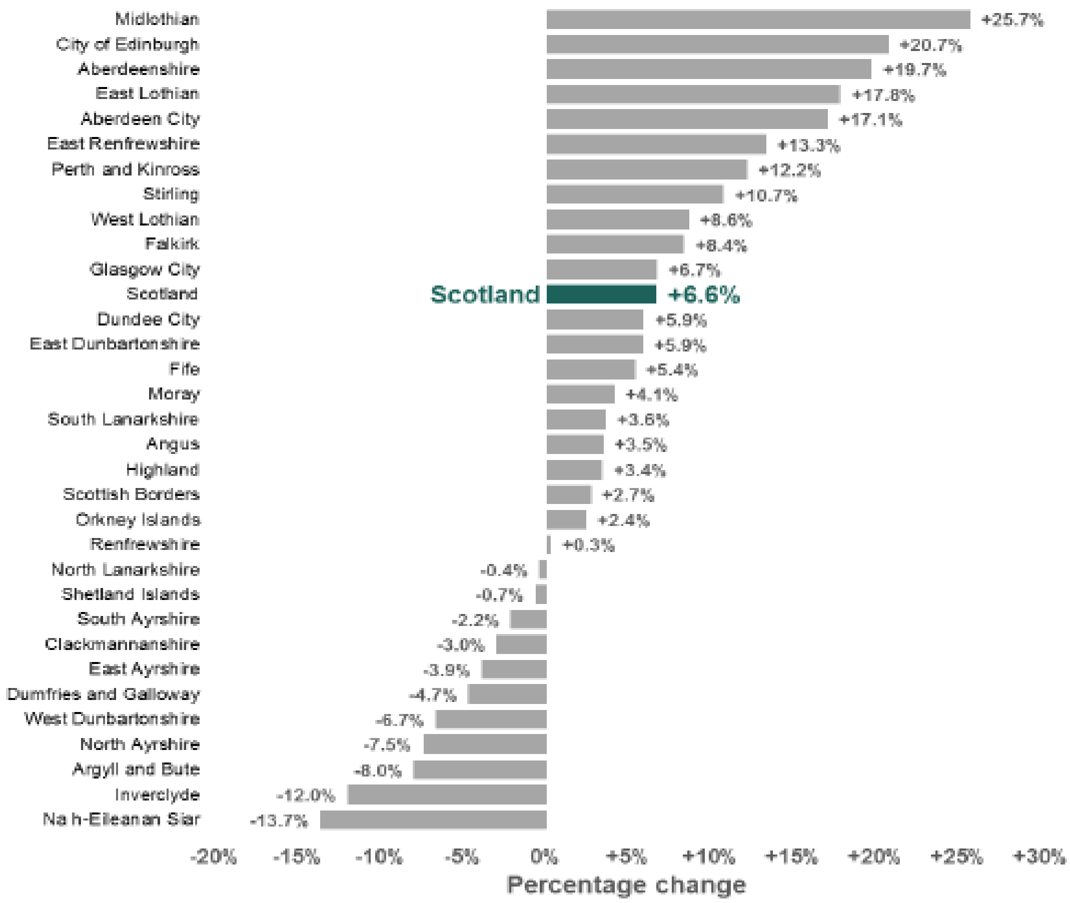
	West Dunbartonshire Council					
	Base Year	Projected Years				
Age Group	**2012**	**2017**	**2022**	**2027**	**2032**	**2037**
0-15	15,913	15,796	15,915	15,318	14,481	13,530
16-29	16,034	15,163	13,765	13047	13,151	13,215
30-49	24,489	21,954	20,619	20,485	19,477	18,355
50-64	18,633	19,976	19,992	17,950	15,584	14,258
65-74	8,388	9,276	10,038	11,074	12,133	11,640
75+	6,883	7,160	8,031	9,187	10,459	12,063
Total	**90,340**	**89,325**	**88,360**	**87,061**	**85,285**	**83,061**
	Scotland					
	Base Year	**Projected Years**				
Age Group	**2012**	**2017**	**2022**	**2027**	**2032**	**2037**
0-15	914,700	919,300	954,500	965,600	973,200	965,000
16-29	975,800	967,300	910,100	895300	909,300	938,600
30-49	1,450,700	1,387,600	1,389,000	1,436,600	1,441,400	1,424,500
50-64	1,046,600	1,109,300	1,141,800	1,077,200	1,006,500	979,100
65-74	507,300	563,900	589,500	634,700	693,400	694,400
75+	418,500	459,600	534,700	616,400	689,700	778,700
Total	**5,313,600**	**5,407,000**	**5,519,600**	**5,625,800**	**5,713,500**	**5,780,300**

	WDC as percentage of Scotland					
	Base Year	**Projected Years**				
Age Group	**2012**	**2017**	**2022**	**2027**	**2032**	**2037**
0-15	1.74%	1.72%	1.67%	1.59%	1.49%	1.40%
16-29	1.64%	1.57%	1.51%	1.46%	1.45%	1.41%
30-49	1.69%	1.58%	1.48%	1.43%	1.35%	1.29%
50-64	1.78%	1.80%	1.75%	1.67%	1.55%	1.46%
65-74	1.65%	1.64%	1.70%	1.74%	1.75%	1.68%
75+	1.64%	1.56%	1.50%	1.49%	1.52%	1.55%
Total	**1.70%**	**1.65%**	**1.60%**	**1.55%**	**1.49%**	**1.44%**

5.19 The chart below also indicates the forecast change in population for West Dunbartonshire Council in comparison to other council areas in Scotland between

2014 and 2039. It can be seen that this Council is projected to decline in population by 6.7% (fifth highest drop in Scotland), with the Scottish average to increase by 6.6%.

Chart 1: Projected percentage change in population, by Council area, 2014 - 2039



Source: National Records of Scotland

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

5.21 As can be seen from the West Dunbartonshire projections the only age groups with projected growth to 2037 is for the two bands for those aged 60 and over. This has the potential to become a significant issue if population decline in younger aged population in not halted or, ideally, reversed over this period. The Council is aiming to increase total housing supply over the period to 2022 by 5,000 houses; this may mitigate this downward trend; however it will be noted that the Scottish Government is aiming to increase house numbers across Scotland.

5.22 The deprivation profile will have major implications for services as research indicates that those vulnerable to poverty are more likely to require greater social intervention and a targeted focus to move out of poverty. There is evidence that poverty has been exacerbated by the implementation of austerity measures by the UK Government, particularly in relation to benefits payments.

5.23 The predicted demographic changes also have other implications. A decline in younger economically active people with a growth in the older, more vulnerable age group with fewer informal carers. This is likely to result in a higher dependency on services provided, such as Social Care.

6. 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; and
- A commitment to openness in the Council's affairs and the provision of full, accurate and clear information to all stakeholders.

6.4 The Council's Financial Regulations and any amendments are approved by Council and are an essential component of the corporate governance of the Council.

6.5 The Chief Financial Officer (CFO) or 'Section 95 Officer' has been designated as "the proper officer" and is responsible for advising the Council on all financial matters including the determination of Accounting Policies. This role is part of the responsibility of the Strategic Lead - Resources.

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 the Council's financial affairs.

6.7 Head Teachers must comply with the Financial Regulations, with the exception of virement which is defined for schools within the Council's scheme of Devolved Management of Resources Scheme (DMR).

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. Further detail is noted within the Financial Management and Control Code of Practice.

Elected Members

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

6.10 The Audit and Performance Review Committee, with representation from Members as well as lay-persons, scrutinises performance and management of resources of the Council, with internal and external audit information reported. The Council's year end position and relevant audit comments are reported and monitored at this Committee, as well as to Council.

6.11 Throughout the year Council and Committees receive reports which allow progress against approved budgets to be scrutinised. All members are provided with the opportunity to attend appropriate training in the areas of Financial Strategy, Local Government Finance and key specialist areas such as Treasury and Risk Management. Members' personal development opportunities are provided through an ongoing annual programme of seminars which will include updates on financial aspects.

Corporate Management Team

6.12 The Chief Executive, Strategic Directors and the Strategic Leads form the Corporate Management Team (CMT), chaired by the Chief Executive. The CMT is responsible, individually and collectively, for ensuring that best value and value for money is achieved across the Council, in service delivery, internal processes and systems of control, procurement of goods/services and the use of assets.

6.13 As Budget Holders, members of the CMT are responsible for the budgets delegated to deliver the services within their respective Directorates in line with the priorities of the Council. Whilst they may delegate this responsibility within their Directorate they remain accountable in exercising overall financial control.

Chief Financial Officer

6.14 The CFO has a statutory role to ensure that appropriate arrangements are in place for the proper administration of the financial affairs of the Council. The CFO has the authority to comment on any financial decision and advises CMT, Chief Executive and elected members on all financial matters. As noted above, this role within responsibility of the Strategic Lead - Resources, under the current structure.

Strategic Directors and Strategic Leads

6.15 Strategic Directors and Strategic Lead officers are 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 line with the priorities within the Strategic Plan.

Finance Business Partners

6.16 The main role of the service-linked Finance Business Partners is to advise the Strategic Directors and Strategic Leads and their management teams on all financial matters and to be responsible for the preparation of budget reports. They will also provide specialist advice and general guidance on financial systems including rules and procedures

6.17 However responsibility for budgetary control lies with the Strategic Directors and Strategic Leads as delegated budget holders, together with their associated Service Managers.

Internal Audit

6.18 Internal Audit provides 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 the most 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.

6.20 They provide assurance to elected members, the CMT and general public that the Council's performance is reported in accordance with the extant financial standards and presents a fair account of the Council's activities.

Managing the Budget

6.21 The Council has an effective method of developing both the revenue budget and capital programme that has aims to align resources with the strategic outcomes the Council wants to achieve for the area.

Revenue Budget - Pressures and Savings

6.22 The current process for considering the development of the revenue budget is undertaken collectively between the CMT and individual political groups. The process is undertaken with due consideration of, and agreement on, current policy and financial parameters for the budget, corporate and political expenditure pressures and/or savings options.

6.23 The CMT collectively evaluates all expenditure pressures and savings options to ensure that they are sufficiently robust and deliverable.

6.24 All pressures and savings options generated are evaluated in the context of the current Strategic Plan, which informs consideration by both the CMT and individual political groups. In generating these options due regard is made to the Council's equalities and environmental sustainability policies.

Public Private Partnership

6.25 In 2008/09 the Council reached financial conclusion on a PPP project. Unitary Charges became due payable in 2009/10, along with savings, Government financial support and the use of a Sinking Fund to pay for these charges (which Council agreed to reschedule on 27 March 2019). The Council's Facilities Management Service is involved in providing services to the Council (catering, grounds maintenance and cleaning services). BAM is the company contracted to provide the PPP buildings and managing the PPP project. Administration and monitoring of the project continues to be strictly managed. The new Our Lady & St.Patrick's High School is funded through the updated Scottish Government Non-Profit Distributing approach where the Scottish Government provides ongoing revenue support for the school's provision.

6.26 The Council's ongoing budget build-up takes into account the full value of the annual unitary charge for the provision of the schools together with the ongoing revenue support provided by the Scottish Government.

Capital Programme

6.27 The Council is committed to developing its strategic financial planning. As referred to above, a process was developed which allowed the Council to agree a 10 year General Services capital plan in conjunction with agreeing the revenue budget. The agreement of this plan has allowed the Council to more accurately project the effect of capital projects on the revenue budget, considering both costs and efficiencies, as well as levels of prudential borrowing on spend to save initiatives. This also allows the Council to forward plan on funding aspects of the Council's strategic commitments. As stated elsewhere in this document the HRA investment plan has been reviewed in setting the budget for 2019/20 onwards with a five year plan and a 30 year finance strategy.

Service Specific Funding (Ring-fenced funding)

6.28 With changes in Scottish Government Settlement due to the introduction of the Concordat, there remain some small areas of ring-fenced Government funding. In essence, the reduction of ring-fencing allows the Council to prioritise which services it aligns resources to, whilst recognising statutory duties, Strategic Plan priorities and our local outcome agreement. In recent years the levels of ring-fencing of new funds from the Scottish Government has increased. Recent new funding provided by the Scottish Government has tended to be ring-fenced reflecting the priorities of the Scottish Government.

Time Limited Funding

6.29 The following issues need to be considered when considering time limited funding:

- Clear monitoring that the funding is delivering and achieving the required impact, within the approved funding level;
- Such funding should not result in any ongoing commitment for the Council and the project or initiative should cease once the funding ends - this should be clear from the outset with severance costs and other termination costs factored into the overall budget for the project or initiative; and
- If this type of funding has been used to pilot a new approach to develop services in line with corporate priorities, a full evaluation of the financial and service implications would be needed before consideration is given to ongoing funding.

6.30 The overall reduction in the level of ring-fenced or time limited funding may minimise the need for this type of approach but it is important that it is included as part of the overall Financial Strategy.

Additional Income

6.31 There is a need to ensure that any additional income to the Council, for example from the Scottish Government or a partner organisastion, should be considered through a structured process that would allow initial appraisal. This will ensure that all relevant factors are taken into account and that provision is made for administration costs, any time constraint on the funding is considered and, where necessary, provision is made for severance costs.

6.32 The overall reduction in the level of ring-fencing by the Scottish Government may reduce the need for this type of approach but is important that it is part of the overall Financial Strategy.

Income Generation

6.33 The generation of income is an important aspect of the overall financial strategy and continues to be reviewed annually by the CMT and Council, through the budget process. . A review of all charges as part of the approach to commercialization was undertaken during the build-up to setting the 2019/20 budget and a revised set of charges was agreed. For the purpose of this strategy an assumption has been made that charges that are set by Council will not be uplifted at 4% on an ongoing basis, except for those services where charges are either statutorily defined, or not permitted to exceed the cost of provision.

Contingency

6.34 Based on the Contingency Fund Policy if unplanned savings are identified by services, i.e. are outwith their control, these savings are removed through virement from service budgets to the Council's Contingency Fund. Services also have the right to apply for funding from the Contingency Fund during the year for costs arising outwith their control. A copy of the policy is appended as Annex 3 to this strategy.

Freedoms and Flexibilities

6.35 Virement between budgets are allowed, subject to the limitations and approval requirements identified in the Financial Regulations. All virements require to be authorised through the Virement Approval Form to provide a clear audit trail.

Council Tax

6.36 The council tax was frozen in line with the concordat agreement with the Scottish Government between 2008/09 and 2016/17. Funding was been made available through the financial settlement equivalent to a 3.14% increase in council tax each year. As stated above the freeze was removed for 2017/18 though a cap at a 3% increase was imposed through the funding settlement and in 2019/20 the Scottish Government allowed an increase of up to 4.79%, though the Council decided to increase at 3% for 2019/20. It is anticipated within this strategy that the council tax will be increased in future years at 3% though it is expected the Government will allow a higher level of increase again in 2020/21 and onwards. Current Band D is equivalent to £1,234 in comparison to the Scottish average of £1,251.

6.37 Due to proactive debt collection management, the Council continues to show a steady and consistent improvement in collection performance over the past few years, increasing the in-year collection rate by 5.78% since 2005/06 to 95.41% in 2018/19. In recognition of this steady improvement in performance full collection rates anticipated for the purposes of this strategy have been revised upwards to 97.5%, from 97.25%. Due to the current financial climate (including the, as yet, unknown local economic impact of ongoing welfare reform and austerity), the levels of debt written off by the Council due to sequestrations and trust deeds, the levels of bad debt provision will be subject to annual review during the budget setting process.

6.38 Analysis has been undertaken of the number of houses within the Council area in order to accurately predict Council Tax yields going forward. As a result of this an additional £0.250m per annum is expected in 2020/21 and 2021/22 and a further £0.150m per year thereafter.

7. Financial Outlook

7.1 Key financial issues are known or anticipated events and activities which will have to be addressed within the Council's overall financial resources in the short-term (within three years), medium-term (within five to ten years) or long-term (over ten years). Annexes 4, 5 and 6 provide an analysis of issues in the short, medium and longer term, and some of these are discussed further in this section.

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

7.3 West Dunbartonshire Council is expected to receive Scottish Government Funding of £188.747m in 2020/21.

7.4 When the Council's own projection of Council Tax Income based on 97.5% collection rate of £36.250m is added then the budgeted gross income for the Council in 2020/21 is £224.997m.

7.5 This Financial Strategy provides detailed revenue forecasts covering the next 3 financial years, 2020/21 to 2022/23. The forecasts for the first year being more accurate as expected levels of demand and cost for Council services are more likely to be accurate in 2020/21 than in future years. The level of Scottish Government funding for 2020/21 onwards is not yet known and will be announced in mid-December 2019. The strategy projects that ongoing funding will be higher than had been assumed in the previous financial strategy, due to the likely impact of the relaxation / "ending" of UK austerity measures, due to demographic change and due to GAE distributional changes described above.

7.6 The level of resources available to the Council to fund its revenue expenditure is also dependent on Council Tax. The Financial Strategy currently assumes an increase for 3% for each year from 2020/21 to 2022/23.

7.7 As part of the budget process for 2019/20 the Council agreed a Reserve Strategy which identifies an optimum target for an unallocated Prudential Reserve of £4.192m for General Services and £0.850m for the HRA.

At present this strategy assumes that the Prudential Reserve is calculated in the same manner for the period to 2020/21 onwards. The position regarding reserves will be reviewed in setting the budget for 2020/21 in March 2020.

7.8 In the annual report from the Council's external auditors the value of the Council's usable reserves was highlighted as a risk. It was highlighted that, whilst generally operating within budgets each year, the level of usable reserve is low in comparison to other Councils in Scotland.

This reserves position needs to be considered in light of the ongoing financial challenges faced by the Council, and the overall position of the Reserves was considered as part of the budget process for 2019/20 and will continue to be reviewed on an annual basis, see Section 10.

7.9 In their annual report in September 2017, the Council's external auditors recommended that the Council develop a longer term approach to financial planning. To this end, for the first time the long term finance strategy reported to Council in October 2017 included projections for a 10 year period. This continues as standard practice and Annex 1 to this document projects the Council's finances for a 10 year period – to 2029/30. Clearly the longer into the future that projections are made, the less accurate the projections will be, however it is anticipated that the longer term approach will allow the Council to consider longer term approaches to financial planning.

<u>Short to Medium Term Revenue Issues</u>

Leisure Trust

7.10 The West Dunbartonshire Leisure Trust, commenced on 5 April 2012 and the Strategy reflects both costs and benefits going forward. Since the start of the Trust up until now the Trust has not resulted in any additional financial pressures. In February 2015 Council approved the transfer of Outdoor Recreation services to the Leisure Trust. The report from the Barclay review of the operation of Non-Domestic Rates in Scotland in 2017 recommended that the charitable relief provided to Leisure Trusts should be ended. The Scottish Government's response has advised that this won't happen and those Trusts which are in place will retain the charitable reliefs; though any new Trusts or additions to Trusts would be able to get reliefs but would result in the relevant Council losing an equivalent sum in Scottish Government revenue funding. This will act as a disincentive for Councils to create new Trusts or expand existing Trusts as one of the main benefits was in relation to gaining a saving in rates.

DWP Welfare Reform

7.11 The UK Government's emergency budget (22 June 2010), the Comprehensive Spending Review proposals (20 October 2010) and the Welfare Reform Bill (February 2011) have confirmed a number of changes to Housing Benefit and Council Tax Benefit currently administered by the Council on behalf of the Department of Works and Pensions (DWP), as well as other Welfare Benefit changes.

Following the "emergency" UK budget of 8 July 2015 it is clear that further UK-wide steps to reduce the DWP budget will introduce further challenges for residents of West Dunbartonshire. The main impacts are likely to be in the ongoing controls being placed around benefits payments, as follows:

- No automatic housing benefit for 18- to 21-year-olds;
- Free 30 hours of childcare for three- and four-year-olds;
- Freeze working age benefits for four years;
- Rents in social housing cut by 1%;
- Child tax credits restricted to two children by 2017;
- Benefits capping; and
- Cuts to employment and support allowance payments for new claimants deemed capable of "work-related activity".

This not only has potentially significant impact on the Council financially (both in HRA and General Services budgets) but also strategically. These changes will further reduce the general spending power of the residents of the area and are likely to lead to increased elective demand for Council services, or result in further reactive spend by the Council.

7.12 The financial effects to the Council (and its residents) of Welfare Reform commenced in 2013/14 and continues. Limited information is known on the overall impact to the Council and its residents.

Assumptions have been made on the information available and this has been worked through this Financial Strategy, but will require to be reviewed on an ongoing basis as more information becomes available. Further action is being taken on non-financial strategic areas to best minimise the impact of the reform to residents within the Council area. There is an expectation that elements of the reforms will be funded, either in full or in part, and discussions are ongoing between COSLA, the Scottish Government and the UK Government. The assumptions currently made around the continuing financial effects of Welfare Reform as it develops in this document will vary (potentially significantly) by the date of setting the budget for the years to 2018/19.

7.13 Universal Credit started to roll-out in West Dunbartonshire in February 2015 on a limited approach which will build over time and full implementation commenced in June 2018.

7.14 At this time, the full impact to the Council of the changes already made by the Department of Works and Pensions are available, as many of the changes have been in place at least since 1 April 2013. The strategy has been updated to reflect the better intelligence following these implemented changes. The main financial issues arising from Welfare Reform are as follows:

- **Introduction of a benefit "cap" was introduced from July 2013.**
  This affects a number of residents and has a financial impact on the Homelessness budget where the Council is in receipt of Housing Benefit to cover the rental and service charge payment for people who use this service. The impact of the cap has been slower than anticipated and assumptions around the ongoing impact have been revised due to experience since July 2013. The value of the cap was reduced from November 2016 to £20,000 for a couple or person with children and £13,400 for a single person.

- **Transition from Housing Benefit to Universal Credit**
  Universal Credit started to roll-out on a limited approach in West Dunbartonshire in February 2015. However, a review by Department for Work and Pensions, Universal Credit ended in West Dunbartonshire and other non-full service areas from 31st December 2017 and legacy benefits were reinstated.

  Full service Universal Credit is due to commence in November 2018 in West Dunbartonshire which has potentially significant impact on the Council financially (both in HRA and General Services budgets). Full service will further reduce the general spending power of the residents of the area and is likely to lead to increased elective demand for Council services, or result in further reactive spend by the Council.

  New Social Security powers allowed the Scottish Government to introduce The Scottish Universal Credit Choices which is available for applicants in full service areas.

7.16 The Scottish flexibilities allow citizens to:

- have the option of being paid Universal Credit twice a month rather than monthly; and
- have the option of any Universal Credit Housing Element being paid directly to landlords.

Following the roll-out of full service Universal Credit, a planned migration of existing cases will be complete by 2023. Discussions have been ongoing between COSLA and Department for Work and Pensions in relation to the migration of cases, with COSLA seeking information on the planning due to the scale and complexity of what is involved with 19 different combinations of legacy benefits under payment. There are major funding issues for local authorities, since funding will further decline as the working age Housing Benefit caseloads reduce.

As part of the roll-out process the UK Government have reacted to some feedback provided from Councils and organisations such as COSLA as to the impacts on society and on local authorities and two recently announced changes are:

- Housing Benefit 2- week transition payment introduced from April 2018; and
- Temporary Accommodation housing costs are now paid from Housing Benefit for new claims from April 2018.

Employee Pay Awards

7.17 Future employee pay awards have been agreed up to 2021/22 and reflected in this updated stratecy. However, for the purpose of the Finance Strategy 3% has been assumed from 2022/23 onwards, as the government position on capping public sector pay awards has been removed. Part of the current pay award included agreement that Councils would implement revised pay structures in order to consolidate the Living Wage into pay structiures by March 2021. This work is ongoing and it is anticipated that this will have a financial cost; however this has not yet been finalised.

Demographic Change

7.18 As identified from section 5.11 above, the population change projected in 2018 is expected to have an adverse effect on the Council's funding settlement from the Scottish Government and this has been built into the strategy, as described above.

Holiday Entitlement for overtime worked

7.19 Recent case law developments identify an issue regarding the appropriate payment or provision of annual leave for time worked outwith normal contractual time. This issue has the potential to result in claims for pay for holidays not provided and additional costs have been built into the projections from 2014/15. The cost of this is already built into budgets and the Council has a contingent liability noted within the annual accounts for 2018/19.

Long-Term Revenue Issues

7.20 Looking beyond 2020/21 is difficult with significant uncertainty around how local authorities will be funded let alone the level of funding likely to be available.

Depopulation and Population Change

7.21 As stated above, the most significant longer-term challenge facing West Dunbartonshire is depopulation and associated demographic change – this has been recognised as a priority by the Council and is reflected in the Strategic Plan.

7.22 The fundamental issue for the Council is that if the decline in population continues then Council funding and service provision will come under ongong increasing pressure. Population change will affect both General Fund and the HRA.

7.23 The population of West Dunbartonshire is projected to decrease to 83,061 by 2037, a drop of 6.8% from the current population.

7.24 In addition to population decline, the numbers of older people living within the Council area is expected to increase significantly with the pensionable age population to increase by 55% (75% in the group 75+) between 2012 and 2037. This is expected to result in additional demand for Council services such as Social Work. The Scottish Government has identified this issue as a significant risk across Scotland and has identified further funding in the shorter term to support this, however the longer-term approach of the Scottish Government is not known at this stage.

.

Government Funding

7.25 Future levels of local government funding are difficult to predict with political views generally being expressed that austerity is currently ended nd there will be more public sector spending in the next few years. However the impact of Brexit is not yet known. This strategy assumes a 0.75% underlying decrease in funding for 2020/21, though this is primarily due to changes in GAE distribution methodologies. As such, this projection of increased funding will clearly be subject to reconsideration as the settlement becomes available in December 2019. At this time, a further reduction of 0.75% has been assumed for 2021/22 to 2022/23. Longer term projections of funding over a 10 year period have been made at an average reduction in funding of 0.75%, though there is no certainty as to such assumptions.

Other Variables

7.26 Costs associated with sustainability including waste disposal and recycling, carbon management, energy and fuel costs and general procurement are not easy to predict due to policy change recently on waste disposal. The Council requires to revise the methodology for waste disposal and this is likely to require a capital investment.

7.27 Interest rates on borrowing from the Public Works Loan Board (PWLB) have been at historically low levels for a number of years. However, in October 2019 the Government increased rates by 1%. This is likely to have been mainly as a result of significant speculative borrowing by a number of Councils in England; and to allow some leeway for possible reductions following Brexit. Even with the increase in the rate the cost of borrowing remains low and there are also a number of other options available which officers will review and consider as and when borrowing is required.

7.28 Future iterations of this strategy will continue to review the effects of the above key issues.

Capital Projections

General Fund

7.29 The Council agreed it's first Capital Strategy at Council on 27 March 2019, in line with updated best practice. This strategy links asset management plans to the Council's approach to capital investment and to the Capital Plans.

7.30 An update to the General Services 10 year Capital Plan for 2019/20 to 2028/29 was agreed by Council on 27 March 2019. This long term capital plan takes into account revenue resource available to support capital investment into the future. The capital plan has been reviewed to reflect new expected dates of delivery of projects as part of this strategy as part of the loan charges update. The next full review of the capital plan will take place in 2021/22.

7.30 It is recognised that significant investment is required to improve the Council's asset base (as is described in the Council's Asset Management Strategy). As stated above the 10 year capital planning approach requires funding to be identified for future levels of capital investment and elements of this funding will require additional borrowing. The capital plan has been agreed in detail for 2019/20 to 2021/22 and in outline for 2022/23 onwards, thus revenue implications are now included in the gap analysis. For illustrative purposes, current interest rates suggest that an investment in new build properties will require revenue support (if funded through prudential borrowing) is estimated to be as follows:

Capital Investment	Annual Revenue Implication (over 60 years)
£10m	£0.294m
£20m	£0.588m
£30m	£0.882m
£40m	£1.176m

7.31 Close management controls and monitoring arrangements require to be in place to ensure that the funding anticipated arising from efficiencies are actually generated and that other sources of funding are achieved to support the capital investment. If there is a shortfall in these areas then the burden will fall back on the revenue budget requiring additional savings to be made.

City Deal

7.32 The Council is a member of the Clyde Valley Community Planning Partnership which has identified an opportunity for major infrastructure investment in the West of Scotland under the City Deal approach. The Council has a project within the capital regeneration spend of the City Deal – Exxon site. The anticipated financial impact of this project has been built into the capital plan. The final financial impact will be considered by Council as part of the business case approval process.

Housing Revenue Account

7.33 The Council's housing stock required much investment to meet Scottish standards by 2015. This target was met in 2015 however ongoing works are required to maintain at this level and to implement improvements in relation to energy efficiency standards. This has been built into the updated 5 year capital plan for the HRA approved on 14 February 2019.

7.34 The Council has secured Scottish Government Grant funding towards the construction of new council houses. The Council is committed to the delivery of new Council homes for rent and plans for future investment have been agreed and have been subject to ongoing reports to the Housing and Communities Committee. The capital plan approved on 14 February 2019 included significant investment plans for new council housing, recognizing ongoing expected increase in demand for social housing.

8. Key Organisational Issues

Best Value Assurance Report (BVAR)

8.1 As part of the national approach to ensuring Best Value across Scotland, Audit Scotland has reported a Best Value Assurance Report on West Dunbartonshire Council to the Accounts Commission on 7 June 2018. The key messages from this report were:

- Since the last Best Value report in 2007, the council has made significant improvements in how it works. The council now demonstrates a focus on delivering Best Value and the auditors found evidence of continuous improvement in services;
- Since 2007, changes to the senior officer team, including the appointment of the current Chief Executive in 2011, have played a key role in the

improvements the council has made. Officers and councillors from all parties work well together for the benefit of the residents of West Dunbartonshire;

- Overall, service performance is improving and most residents who have provided feedback to the council are satisfied. The council maintains a steady pace of change that has led to improved outcomes in its priority areas including housing services and educational attainment amongst schoolchildren;
- The council's latest Strategic Plan 2017-2022 lays out a focused and ambitious vision for the period, which reflects the needs of its community. There is evidence to demonstrate that the views of the community influenced council budget-setting and decision-making. The Strategic Plan is clearly aligned to the Community Planning Partnership's strategic priorities;
- The Strategic Improvement Framework provides a structured and practical approach to help council services to continue to improve. The council has demonstrated a commitment to delivering services differently in West Dunbartonshire and is working well with partners to achieve this;
- The council has a good record of delivering services within budget. It has developed both medium and long-term financial plans. However, it has a projected funding gap of £13.9 million for the three years to 31 March 2021, which will be a challenge to make up. Service reform needs to continue;
- In recent years, the council has significantly expanded its capital budget, which pays for projects such as buildings and roads. But there is a trend of significant slippage in the capital programme, which means that a number of projects are being finished late. The council now needs to strengthen project planning and management;
- The council has a detailed organisation-wide, five-year workforce plan and individual service specific workforce plans; and
- The 2007 Best Value report highlighted that scrutiny in the council needed to improve.
- There is evidence of significant improvement in this area, with members working together and demonstrating stronger scrutiny.

The Best Value Assurance Report contained five recommendations relating to:

- Reviewing project management processes;
- Further development of workforce plans;
- Staff absence levels;
- Further developing the role of the community alliance; and
- Cross-party working amongst Councillors to address the financial challenges which exist and the important decisions required in the future.

Progress on the implementation of these actions has mainly been implemented and progress has been reported to Members on an ongoing basis.

External Scrutiny – Shared Risk Assessment (SRA)

8.2 In response to comments from Councils over several years about the burden of the range of scrutiny regimes in place, Professor Lorne Crerar was commissioned to conduct a review of regulation, audit, inspection and complaints handling of public services in Scotland. Following this review it was determined that scrutiny of public services needed to be streamlined.

8.3 The result is that the scrutiny bodies have adopted a SRA approach and the output from this collaborative approach which involves joint scrutiny by the following agencies:

- Audit Scotland;
- Education Scotland;
- Care Inspectorate; and
- Scottish Housing Regulator.

8.4 The outcome of the most recent SRA identified the areas of specific scrutiny to be reviewed during 2019/20 were: homeless people services and standards of gypsy traveler sites.

A focus on strategic leadership

8.5 The Strategic Leadership Group oversees and coordinates progress on the key issue of improving leadership. Its prime aims are:

- to develop a synergistic approach to influencing relations with Members;
- to drive the strategic priorities and Member involvement;
- to ensure a corporate approach to key initiatives, through refining decision-making processes, reviewing the progress of the key strategic priorities, overseeing better financial planning, improving scrutiny arrangements and overseeing the implementation of the Council's new self-evaluation model; and
- to ensure appropriate focus is placed on the accountability of lead officers and members and appropriate governance arrangements are maintained.

Strategic Asset Management Group

8.6 This group addresses overall corporate asset issues at a strategic level with a view to maximising Council resources in the form of the Council's Asset Management Strategy

9. Treasury Management

9.1 West Dunbartonshire 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 must also comply with legal and regulatory requirements in relation to its Treasury Management activities.

9.2 The Council has appointed consultants to provide advice on Treasury Management issues, including technical issues and the formulation of views on interest rates.

9.3 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.

9.4 The following reports and briefings are also submitted to Council and Committee in accordance with the Code of Practice:

- 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;
- Quarterly Treasury Management Monitoring briefing notes which include details of interest rates, debt and investment positions and debt restructuring activity;

- An Annual Report for Treasury Management submitted before the end of September each year and which advises members of Treasury Management activities during the previous financial year; and
- Each financial year a mid-year strategy review is also been prepared and remitted to Council.

9.5 The table below shows the Council's debt and investments position as at 31/03/19:

Table 6 – Council's Debt and Investment Position – 31/03/19

Treasury position	31-Mar-19	
	Principal	Average Rate
Fixed Interest Rate Debt	£441.370m	2.51%
Variable Interest Rate Debt	£0.000m	0.00%
Total Debt	**£441.370m**	**2.51%**
Total Investments	**£19.389m**	**0.64%**
Net borrowing position	**£421.981m**	

9.6 During 2015 Audit Scotland produced a national report "Borrowing and Treasury Management in Councils". This report provided a range of recommendations for improved practice. Two of the main issues were:

- Providing longer term understanding of the revenue impact of capital investment decisions; and
- Providing a sensitivity analysis for future projections to show what impact changes in cost factors may have on the revenue position. For capital issues the main variable is the cost of borrowing.

9.7 The Council's revised 10 year capital plan, agreed March 2019, provides Members with information as to how the recommended projects are planned to be funded. This includes a mixture of grant funding, capital receipts, match funding from other bodies, revenue savings arising from the improvements and prudential borrowing for the balance of financing not covered from these other funding sources.

9.8 The plan also advised Members as to the anticipated additional revenue impact of the element of planned investment that was not covered by specifically identified funding sources. This projected the additional revenue impact to year 10 of the capital plan and considered the affordability of the potential 10 year plan into the future, with benchmarks with other Councils provided.

9.9 In 2018/19 the Council undertook a review of the Loans Fund and agreed to realign debt repayments to meet the expected asset life of the assets for which borrowing has been done. This exercise had a net zero impact on the cost of borrowing, though creates a short to medium term cashflow financial benefit to the Council. A further opportunity remains for further review following Audit Scotland agreeing nationally that this is allowed under legislation. This strategy does not assume any benefit from such an exercise at this stage and options will be provided to Members to consider this further opportunity – which if agreed has the potential to assist in closing the budget gaps over the short and medium term.

9.10 In terms of a sensitivity analysis there are two main areas of risk:

- that anticipated funding does not materialise e.g. capital receipts; match funding not achieved; and/or revenue savings planned from capital investment not achieved; and
- significant upwards variation in the cost of borrowing.

9.11 In relation to the first area of risk – this is monitored on a regular basis in budgetary control reports to Council, Committees and to Management.

9.12 In relation to the second area of risk – the Council budgets the revenue implications of the capital plan as loan charges to the revenue accounts. The budgeted cost of loan charges is based on expected cost of borrowing at present and into the future, based on advice from the Council's independent treasury advisors. The Council operates a loans fund which pools all borrowing to generate an average loans fund cost of borrowing – this has the effect of dampening the impact of any increases or decreases to the cost of borrowing, as in general any short term reductions or increases in borrowing will only affect new borrowing which will generally not have a significant impact on the average pooled interest rate (cost).

9.13 In order to provide overall governance and control mechanism on the impact of the capital plan, the plan is refreshed on an annual basis and renewed every three years. This will allow a regular consideration of the risks associated with the capital investment plans and where appropriate plans can be varied to mitigate against financial risk implications. The mid year Treasury Strategy update provides Members with analysis of the above issues.

10. Reserves

10.1 A key aspect of the consideration of the Council's Revenue Budget and Capital Programme Budgets is the position of the relevant Reserves.

10.2 The Reserves Policy (Annex 7) states that the core "Prudential" Reserve be maintained at a level of 2% of net expenditure (excluding requisitions) with the General Fund Reserve for 2019/20 at £4.192m and the HRA Reserve for 2019/20 is £0.850m.

10.3 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 this impact of unexpected events or emergencies which also forms part of general reserves; and
- A means of building-up funds, often referred to as earmarked reserves, to meet unknown or predicted liabilities.

10.4 For each reserve held, there should be a clear protocol on:
- The reason for/purpose of the reserve;
- How and when the reserve can be used;
- Procedures for the reserve's management and control; and
- A process and timescale for review of the reserve.

10.5 The Council's estimated reserves to 2021/22 are summarised below:

Table 7 – Reserves Projection

	31/03/2019	31/03/2020	31/03/2021	31/03/2022
Revenue	£000s	£000s	£000s	£000s

General Service Free Reserve	4,381	4,381	4,381	4,381
General Service Earmarked Reserve	6,170	2,470	1,335	826
HRA Free Reserve	850	875	906	931
HRA Earmarked Reserve	756	0	0	0
	18,474	**7,765**	**6,903**	**6,171**
Capital				
Capital Item Replacement Fund	362	362	362	362
Capital Grants Unapplied	278	0	0	0
Capital Reserve: Schools Regeneration	2,847	2,147	1,442	732
	4,061	**3,397**	**3,047**	**2,697**
Overall total	**22,535**	**11,162**	**9,950**	**8,868**

11. Monitoring and Reporting Arrangements

11.1 The Financial Strategy will be monitored by CMT on a regular basis - there will also be capacity to review the Strategy as and when required, particularly when a new issue arises or the impact of major policy or initiative becomes clearer.

11.2 The Financial Strategy will only be revised if there are changes to estimates, projections or policy which have a major financial impact.

11.3 The de minimis level which would qualify as a major impact requiring an immediate review is based on 50% of the reserves: at £2.096m for the General Fund and £0.425m for the HRA. Any impact and decision around a requirement to implement an immediate review is always subject to the opinion of the Chief Financial Officer.

11.4 The financial management principles and expectations have been communicated and are understood by all Chief Officers and budget holders.

11.5 The Financial Strategy has been drawn up with the full involvement of the CMT and, will be communicated throughout the organisation.

11.6 During the years covered in the strategy, the Council and Service Committees will receive budgetary control reports from period 3 onwards, analysing variances over £0.050m. The CMT receive this information monthly from period 3 onwards.

11.7 As in previous years, the Council, Service Committees and CMT will also receive updates at the same time as the budget monitoring reports which monitor each individual agreed management adjustment and saving to ensure these are on target. This will allow issues to be identified quickly and early intervention action to be taken, when and if necessary.

11.8 The following key performance indicators around the performance of the Council's finances have been identified as follows:

General Services

- The amount of free reserves as a percentage of the prudential reserve target – target a minimum of 100% of the prudential reserve;
- The revenue budget compared to actual outturn – target to be a maximum of 100% of budget;

- The ratio of financing costs to net revenue stream – targets will be defined on an ongoing basis via the Treasury Strategy; and
- The rate of in-year Council Tax collection – targets, as follows:

2019/20	95.60%
2020/21	95.65%
2021/22	95.70%
2022/23	96.75%
2023/24	96.80%

Housing Revenue Account

- The amount of free reserves as a percentage of the prudential reserve target – target a minimum of 100% of the prudential reserve;
- The revenue budget compared to actual outturn - target to be a maximum of 100% of budget;
- The ratio of financing costs to net revenue stream – targets will be defined on an ongoing basis via the Treasury Strategy; and
- Improve in-year collection rates on rent charges.

12. Risk Management

12.1 The Council's strategic priorities for the next five years are the focus of the Strategic Plan together with enabling factors that contribute to the successful achievement of the strategic priorities. The strategic risks flow from this process, service risks and operational risks, including risks relating to the Financial Strategy and delivery of the Financial Strategy continue to be assessed, reviewed, and managed in line with the strategic priorities. Annex 8 identifies the range of risks which may influence future financial performance and stability of the Council.

13. Approach to Generating Future Budgets

13.1 Currently revenue budgets are generated through the traditional process known as "Cost of Current Level of Service" with "incremental budgeting". So, in general, budgets follow the current cost of delivery of Council policies allowing for known cost increases/reductions to be built-in and for unavoidable burdens/ reductions to also be recognised as part of the cost of providing a service reflecting current Council policies. In general this process should, in theory, generate a budget which reflects Council priorities on the basis that services are set up to deliver those priorities. In essence, the base position is taken from the previous year's budget and this is adjusted for known movements.

14. Financial Strategy

14.1 In order for the Council to continue to plan for the longer term future it is necessary to consider options and approaches which will assist the Council to meet the financial challenges whilst continuing to provide services in line with its Strategic Objectives. This is not a simple task when operating partially in the dark as a result of Scottish Government single year settlements rather then multi-year settlements – which would allow the Council to have more certainty as to what the challenges are.

14.2 However, given that this document does provide predictions, with scenarios, for the Council over the next 10 years, it is incumbent on the Council to identify appropriate approaches to manage these potential financial outcomes.

14.3 As a result the Corporate Management Team have developed an outline plan which aims to develop approaches to mitigate the financial risks over the next 10 years. This plan links directly with the Council's Strategic Plan, as follows:

Strategic Priority 1: A strong local economy and improved employment opportunities.
Grow the economy which sees continued long-term investment in local regeneration which takes account of the environment and sustainability. In turn it is anticipated that this will facilitate a financial benefit to the Council.
Strategic Priority 2: Supporting individuals, families and carers living independently and with dignity.
Increase the mixed economy of housing to create attractive places, with future housing developments sustainable, accessible and adaptable to meet the changing needs of our population, together with increased investment in our housing stock to create sustainable opportunities and flexibility for residents

These two strategic priorities are linked and are anticipated to generate a financial benefit to the Council by:

- Resulting in an increase in the WDC population as percentage of Scottish population;
- An increase in Council Tax base; and
- Increase the Council Tax Collection rate.

Strategic Priority 3: Meaningful community engagement with active empowered and informed citizens who feel safe and engaged.
Introduce a dedicated Community Empowerment Service helping the community to help themselves and support increased capacity in local areas, with more Council resource directed by Communities. This will deliver:

- Maximised opportunities and asset transfer to enabled Communities; and
- Reduced asset management costs.

Strategic Priority 4: Open, accountable and accessible local government
Ensure best use of technology and resources to support service delivery and maximise self-service through digitization of service delivery, ensuring all processes are as lean as possible. This will support:

- The prioritization of service delivery in line with Strategic Priorities and Outcomes, this will align with the need to reduce total council spend over the period of the financial plan in a structured manner; and
- All citizens accessing appropriate levels of service, linked to a digitization strategy, streamlined and efficient service delivery.

Strategic Priority 5: Efficient and effective frontline services that improve the everyday lives of residents.
Implementing a Commercialisation approach which will:

- Identify commercial opportunities to protect public services and generate new income streams;
- Share services and systems where possible and where a partner organization is available;
- Delivery of a digitization strategy; and

- Implementing a LEAN approach to minimizing process costs and efficient service delivery;
- Implement a spend to save approach to automate back office processes;
- Ensure service management and establishment structures are efficient and effective;
- Review service delivery models and commissioning approaches in relation to social care services to provide a service which meets need whilst recognizing changes in demand;
- Review service delivery between social care and education in relation to providing the most appropriate model of service delivery which avoids cost and care escalation; and
- Deliver an efficient use of Council assets – in line with relevant Asset Management Strategies, including operational estate; non-operational estate; transport fleet; and ICT assets;.

Supporting the above priorities is the Council's approach to attaining Best Value and the following cross-cutting approaches will support the delivery of the strategic plan and longer term financial plan:

- Undertake commissioning approach for each service area;
- Develop and implement a Capital Investment Strategy and supporting capital plan which ensures investments are affordable and sustainable in the longer term;
- Undertake appropriate benchmarking activity for each service area at least every 5 years to identify the most appropriate and cost-effective means of service provision; and
- Ensure the charging regime is reviewed at least every 3 years.

WEST DUNBARTONSHIRE COUNCIL
BUDGET GAP ANALYSIS - GENERAL SERVICES
MOVEMENT FROM 2018/19 TO 2028/29

WEST DUNBARTONSHIRE COUNCIL **ANNEX 1**
BUDGET GAP ANALYSIS - GENERAL SERVICES
MOVEMENT FROM 2019/20 TO 2029/30
SCENARIO 1 - LIKELY

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Position per Budget Report 5 March 2018		**9,816**	**16,930**								
Variables in Assumptions Considered in Sensitivity Analysis											
Budget Book 27/3/19 - SG Funding	**183,307**	**179,352**	**176,501**	**186,652**	**185,297**	**183,911**	**182,525**	**181,139**	**179,753**	**178,367**	**176,980**
Teachers Pensions - SG funding	1,132	1,941	1,941		0	0	0	0	0	0	0
Teachers Pay Award	2,624	2,624	2,624		0	0	0	0	0	0	0
Gross SG Funding after adjustments	**187,063**	**183,917**	**181,066**	**186,652**	**185,297**	**183,911**	**182,525**	**181,139**	**179,753**	**178,367**	**176,980**
Underlying assumed SG settlement reduction (%)		0.75%	0.75%	0.75%	0.75%	0.75%	0.75%	0.75%	0.75%	0.75%	0.75%
Reduction in Scottish Government Funding to 0.75% cash terms		-2,580	-4,086	1,354	1,386	1,386	1,386	1,386	1,386	1,386	1,386
Redistribution on some GAEs per COSLA Leaders October 2019		-1,500	-1,500								
Assume 3% Council Tax increase	3%	3%	3%	-1,070	-1,108	-1,141	-1,175	-1,211	-1,247	-1,284	-1,323
Council Tax collection rate increase		-90	-90								
Council tax base increase – additional houses		-250	-500	-150	-150	-150	-150	-150	-150	-150	-150
Recurring variances exercise from previous year end		-450	-550	-400	-400	-400	-400	-400	-400	-400	-400
Pay award 3% for all years				4,740	4,882	5,029	5,180	5,335	5,495	5,660	5,830
Sales, fees and charges at 4% uplift				-300	-300	-300	-300	-300	-300	-300	-300
Ongoing cost pressures					500	1,000	1,500	2,000	2,500	3,000	3,500
Submission Movements		180	-618	2,600							
HSCP Net Funding Reduction		518	1,035	-525	-525	-525	-525	-525	-525	-525	-525
Gap from previous financial year				10,621	16,871	21,157	26,056	31,572	37,707	44,467	51,854
Revised (Surplus)/ Gap	**190,819**	**5,644**	**10,621**	**16,871**	**21,157**	**26,056**	**31,572**	**37,707**	**44,467**	**51,854**	**59,872**

Annex 2

Assumptions built into the 2020/21, 2021/22 and 2022/23 Indicative Revenue Estimates

Government related Assumptions
The funding settlement for 2020/21 onwards is based on officer's projections of the impact of austerity measures and demographic change (actual settlement for 2020/21 expected to be received in mid-December 2019). Current assumption is a flat cahs settlement (in cash terms) per year from 2019/20 to 2022/23 on the variable elements of the settlement
An increase in GAE allocations due to changes agreed to distribution methodology by COSLA Leaders in October 2019 will lead to an increase in funding to WDC from 2020/21. Current assumed effect is £1.5m – to be confirmed in Finance Settlement for 2020/21 in December 2019.
Council Tax for 2019/20 onwards will be at 3%
That the Council's share of the additional funding to support social care since 2016/17 continues into the future
That the Scottish Government additional funding from 2019/20 Scottish Parliament budget continues
New parliamentary bills will have no financial impact on the Council (i.e. it is assumed that funding covers the costs associated with the initiative)
Any additional costs relating to revaluation of the discount rate on Teachers pension scheme will be funded by Scottish Government
Demographic Assumptions
Burden figures provided by HSCP for the budget projections remain valid - including: • The number of clients with physical disabilities will increase each year; • The number of clients with learning disabilities will increase; • The demand for older people residential beds will increase each year; • The demand for other services will remain similar to current levels.
Workforce Assumptions
Pay award assumed at 3% for 2020/21 onwards
Superannuation rates to remain as at present with no actuarial advice at this point to the contrary
Equal pay provision as at 31/3/19 is adequate
Turnover at current levels on appropriate staffing types (4%)
No changes to workforce terms & conditions
Operational Assumptions
That the Council's prudential target remains at 2% of net expenditure
No further adjustment has been addumed regarding any further opportunities to undertake Loans Fund Review within this document. A report will be provided to Members on a further opportunity
Income increases within Council control assumed at 4% each year (sales, fees and charges) where sustainable
Council tax base increases from 2020/21 onwards based on information from Valuation Joint Board for years 1 and 2 and 150 per year thereafter
Loan charges and efficiency savings link directly to 10 year capital plan
No change to the bad debt provision on council tax (2.75% per annum), and the provision identified within the HRA budget.

Annex 3

CONTINGENCY FUND POLICY

INTRODUCTION

1.1 The Council operates central revenue and capital contingency funds (CCF) to accommodate externally led reductions which benefit departmental budgets. These funds are also called upon to address budget increases resulting from external factors.

1.2 Budgetary control reporting is more transparent and accountable if the impact of variances outwith departmental influence was removed (or compensated) from departmental budgets.

MAIN ISSUES

2.1 It is the responsibility of the Strategic Lead - Resources to maintain a record of all budget transfers in/out of the revenue and capital CCF. It is also be the responsibility of the Strategic Lead - Resources, in discussion with the Chief Executive/Strategic Directors, to determine appropriate budget movements to transfer in/out of the CCF.

2.2 An additional line has been introduced into consolidated Council Budgetary Control reports to ensure reconciliation back to the approved budgets.

2.3 The CCF will apply to all revenue and capital budgets of the Council, including the Housing Revenue Account and each Trading Organisation. Transfers in/out of the Housing Revenue Account will be subject to legislative constraints.

2.4 Similarly, the impact of significant unforeseen expenditure burdens on departmental budgets would be financed by additional budget resources allocated to departmental budgets from the CCF. Departments would be invited to make appropriate application to the Strategic Lead - Resources.

Annex 4

Short-Term Issues

These issues, which will need to be addressed in some way within the next 3 years, were identified by senior management during consultation on the Financial Strategy and the impact can be one-off or recurring. Some shorter term issue will continue into the medium term and longer term. This list is not exhaustive.

Risk Area	Issues Identified	Action Taken	Responsible Officer
Strategic Issues	Unemployment levels within the area	Improve employability of residents through supporting training, apprenticeships, new jobs; encouraging economic regeneration by providing support to businesses; using procurement to encourage new training and job opportunities for local people; launch of Working4Business; implementation of Queen's Quay Regeneration project; and involvement in City Deal to create more employment opportunities.	Strategic Lead – Housing and Employability; Strategic Lead - Regeneration; and Strategic Lead - Resources
	Impact of major capital investment on service delivery during implementation (e.g. ICT upgrades)	Project leaders allocated to each major project with project implementation documents, risk minimisation/ mitigation action plan	All Strategic Directors and Leads
	Financing of Council budgets / Review Income Targets	3 year detailed budget prepared; Ongoing monitoring of target savings done regularly by CMT and Council/Committees	CMT Strategic Lead - Resources
	ICT Modernisation	Major capital programme identified 2012/13 & continued on ongoing basis in capital plan	Strategic Lead – People and Technology
	Capital income not achieved at planned levels	Identification of movement through Strategic Asset Management Group – reported to CMT & Council through capital budgetary control; capital plan monitoring; Asset Disposal Strategy implementation	Strategic Lead - Regeneration Strategic Lead - Resources

Risk Area	Issues Identified	Action Taken	Responsible Officer
Strategic Issues (cont.)	Work Force Planning	Workforce Management functionality system being developed further; Restructuring opportunities considered when appropriate; Implementation of Corporate Workforce Plan	Strategic Lead – People and Technology
	Asset Management Plan - Maintenance Backlog - Disability Discrimination Act - Health and Safety	Strategic Asset Management Group regular meetings; Capital resources committed for disability access; Risk Assessments where required; 10 year capital plan monitoring & development	Strategic Lead - Regeneration Strategic Lead - Resources
	Organisational structures	Ongoing and monitored regularly by management teams	CMT
	Barclay Review – potential risk to charitable relief provided for Leisure Trust, as a result of the review, currently awaiting Scottish Government response	Monitoring the position, current assumption is no impact in 2018/19 onwards	Strategic Lead - Resources
	Welfare Reform (ongoing). This incorporates homelessness rent capping, HRA rent capping, council tax benefit replacement, Social Fund replacement, and bad debt levels	Briefing notes on possible affect produced; Situation monitored, action taken as necessary, costs budgeted, Members briefing days & officer working groups; Regular updates to CMT	CMT Strategic Lead - Resources Strategic Lead – Housing and Employability

Risk Area	Issues Identified	Action Taken	Responsible Officer
Service Issues	Increasing levels of waste - landfill tax impact	Increase recycling targets; Budgetary impact within budget	Strategic Lead – Environment & Neighbourhood
	Recycling Initiatives to meet targets	Ongoing initiatives to encourage recycling	Strategic Lead – Environment & Neighbourhood
	Planning Income & building warrant income decline	Budgetary impact within budget – finances to be monitored and action taken if necessary	Strategic Lead – Regulatory
	Investment Property income decline due to economic climate	Budgetary impact within budget – finances to be monitored and action taken if necessary	Strategic Lead - Regeneration
	Cost of vandalism and anti-social behaviour	Budget provided – any impact above this level would require monitored and action taken if necessary	Head of Housing and Community Safety
	Road Maintenance: - access to data - maintenance backlog and strategy for improvement - impact of recent weather	Additional budget provided (capital and revenue), projected require to be prioritised – any impact above this level would require monitored and action taken if necessary	Strategic Lead – Environment & Neighbourhood
	New Council Housing, Private and RSL Housing	Working group meet regularly. Grant funding approved & underway	Strategic Lead – Housing & Employability
Organisational Issues	Impact of BREXIT	Monitor ongoing BREXIT discussions and potential impact on the Council's finances, the wider implications for Scottish Economy, etc. Consider implications of BREXIT on European funding	All Strategic Directors and Leads
	Brexit impact - Structural Funds: - ERDF - ESF Impact on RSA (money for businesses)	Requires to be monitored and action taken if necessary	Strategic Lead – Regeneration Strategic Lead - Resources

Risk Area	Issues Identified	Action Taken	Responsible Officer
Education	Schools Estate Regeneration	Identification on Council priority enhancements and new builds, identification of funding, identification of acceptable specifications within funding available	Strategic Lead – Education, Learning and Attainment Strategic Lead - Regeneration
WDC Integration Joint Board	Financial sustainability	Appropriate burdens and anticipated cost increases have been built into IJB cost projections and IJB identify appropriate efficiencies to manage budget allocation from WDC	Chief Officer – HSCP; S95 Officer - HSCP
Organisational Issues	Corporate Governance - Freedom of Information - Data Protection	Actions identified and in place to ensure information provided is complete and no breeches of data protection	Strategic Lead - Regulatory Services
	New Legislation (general)	Action to ensure available resources to support new legislation that will not leave the Council exposed	CMT

Annex 5

Medium-Term Issues

Some short term issues may merge into medium term issues. Some medium term issues may become issues in the longer term. This list is not exhaustive.

Risk Area	Issues Identified	Action Taken	Responsible Officer
Strategic Issues	Scottish Government Funding levels – capital and revenue	Longer term financial strategy to help appropriate officers to identify possible risks on budget gaps to take necessary action at an early stage	Strategic Lead - Resources
	Welfare Reform – including changes in the staffing structure and the duties of the Council; the effect on HRA & GS budgets of benefits thresholds	Briefing notes on possible affect produced; Situation monitored, action taken as necessary, costs budgeted, Members briefing days & officer working groups Regular reports to CMT	CMT Strategic Lead - Resources
	Unemployment levels within the area	Improve employability of residents through supporting training, apprenticeships, new jobs; encouraging economic regeneration by providing support to businesses; using procurement to encourage new training and job opportunities for local people; opening of the West Employability Hub in Dumbarton; launch of Working4Business; approval of Queen's Quay Regeneration project; and involvement in City Deal to create more employment opportunities.	Strategic Lead – Housing & Employability
	Asset management	Ongoing management of operational assets to maximize efficiency	Strategic Director - Regeneration, Environment & Growth
	Asset Management Plan - Other areas of development - Parks and open spaces - Asset replacement - Asset standards - Space standards	Asset Strategy Group Ongoing development and review of 10 year capital plan	Strategic Director - Regeneration, Environment & Growth Strategic Asset Management Group

Risk Area	Issues Identified	Action Taken	Responsible Officer
	WD Integration Joint Board - Financial sustainability	Appropriate burdens and anticipated cost increases have been built into IJB cost projections and IJB identify appropriate efficiencies to manage budget allocation from WDC IJB reserves maintained to manage unforeseen spending variations	Chief Officer – HSCP; S95 Officer - HSCP
Housing	HRA: Scottish Housing Quality Standards and Energy Efficiency Standards	Strategy to meet standards on ongoing basis – identification of capital spend and funding thereof Strategy to meet energy efficiency legislative requirements – identification of capital spend required	Strategic Lead – Housing & Employability
Education	Schools Estate Strategy	Continuation of Schools Estates Team to help identify and move forward on funding and prioritisation	Strategic Lead – Education, Learning and Attainment
	Maintaining of Teachers numbers – failure to do so leading to financial penalties	Budgetary impact within budget – finances to be monitored and action taken if necessary	Strategic Lead – Education, Learning and Attainment
Organisational Issues	Impact of BREXIT	Potential wider economic impacts of BREXIT – monitor economic forecasts and potential impact on UK and Scottish Government finances	Strategic Lead - Resources

Annex 6

Long-Term Issues – over 10 Years

Some short and medium term issues may become longer term issues. This list is not exhaustive.

Risk Area	Issues Identified	Action Taken	Responsible Officer
Strategic Issues	Depopulation and Change of Demographics	Monitoring likely movement and potential impacts on Council, including funding	CMT Strategic Lead – Regeneration Strategic Lead – Resources
	WD Integration Joint Board - Financial sustainability	Appropriate burdens and anticipated cost increases have been built into IJB cost projections and IJB identify appropriate efficiencies to manage budget allocation from WDC IJB reserves maintained to manage unforeseen spending variations	Chief Officer – HSCP; S95 Officer - HSCP
	Unemployment levels within the area	Improve employability of residents through supporting training, apprenticeships, new jobs, encouraging economic regeneration by providing support to businesses; using procurement to encourage new training and job opportunities for local people; implementation of Queen's Quay Regeneration project; and implementation of City Deal projects to create more employment opportunities.	Strategic Lead – Housing & Employability Strategic Lead - Regeneration; Strategic Lead - Resources
Education	Educational ICT infrastructure refresh	Programme being implemented Impact on 10 year capital plan and current ICT Modernisation	Strategic Lead – Education, Learning and Attainment
Organisational Issues	Impact of BREXIT	Potential wider economic impacts of BREXIT – monitor economic forecasts and potential impact on UK and Scottish Government finances	Strategic Lead - Resources

Annex 7

POLICY ON BALANCES AND RESERVES

Introduction
A key component to sound financial and risk management is that the Council maintains adequate reserves and balances to meet either known future commitments or expenditure arising from unforeseen, unexpected or emergency situations. Where appropriate, this policy adopts:

- Local Authority Reserves and Balances (LAAP Bulletin 99, July 2014);
- The Statutory Basis for Accounting and Disclosing Reserves in Local Authorities in Scotland (LASAAC, October 2005); and
- CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (revised annually).

The purpose of this policy is to:

- Outline the legislative and regulatory framework underpinning the creation, use or assessment of the adequacy of reserves;
- Identify the principles to be employed by the Council in assessing the adequacy of the Councils balance and reserves;
- Indicate how frequently the adequacy of the Council's balances and reserves will be reviewed, and
- Set out arrangements relating to the creation, amendment and use of reserves and balances.

In common with most local authorities in Scotland, the Council has a range of reserves and balances. These fall into two categories:

- Usable Reserves; and
- Unusable Reserves.

Usable Reserves
As the name indicates, these are reserves, available for use by the Council. They are held on the Council's Balance Sheet for use, as appropriate, through this Reserves Policy.

Usable 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; and
- A means of building up funds to meet unknown or predicted liabilities.

For each reserve held, there should be a clear protocol on:

- The reason for/purpose of the reserve;
- How and when the reserve can be used; and
- A process and timescale for review of the reserve to ensure ongoing relevance and adequacy.

The Usable Reserves held by the Council are:

(a) General Fund Revenue Reserve
The General Fund is held for all services provided by the Council through Revenue Support Grant (RSG) provided by the Scottish Government and Council Tax paid by residents within the Council area. It excludes the Housing Revenue Account (HRA), which is funded from tenant rents.

(b) HRA Revenue Reserve
The Council is required by the Local Government and Housing Act (Scotland) 1987 to keep a HRA which records all revenue expenditure and income relating to the provision of council dwellings and related services. The use of this account is heavily prescribed by statute and the Council is not allowed to fund any expenditure for non-housing related services from this account.

For both the General Fund and the HRA Reserves the level and utilisation of reserves will be determined formally by the Council, informed by the advice and judgement of the Section 95 Officer (Chief Financial Officer). Where the Section 95 Officer's advice is not accepted, this should be recorded formally in the minutes of the appropriate Council meeting.

The balance of these Reserves normally comprises of three elements:

- Funds that are earmarked or set aside for specific purposes (in Scotland, Council cannot have a separate Earmarked Reserve within the Balance Sheet, but can highlight elements of the General Fund Reserve balance required for specific purposes). The identification of such funds can be highlighted from a number of sources:

    - Future use of funds for a specific purpose, as agreed by Council or Committee; or
    - Commitments made under delegated authority by the Council's Corporate Management Team, which cannot be accrued at specific times (e.g. year-end) due to not being in receipt of the service or goods;

- Funds which are not earmarked for specific purposes, but are set aside to deal with unexpected events or emergencies. Currently using a risk based assessment, the Council has a specific policy agreed each year and at present this 'prudential target' is set at 2% of net expenditure (excluding requisitions); and

- Funds held in excess of the prudential target and the identified earmarked sums. Reserves of this nature can be spent or earmarked at the discretion of Members.

During the Budget Process for both the General Fund and the HRA the budget report should give Council an update on:

- The estimated opening fund reserve balance for the year ahead, the addition to/withdrawal from balances and the estimated year-end balance;
- The adequacy of the reserves and the Provisions* in respect of the forthcoming year and the Council's medium term Financial Strategy; and
- The earmarked funds held within the Reserves.

Principles to assess the adequacy of the reserves
In order to assess the adequacy of unallocated reserves, the S95 officer should take account of strategic, operational and financial risks facing the Council. The assessment should include external risks (e.g. environmental or economic factors) as well as internal risks (e.g. the ability to deliver planned efficiency savings).

Use of unallocated reserves
Balancing the annual budget by drawing on unallocated reserves may be a legitimate short term option. However, CIPFA has commented that councils should be wary about the one-off use of reserves to deal with shortfalls in current funding or for recurring expenditure. However, where such action is taken, an explanation as to how expenditure will be funded in future years should be given.

(c) Capital Receipts Reserve
Under Schedule 3, paragraph 22 of the Local Government (Scotland) Act 1975, capital receipts on the sale of non-current assets received by the Council are retained within this Reserve until capital expenditure dictates the required use for the funds. Receipts for both General Fund and HRA are held separately, as specified above. Any receipts unused at 31 March will be held on the Balance Sheet as at that date.

(d) Capital Grant Unapplied Reserve
Grants and other contributions given to the Council are retained within this Reserve until all conditions agreed by the grant provider are satisfied. The use of this fund is specified within the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, as revised each year. Any grants unapplied at 31 March will be held on the Balance Sheet as at that date.

(e) Capital Items Replacement Fund (Other Reserve)
Scottish Councils have explicit statutory powers under schedule 3 of the Local Government (Scotland) Act 1975 to establish Renewal and Repairs Funds. This reserve is used for the purpose of defraying expenditure to be incurred from time to time in repairing, maintaining and renewing any buildings, works, plant, equipment or articles belonging to the authority. At present the Council only holds one such fund, which is held within the Education Service. Separate and specific guidance is available for the use of this Fund. Funds are used for the renewal or repair of school non-current assets, with funds being linked specifically to the individual schools committing their budget for the purpose of repairs and renewals at a future date.

(f) Capital Reserve
This reserve is *used to defray any expenditure of the Council to which capital is properly applicable, or in providing money for repayment of the principal of loans*. It holds income (either specific capital receipts income or agreed contributions from revenue) which has been earmarked by Council for the funding of the Public Private Partnership (PPP) unitary charge on a specific annual phased amount. The PPP unitary charge liability can be split into revenue and capital related charges and this Reserve is used specifically to help fund the capital related charges. The Funds can be added to this Fund as agreed by Council (e.g. the sale of specific Education non-current assets) or at the discretion of the Section 95 Officer (i.e.in the event of a review identifying a risk of shortfall in the funding structure over the life of the project). This Reserve should be reviewed on a regular basis by the Section 95 Officer.

Unusable Reserves

As the name indicates, these are not available for use by the Council. They arise from the reconciliation of accounting requirements driven by reporting standards and statutory requirements. They are not resource-backed and are held on the Council's Balance Sheet for use as appropriate through the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. The Unusable Reserves held by the Council are:

(a) Capital Adjustment Account
The Capital Adjustment Account absorbs the timing difference arising from the different rates at which assets are depreciated under proper accounting practice and are financed through the capital controls system. . The account contains revaluation gains accumulated on property, plant and equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

(b) Revaluation Reserve
The Revaluation Reserve contains the unrealised gains arising from increases in the value of its property, plant and equipment (and intangible assets). The balance is reduced when assets with accumulated gains are:

- Re-valued downwards or impaired and the gains are lost;
- Used in the provision of services and the gains are consumed through depreciation; or
- Disposed of and the gains are realised.

The reserve contains only revaluation gains accumulated since 1 April 2007, the date that the reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

(c) Pension Reserve
The Pension Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However statutory arrangements requires benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pension for which it is directly responsible. The debit balance on the pensions reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

(d) Statutory Mitigation Account
The Statutory Mitigation Account absorbs the differences that would otherwise arise on the general fund/ HRA balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund balance is neutralised by transfers to or from this account.

(e) Financial Instruments Adjustment Account
The Financial Instruments Adjustment Account absorbs the timing difference arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Council uses the account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund balance to the account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund balance in accordance with statutory arrangements for spreading the burden on council tax.

Accounting and Disclosure
Expenditure should not be charged direct to any reserve. Any movement within Revenue Reserves is accounted for as an appropriation and is transparent. Entries within a reserve

are specifically restricted to *'contributions to and from the consolidated Income and Expenditure Account'* with expenditure charged to the service revenue account. The appropriation is made from the reserve to the Movement in Reserves to neutralise the impact on the Council Tax or the Housing Rents.
Any revision to this Policy (including creation or amendment to any reserve or use of any reserve) requires to be reported, considered and approved by Council.

*Provisions – Funds held on the Balance Sheet for a liability of costs with uncertain timing or amounts

Annex 8

Risk Factors

This list is not exhaustive

Risk	**Action**
Projections about the Council's level of income and expenditure are subject to change – e.g. • Government funding • Pay and price increases • Income levels • Planned savings not achieved • Unforeseen expenditure • Unanticipated increase in fuel or energy costs • Pension figures/costs may increase due to future reviews • Unforeseen financial issues following changes within the UK economic climate	• Ensure Finance Circulars are reviewed and reconciled on a regular basis • Longer term financial projections and strategy monitored by the Council to allow timely action • Aim to meet the target of the Prudential Reserve • Use of contingency fund • Budget Monitoring regularly by services, the CMT and Members (through Council and Committees) • Ongoing monitoring of savings targets built into the budget by the CMT and Members
Failing to achieve or maintain adequate reserves	• Prudential Reserve target reported to Members on a regular basis. Working with Members to work towards achieving target. • Longer term financial projections and strategy monitored by the Council to allow identification of possible issues to allow early action to be taken where necessary
Capital receipts do not materialise and/or Expenditure on capital projects is higher than anticipated	• Longer term vision on capital programme for both income and expenditure levels • Regular Strategic Asset Management Group updates feeding through to the capital budgetary control report (to both Council and CMT) • Capital Disposal Strategy with longer term vision to allow movement in the assets due sold and timing of those assets. • Capital programme being monitored by CMT, Council and Committees on a regular basis • Early identification of possible issues to allow action to reduce spend or identify further surplus assets for possible disposal to minimise shortfall.

Risk	Action
Treasury Management, e.g.: • Loss on finances through reserves being invested in unsecure banking sector • Lower than expected investment returns due to economic climate • Interest rates on debt increase significantly, increasing the cost to borrow for capital expenditure	• Ensure the Treasury Management Practices regarding investment counterparties are adhered to. • Regular (daily) updates regarding movement in the banking sector received with the counterparty listing adjusted when necessary. • Ensure prudence in estimating level of investments and interest rates.
Money Laundering – failing to disclose to the National Criminal Intelligence Service suspicions through acquisition retention use or control of criminal property	• Ensure the Treasury Management Practices are adhered to. • Work completed by Internal and External Audit, use of the whistle blowing phone line. • Implement Money Laundering Policy
Provision not adequate to cover possible equal pay compensation costs	• Review provision on a regular basis, with updated information from the HROD and appropriate legal advice. • Identify action required at an early stage to ensure adequate.
Increase in the number of housing benefits claimants – higher risk of error, homelessness, subsidy level not achieved	• Staffing profile monitored to ensure adequate staffing resources. • Ensure staff work to same high standards • Regular contact between appropriate services/departments of the Council • Monitoring of the budget regularly by departments, the CMT and Members (through Council and/or Committee)
Current insurers of the Council become financially unviable – resulting in other providers monopolising the market, possible resulting in substantially increases in premiums	• Action to ensure early indications of financial stability of company • Appropriate measures taken at tender stage to ensure financial stability of insurers. • Aim to meet the target of the Prudential Reserve • Use of contingency fund

Risk	Action
Breach of legislation resulting in substantial fine, e.g. Health and Safety; Disability Discrimination; Equalities.	• Ensure knowledge of relevant legislative issues is up to date • CMT ensures appropriate systems are in place to seek to ensure no legislation is breached
The Scottish Government reviews the structure of Scottish Local Government.	• Action plans discussed and updated at an early stage, if this is announced
The Council's demographic projections continue to be adverse in comparison to national statistics, resulting in further funding reductions	• Forward demographic projections for the Council, in comparison to national totals completed regularly and the affected on external funding levels will be included in within forward financial projections to members to allow timeous action by Members.
Implementation of Brexit	• Once the Brexit deal is agreed implications will be clearer - action plans discussed and updated at an early stage • Review potential financial impact and plan accordingly
DWP reform – building in adequate costs to cover changes, e.g.: • General Services – effect of capping of rents for homelessness; • General Services – effect on Council tax benefit administrative grant • General Services/ HRA – effect on lower incomes of individuals on all debt of the council – council tax, debtors, rent, etc. • HRA – housing benefit levels for individuals in homes with rent greater than capped levels	• Building into the financial projections the anticipated impact of welfare reform changes to allow Council to adequately plan • Regular monitoring of expected costs against budget to allow early intervention if necessary • Aim to retain the Prudential Reserves

The Council operates a Strategic Risk Register covering strategic financial risks to the Council. In addition the Resources Service has prepared an operational risk register which lists control measures and analysis of operational risks.