



**South  
Derbyshire  
District Council**

**Financial Strategy**

**October 2018**

## **Introduction**

The Strategy sets out the process on which the Council plans and manages its financial resources, ensuring that this supports the direction of the Council's priorities as reported within the Corporate Plan.

Support for the priorities of the Council are at the forefront but this Strategy is designed to ensure that the Council's financial position is resilient, sustainable and that probity and stewardship exist in the use of financial resources.

Updates on the Council's financial position are reported to the Finance and Management Committee on a regular basis through the Medium Term Financial Plan, Budget Monitoring, Treasury Management, Capital forecasting and the audited Statement of Accounts.

## **Responsibility for Financial Management**

The Finance and Management Committee is responsible for setting and monitoring the financial transactions of the Council.

The Committee is advised by its Section 151 (Chief Finance) Officer who is the Strategic Director (Corporate Resources). This Officer is responsible for the oversight of activity and to ensure that the Financial Strategy and associated policies are adhered to.

## **Supporting Strategies and Policies**

Detail of the strategies and policies in place at the Council with regard to financial management are listed below:

- **Medium Term Financial Plan (MTFP)** - the MTFP is reported bi-annually in October and February. This sets out the medium-term forecasted spending and finance plans for both the General Fund and Housing Revenue Account to identify the extent of a budget surplus or deficit and the impact on General Reserves.
- **Treasury Management Strategy** - this is reported annually in February and sets out how cash, borrowing and investments are to be managed in the following financial year.
- **Financial Regulations and Procedure Rules** - these are updated annually and are contained within the Council's Constitution. They set out the procedures to be followed to ensure that the use of financial resources is legal, properly authorised and provides value for money.
- **Internal Audit Plan** – this is reported annually in March to the Audit-Sub Committee and sets out when key systems and processes will be reviewed to test the effectiveness of internal control.
- **Capital Strategy** – currently in the process of being updated but sets out how major investment is planned and managed.

- **Asset Management Plan** – currently in the process of being updated but sets out the management of land and property, together with identifying assets surplus to requirements for potential disposal.
- **Debt Management & Credit Control Policy** – is updated in line with changes to legislation. This ensures that monies due to the Council are recovered on a timely basis in a consistent and sensitive manner based on recommendations set out in best practice.

## **The Strategy**

It is appropriate for all services delivered by the Council and defines the key areas making up the overall framework that are considered and reviewed on a regular basis.

The key areas considered to achieve the Council's objectives are as follows:

- Setting a minimum level of general reserve balances
- Maintaining a resilient and sustainable financial position
- Earmarked reserves
- Core funding
- Generating/maximising external funding and other income streams
- Housing Rent
- Ensuring probity and stewardship
- Maintaining good financial management
- Raising awareness of finance

The strategy is set against a medium-term time frame to fit in with the Council's corporate planning framework. However, in principle it will exist for longer as it provides the overall direction and parameters for financial management at the Council in accordance with best practice.

New financial opportunities and risks plus changes in policy direction may require developments and updates to the Strategy therefore, in response, the Strategy is updated annually.

## **Key Areas**

The key areas considered by the Council to ensure financial resilience are explained in the following detail.

### **SETTING a MINIMUM LEVEL OF GENERAL RESERVES**

It is the responsibility of the Section 151 (Chief Finance) Officer to recommend a minimum level of general reserves to act as a contingency against any unforeseen events or unexpected liabilities.

There is no externally set figure and the Section 151 Officer is required to recommend a level to reflect local circumstances.

Based on financial risks identified in the financial and resource projections, the Council's target minimum General Reserve at the end of each year during the planning period is:

- £1.5m on the General Fund over a 5 year planning period
- £1m on the HRA over a 10 year planning period

## **MAINTAINING a RESILIENT and SUSTAINABLE FINANCIAL POSITION**

With a principle set regarding a minimum level of general reserves, the Council plans and manages its finances within this target. This is detailed in the Medium Term Financial Plan (MTFP).

The MTFP details how financial resources will be utilised in order to deliver services set out in the Council's Corporate Plan. In summary, the MTFP covers the following:

- Sets out the spending and financing plans over a rolling 5 years for general fund services and for capital investment.
- Annually reviews the 5 year capital expenditure and financing programme in accordance with a nationally recognised Code of Practice.
- Maintains and keeps under review a 10 year rolling financial projection on the HRA in accordance with the 30 year HRA Business Plan under the "self-financing" framework.
- Assesses the affordability of proposed service developments and new capital investment over the associated planning period.

The MTFP is formulated as part of the Council's yearly budget setting process (in February each year) and is reviewed and updated where necessary in October each year. As part of this review process, financial risks are updated and any potential financial implications are considered in the projections.

A key part of the budget process is the assessment of proposals for new spending and investment. Additional resources are limited, although on occasion, new demands for spending arise and these need to be prioritised to fit available resources.

The Council sets aside a provision within the MTFP for the demand of growth in the District. Where services are stretched due to the pressure of residential growth, Service Managers write a business case to request additional funding. All business cases are evaluated financially prior to presentation to the Leadership Team. Once appraised fully, approval is required by Finance & Management Committee.

On occasion, the Council will release General Fund or Capital resources for one off investment in projects across the District. An evaluation framework is in place to provide an objective assessment of new spending proposals and they are prioritised in line with the Council's objectives together with any national targets.

An independent panel assess all bids for funding and the scoring system takes account of the following:

- How far a bid meets Council/local community priorities
- How far it meets wider regional and national priorities

- The degree of risk involved
- How much partnership working is delivered
- External funding levered in
- Income generation and future cost savings
- Any environmental and social impacts

## **EARMARKED RESERVES**

In addition to general reserves, the Council maintains earmarked reserves that are held for specific purposes. They are provided to meet known commitments and to fund non-statutory services.

These reserves can exist over a number of years. Although this is a prudent way of safeguarding the Council's financial position, it is equally important to check that resources are not underutilised unnecessarily and that they are in accordance with the Corporate Plan and accounting practice.

Therefore, these reserves are reported and reviewed annually as part of the Council's financial reporting process.

## **EXTERNAL FUNDING**

It is recognised that the Council has limited resources and cannot achieve all of its aims in isolation. The majority of funding for services is from local taxation; however the Council does have access to a variety of additional funding sources as set out below.

- **Government Funding** – the main funding stream from Central Government is New Homes Bonus. This accounts for approximately 20% of the Council's core funding.

It is critical that the Council receives its fair and equitable share of central funding and therefore the Council seeks to consult with the Government through special interest and wider national groups that share common issues with South Derbyshire.

- **Partnership/External Funding** – the Council has a good track record of leveraging in external funding. Delivery of some of the Council's priorities such as community development are dependent upon it.

Working in partnership and/or the bidding for external funding is only sought if it will contribute and help deliver the Council's priorities.

- **Capital Investment** – plans for securing, maximising and utilising finance specifically for capital projects are detailed in the Council's Capital Strategy.

In summary, this covers the proceeds from selling fixed assets, generating additional resources via the Asset Management Plan, partnership and external funding, local businesses and prudential borrowing.

- **Fees and Charges** – the Council generates approximately £5m per year from fees, sales, rents (excluding council houses) and other charges. The level of some of these is statutorily set or subject to periodic legal reviews such as commercial rents and leases.

Many others are at the discretion of the Council and from time to time a more comprehensive review of the charging structure is undertaken, in particular for discretionary services.

- **Investment Income** – the Council has an underlying borrowing requirement but is a net lender of funds on a daily basis. Consequently, it has surplus cash to invest.

The Council's Treasury Management Strategy sets out the way in which investment income and the return received is maximised. It also sets out how security and liquidity of funds is safeguarded which is a key theme of the Strategy.

## HOUSING RENT

Council housing is financed through the rents charged to tenants. Central Government do control the levels of rent charged and periodically review the formula for charges. There is flexibility to vary rents however there is a risk that the Council could be penalised through the Benefit Subsidy received if the rents are set too high.

The Council sets its yearly rent charge in accordance with Government policy but the affordability to tenants is also considered as part of the annual review.

## PROBITY and STEWARDSHIP

Ensuring probity and stewardship in the use of public funds is contained in the Council's Constitution and is based on best practice set out by the Chartered Institute of Public Finance.

- **Financial Regulations** – these set out the policies in relation to financial accountability, financial policy, risk management and internal control, financial administration, partnerships, purchasing and contract arrangements and the prevention of fraud and corruption.
- **Financial Procedure Rules** – these provide an interpretation of the regulations and set out responsibilities and detailed guidance for Members and Officers.

The regulations and procedures are subject to at least annual review by the Section 151 Officer who submits and additions or amendments where necessary to the Council for approval. In addition, the S151 Officer will report, where appropriate, breaches of the rules to the Council.

## MAINTAINING GOOD FINANCIAL MANAGEMENT

Staying on track and monitoring financial plans and the use of resources is a key part of the Financial Strategy. This is achieved through a system of:

- Regular budget monitoring between budget holders and their service accountant to highlight variances and potential issues at an early stage.

- Regular budget and financial reporting to the Council's Finance and Management Committee.
- Referral of any adverse variance or potential issues to the Council's main Policy Committees for consideration and action.
- An annual budget review by the Overview and Scrutiny Committee.

## **RAISING AWARENESS of FINANCE**

Local Government Finance is very technical and diverse. It is governed by a myriad of legislation, regulations and complicated distribution mechanisms. This can be over-bearing to the "non-finance" person.

The Section 151 Officer plays a key role in setting the strategy, but the whole Council is involved in its delivery at various stages. For example, the responsibility for managing budgets and using resources rests with Strategic Directors and their Service Managers. The ultimate responsibility for allocating resources rests with elected Members.

It is necessary therefore that those having this responsibility have the necessary awareness and knowledge to manage budgets and make decisions. The role of Section 151 Officer is there to help ensure this.

Raising awareness and training is an ongoing issue. It can be gained as a matter of course through experience and the gathering of knowledge from regular involvement but in addition, the S151 Officer provides more formal means of raising awareness in a number of ways as listed below.

- Through the induction processes for new employees
- Induction training for new members
- Seminars for members
- Ad-hoc teaching and awareness sessions for individual services
- The provision of documentation and guidance notes on the Council's intranet
- The provision of training material in audio and visual mode