

1. INTRODUCTION

- 1.1 This strategy sets out the process on which the Council plans and manages its financial resources and to ensure that they support the direction of the Council's priorities. The Strategy was updated in October 2013.

Its Objectives

- 1.2 In its broadest terms, the strategy is designed to ensure that:

- Finance contributes to the priorities of the Council, whilst ensuring that:
 - The Council's financial position is resilient, sustainable, and
 - Probity and stewardship exist in the use of financial resources.

- 1.3 The framework is cascaded down and detailed in other plans and strategies, which are:

- **The Medium Term Financial Plan** – setting out the medium term spending and financing plans to identify the extent of a budget surplus or deficit and the impact upon general reserves.
- **Treasury Management Strategy** – setting out how cash, borrowing and investment are managed.
- **Financial Management and Procedural Rules** – setting out the procedures to ensure that the use of finance is legal, properly authorised, reported and provides value for money.
- **Internal Audit Plan** – setting out when key financial and other systems will be reviewed over time to test the effectiveness of internal control.
- **Charging Policy** – setting out the formal framework within which the Council's fees and charges are formulated, reviewed, agreed and administered.
- **Capital Investment Strategy** – setting out how major investment is planned and managed.
- **Asset Management Plan** – setting out the management of land and property, together with identifying assets surplus to requirements for potential disposal.

Key Areas

- 1.4 The strategy is appropriate for all services. It identifies the key areas making up the overall framework that are considered on a regular basis. It then highlights the factors against each area that are used to meet the objectives (as set out in 1.2, above). These key areas are:

- Moving resources to meet priorities and new spending pressures
- Setting a minimum level of reserve balances
- Maintaining a resilient and sustainable financial position
- Earmarked reserves
- Generating/maximising external funding and other income streams
- Local taxation

- Other charges such as Housing Rents
- Ensuring probity and stewardship
- Maintaining good financial management
- Raising awareness of finance

Timescale

- 1.5 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.
- 1.6 The strategy may develop in response to new financial opportunities/risks and new policy directions. Therefore, the strategy is reviewed on a regular basis and at least annually.

2. MOVING RESOURCES TO MEET PRIORITIES AND NEW PRESSURES

- 2.1 The Council's existing budgets at anyone time, are to a certain extent historically based. Consequently, they may not always meet the latest priorities and spending pressures and there is always a need to look to shift resources between services and cost types. The strategy to achieve this is:

- **To align and examine spending against priorities** on an on-going basis. This may from time to time include fundamental reviews of specific areas of the Council's base budget.
- **To identify value for money efficiency savings** to build capacity and to redirect resources to priority areas. Although planned in advance, these efficiencies are only made available for spending when they are finally achieved.
- **To gradually disinvest in areas identified as non-priority** by limiting increases (e.g. cash limiting budgets) and undertaking more fundamental reviews of services and structures when opportunities arise.
- **To undertake strategic service reviews** in accordance with the Council's Procurement and Business Improvement Plans.

- 2.2 Where additional resources are identified, the Council evaluates proposals for service development and new investment through a pre-determined process.

- 2.3 However, this is balanced against the Council currently having an underlying budget deficit identified in its MTFP. In the current economic climate and with on-going reductions in overall Government funding, the Council continues to face a financial challenge.

- 2.4 Therefore, resources identified through the mechanisms highlighted above, need to be considered corporately in order for the overall financial position to be sustained.

3. SETTING A MINIMUM LEVEL OF RESERVE BALANCES

- 3.1 It is the responsibility of the Council's Chief Finance Officer (CFO) 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 CFO is required to recommend a level to reflect local circumstances.

- 3.2 The Council faces many financial and business risks. These are identified and reviewed in spending and resource projections.
- 3.3 Based on this, the Council's target is to have a minimum general reserve at the end of every planning period. The targets are:

- £1m on the General Fund at the end of every 5-year rolling plan period.
- £1m on the Housing Revenue Account at the end of every 10-year rolling period.

4. MAINTAINING A RESILIENT and SUSTAINABLE FINANCIAL POSITION

4.1 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 a Medium Term Financial Plan (MTFP).

4.2 The MTFP details how financial resources will be utilised in order to deliver services set out in the Council's Corporate Plan. Essentially, it:

- Sets out the spending and financing plans over 5-years for general fund services and for capital investment.
- Maintains and keeps under review an associated 5-year rolling financial forecast on the General Fund.
- Maintains and keeps under review a 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 Housing Revenue Account in accordance with the HRA Business Plan.
(This supports a wider 30-year Business Plan under the "self-financing" framework)
- Assesses the affordability of proposed service developments and new capital investment over the associated planning periods.
- The MTFP is formulated as part of the Council's yearly budget setting process (in January each year). It is reviewed and updated where necessary and in particular, following the annual budget out-turn and Government spending reviews, in October each year.

4.3 The budget formulates spending plans in detail for the next financial year and details projections over the respective 5 and 10-year planning periods. As part of this process, financial risks are kept under review.

Evaluation Framework

4.4 A key part of the budget process is the assessment of proposals for new spending and investment. In the current financial climate, additional resources are limited, although from time to time, new demands for spending arise and these need to be prioritised to fit available resources.

4.5 Therefore, the evaluation framework aims to provide a guide and a more objective assessment against which new spending proposals are prioritised. It is constructed

to favour proposals that are aligned to the Council's priorities, together with any national targets.

- 4.6 The framework effectively provides a business case for both revenue funding and new capital investment. The system is corporate and an independent panel assesses all bids.
- 4.7 The associated 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

5. EARMARKED RESERVES

- 5.1 In addition to general reserves, the Council maintains earmarked reserves that are held for specific purposes. They are provided to meet known commitments and in some cases, to spread expenditure over financial years.
- 5.2 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 under utilised unnecessarily and that they are in accordance with the Corporate Plan and accounting practice.
- 5.3 Therefore, these reserves are reported and reviewed as part of the Council's financial reporting process.

6. EXTERNAL FUNDING

- 6.1 It is recognised that the Council has limited resources and cannot achieve all of its aims in isolation. However (apart from local taxes) the Council does have access to a variety of funding sources as set out below.

Government Funding

- 6.2 The Government's current policy is to reduce the reliance on central funding to local councils, both in general terms and via specific grants. However, the national exchequer still funds over 50% of all council spending – clearly a significant proportion.
- 6.3 In addition, some financing is not “mainstream” and not always guaranteed from year to year.
- 6.4 It is critical that the Council receives its fair and equitable share via the various distribution mechanisms used by the Government. Therefore, the Council seeks to consult with the Government through special interest and wider national groups containing other local authorities that share common issues with South Derbyshire.

Partnership/External Funding

- 6.5 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.
- 6.6 In addition, the provision and enhancement of new community and recreational facilities, especially in high growth areas are dependent upon securing funding through the planning and development system.
- 6.7 Clearly, the maximisation of these resources is vital and the Council channels efforts in various ways to achieve this.
- 6.8 However, working in partnership and/or the bidding for external funding is only sought if it will contribute and help deliver the Council's priorities.

Resources for Capital Investment

- 6.9 Plans for securing, maximising and utilising financing specifically for capital projects are detailed in the Council's Capital Investment Strategy. This covers:
- Proceeds from selling/disposing of fixed assets (capital receipts)
 - Generating additional resources via the Asset Management Plan
 - Partnerships and External Funding
 - Local Businesses and Developers
 - Prudential Borrowing

Fees and Charges

- 6.10 The Council generates approximately £4m per year from various 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 rents and leases.
- 6.11 Many others are at the discretion of the Council. Optimising income is achieved in two ways:
- Each year, a target increase on current charges is set for each Council Division.
 - From time to time the Council undertakes a more comprehensive review of its charging structure, in particular for discretionary services and where charges could be introduced.

Charging Policy

- 6.12 Maximising income, although clearly an important consideration, is not the only factor in deciding on the level of fees and charges. The Council has in place a charging policy.
- 6.13 This recognises that fees and charges can also play an important role in other areas such as:
- Demonstrating the value of a service
 - Discouraging abuse of a service
 - To strengthen service and corporate objectives
 - To promote and encourage access to services

- 6.14 Therefore, consideration is given on a regular basis (through this Policy) to the scope of raising revenue through charges for services and to reviewing the appropriateness and adequacy of the levels of charges being proposed or actually in force.

Investment Income

- 6.15 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 on a temporary basis. The Council's Treasury Management Strategy sets out the way in which income from this source is maximised.
- 6.16 This includes measuring performance against an average market rate. However, the strategy also sets out how **security and liquidity of funds** is safeguarded – a key theme of that strategy.

7. LOCAL TAXATION

- 7.1 Most Council spending is ultimately financed from the "public purse." At a local level, the main tax that contributes to the provision of local services is the Council Tax.
- 7.2 The Council is aware of the level of local tax that falls on its local residents and how much they are asked to contribute to the delivery and improvement of services.

Council Tax

- 7.3 The Council has a lower level of Council Tax compared with its "family" group of authorities. The Council does have discretion over the level of Council Tax although yearly increases, over a certain amount, are subject to a local referendum.
- 7.4 For planning purposes, the MTFP is based on an annual increase which reflects the maximum allowed before a referendum is required. However, the level is reviewed each year in accordance with the overall financial situation.

Council House Rents

- 7.5 This is the main way in which the cost of council housing is financed. Central Government effectively set local rent levels through their rent setting formula. This is designed to equalise rent levels with other (private sector) housing providers across the District, although this is currently being reviewed for 2014/15.
- 7.6 The Council does have some flexibility to vary rents. However, this would reduce the amount of income if they were set lower and if they were set higher, there is a risk that it would be penalised through the system the Government uses to reimburse councils for housing benefit payments – the level of this subsidy would be capped.
- 7.7 Therefore, the Council in principle sets its yearly rent increase in accordance with the Government's rent setting formula. However, this is subject to considering the affordability to tenants on a yearly basis.

8. PROBITY and STEWARDSHIP

- 8.1 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

8.2 These set out the policies in relation to:

- Financial accountabilities.
- Financial policy.
- Risk management and internal control.
- Financial administration.
- Partnerships, purchasing and contract arrangements.
- Prevention of Fraud and Corruption

Financial Procedural Rules

8.3 These provide an interpretation of the regulations and set out responsibilities and detailed guidance for Members and Officers.

8.4 Both the regulations and procedures are subject to continuous review by the CFO who submits any additions or changes necessary to the Council for approval. In addition, the CFO will report, where appropriate, breaches of the rules to the Council.

9. MAINTAINING GOOD FINANCIAL MANAGEMENT

9.1 Staying on track and monitoring financial plans and the use of resources is a key part of this 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.
- The 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.

10. RAISING AWARENESS OF FINANCE

10.1 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.

10.2 The CFO plays a key role in setting the strategy, but the whole Council is involved in its delivery at various stages.

10.3 For example, the responsibility for managing budgets and using resources rests with Chief Officers and their service managers. The ultimate responsibility for allocating resources rests with elected members.

10.4 It is important therefore, that those having this responsibility have the necessary awareness and knowledge, etc. to manage budgets and make decisions. The role of the CFO is to help ensure this.

- 10.5 Raising awareness and training is an on-going issue. It can be gained as a matter of course (and often is) through experience and the gathering of knowledge from regular involvement.
- 10.6 In addition, the CFO provides more formal means of raising awareness and this is achieved in a number of ways:
- Through the induction process for new employees
 - Induction training for new members
 - Seminars for members
 - Ad-hoc teach-ins and awareness sessions for individual services
 - The provision of documents and guidance notes on the Council's Intranet
 - The provision of training material in audio and visual mode.